Leisureworld

SENIOR CARE CORPORATION

2013

Report to Shareholders

Leisureworld
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2013

Management's Discussion and Analysis

(in thousands of Canadian Dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Leisureworld Senior Care Corporation ("**LSCC**") summarizes the financial results for the fourth quarter and year ended December 31, 2013. Unless otherwise indicated or the context otherwise requires, reference herein to "Leisureworld" refers to LSCC and its direct and indirect subsidiary entities. All financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted. This discussion and analysis of Leisureworld's consolidated financial performance, cash flows and financial position for the quarter and year ended December 31, 2013 should be read in conjunction with the audited consolidated financial statements and related notes contained in this financial report for the year ended December 31, 2013.

Leisureworld is listed on the Toronto Stock Exchange (the "**TSX**"), under the trading symbol LW. As of February 25, 2014, the following securities of LSCC were outstanding: 36,252,528 common shares and $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

Additional Information

Additional information relating to Leisureworld is available on System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com, on Leisureworld's website at www.leisureworld.ca, or by calling Tim McSorley, Chief Financial Officer (Interim), at 905-477-4006 x2089.

Review and Approval By the Board of Directors

This MD&A is dated as of February 26, 2014, the date on which this report was approved by the Board of Directors of Leisureworld and reflects all material events up to that date.

Forward-Looking Statements

Certain statements in this MD&A may constitute forward-looking statements that involve known and unknown risks, uncertainties and other factors, which may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. When used in this MD&A, such statements use words such as "may," "will," "expect," "believe," "plan" and other similar terminology. Forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved.

The forward-looking statements contained in this MD&A are based on information currently available and that management currently believes are based on reasonable assumptions. However, neither Leisureworld nor management can ensure actual results will be consistent with these forward-looking statements. These forward-looking statements are as of the date of this MD&A, and Leisureworld and management assume no obligation to update or revise them to reflect new events or circumstances

except as required by securities laws. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Non-IFRS Performance Measures

Net operating income (“**NOI**”), funds from operations (“**FFO**”), adjusted funds from operations (“**AFFO**”) and earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. NOI, FFO, AFFO and EBITDA are supplemental measures of a company’s performance and management believes that NOI, FFO, AFFO and EBTIDA, are relevant measures as described below. The IFRS measurement most directly related to these measures is net income (loss). See “Business Performance” for a reconciliation of NOI, FFO and AFFO to net income (loss), and “Liquidity and Capital Commitments” for a reconciliation of EBITDA to net income (loss).

NOI is defined as net income (loss) computed in accordance with IFRS, excluding gains or losses from the sale of depreciable real property, but before the provision for (recovery of) of income taxes, depreciation and amortization, net finance charges, administrative expenses and impairment losses.

FFO is defined as NOI plus accretion interest on construction funding receivable, less cash interest, current income taxes, and administrative expenses. Other adjustments may be made to FFO as determined by management and the Board of Directors at their discretion. In the opinion of management, the use of FFO, combined with the required primary IFRS presentations, is fundamentally beneficial to the users of the financial information, and improves their understanding of the operating results of Leisureworld. Management generally considers FFO to be a useful measure for reviewing Leisureworld’s operating and financial performance because by excluding real property depreciation and amortization (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates), FFO can help users of the financial information compare the operating performance of Leisureworld’s real property portfolio between financial reporting periods.

AFFO is defined as FFO plus the principal portion of construction funding received, amounts received from income guarantees and non-cash deferred share unit compensation expense less maintenance capital expenditures (“**maintenance capex**”). Other adjustments may be made to AFFO as determined by management and the Board of Directors at their discretion. Management believes AFFO is useful in the assessment of Leisureworld’s operating performance for valuation purposes, and is also a relevant measure of the ability of Leisureworld to generate cash and pay dividends to shareholders.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization and non-recurring items. Other adjustments may be made as determined by management and the Board of Directors at their discretion.

The above measures should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of Leisureworld’s performance. Leisureworld’s method of calculating these measures may differ from other issuers’ methods and accordingly, these measures may not be comparable to measures presented by other issuers.

Key Performance Indicators

Management uses the following key performance indicators to assess the overall performance of Leisureworld's operations:

- **Occupancy**: Occupancy is a key driver of Leisureworld's revenues.
- **NOI**: This value represents the underlying performance of the operating business segments. (See "Non-IFRS Measures")
- **FFO per Share**: Management uses FFO as an operating and financial performance measure. (See "Non-IFRS Measures")
- **AFFO per Share**: This indicator is used by management to help measure Leisureworld's ability to pay dividends. (See "Non-IFRS Measures")
- **Payout Ratio**: Management monitors this ratio to ensure that Leisureworld adheres to its dividend policy, in line with Leisureworld's objectives.
- **Debt Service Coverage Ratio**: This ratio is useful for management to ensure it is in compliance with its financial covenants.
- **Debt to Gross Book Value**: In conjunction with the debt service coverage ratio, management monitors this to ensure compliance with certain financial covenants as well as Leisureworld's ability to access additional debt if, required.
- **Weighted Average Cost of Debt**: This is a point in time calculation which is useful in comparing interest rates either period over period, or to the then current market parameters.
- **Leverage Ratio**: This ratio measures the number of years required for current cash flows to repay all indebtedness.
- **Interest Coverage Ratio**: Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations.
- **Average Term to Maturity**: This indicator is used by management to monitor its debt maturities.
- **Same Property Percent Change in NOI**: This measure is similar to "same-store sales" measures used in the retail business and is intended to measure the period over period performance of the same asset base, which excludes assets undergoing new development, redevelopment or demolition.

The following table presents the Key Performance Indicators for the periods ended December 31:

Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended 2013	2012	Change	Year Ended 2013	2012	Change
OCCUPANCY						
LTC - Average total occupancy	**98.7%**	99.1%	-0.4%	**98.9%**	98.8%	0.1%
LTC - Average private occupancy	**99.4%**	99.2%	0.2%	**99.3%**	98.5%	0.8%
Retirement - Average occupancy	**81.8%**	76.7%	5.1%	**78.2%**	73.9%	4.3%
FINANCIAL						
NOI	**17,531**	14,972	2,559	**63,309**	56,337	6,972
FFO	**9,812**	6,882	2,930	**30,958**	26,256	4,702
AFFO	**11,429**	8,289	3,140	**37,134**	34,282	2,852
PAYOUT RATIOS						
FFO per share, basic	**0.311**	0.235	0.076	**1.036**	0.960	0.076
FFO per share, diluted - excluding subscription receipts	**0.304**	0.235	0.069	**1.016**	0.959	0.057
FFO per share, diluted - including subscription receipts	**0.270**	0.235	0.035	**0.906**	0.959	(0.053)
AFFO per share, basic	**0.362**	0.284	0.078	**1.243**	1.253	(0.010)
AFFO per share, diluted - excluding subscription receipts	**0.351**	0.283	0.068	**1.211**	1.252	(0.041)
AFFO per share, diluted - including subscription receipts	**0.312**	0.283	0.029	**1.080**	1.252	(0.172)
Dividends per share	**0.225**	0.217	0.008	**0.900**	0.854	0.046
Payout ratio (basic AFFO)	**62.2%**	76.4%	14.2%	**72.4%**	68.1%	-4.3%
FINANCIAL RATIOS[(1)]						
Debt Service Coverage Ratio	**--**	--	n/a	**2.5**	2.5	(0.0)
Debt to Gross Book Value	**--**	--	n/a	**55.4%**	52.1%	3.3%
Weighted Average Cost of Debt	**4.5%**	4.5%	0.0%	**4.5%**	4.5%	0.0%
Leverage Ratio	**7.8**	7.9	(0.1)	**7.9**	7.8	0.1
Interest Coverage Ratio	**2.8**	2.2	0.6	**2.8**	2.7	0.1
Average term to maturity	**--**	--	n/a	**3.1**	3.3	(0.2)
		2013 v. 2012			2013 v. 2012	
SAME PROPERTY PERCENT CHANGE IN NOI						
Long-Term Care		3.6%			2.3%	
Retirement		9.0%			12.3%	
Home Care		8.2%			17.8%	
Total		4.4%			4.0%	

Notes:

(1) The following financial ratios exclude the impact of the subscription receipts and the associated dividend equivalents.

Corporate Profile

LSCC was incorporated under the *Business Corporations Act* (Ontario) on February 10, 2010 and was continued under the *Business Corporations Act* (British Columbia) on March 18, 2010. Leisureworld closed the initial public offering of its common shares on March 23, 2010.

The head office of Leisureworld is located at 302 Town Centre Blvd., Suite 200, Markham, Ontario, L3R 0E8. The registered office of Leisureworld is located at 1900 – 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

Leisureworld and its predecessors have been in operation since 1972. Through its subsidiaries, Leisureworld owns and operates 35 long-term care ("**LTC**") homes (representing an aggregate of 5,733 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates 10 retirement residences ("**RR**"), representing 1,065 suites, in the Provinces of Ontario and British Columbia, which combined constitute its retirement segment. An ancillary business of Leisureworld is

Preferred Health Care Services ("**Home Care**" or "**PHCS**"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes.

		LONG-TERM CARE (Beds)				RETIREMENT (Suites)	TOTAL
ASSET CLASS	COMMUNITIES	Basic and Other	Semi-Private	Private - $18.00 Premium	Private - Up to $21.50 Premium	Total	Beds / Suites
LONG-TERM CARE	**35**	2,609	857	240	2,027	-	**5,733**
RETIREMENT	**10**	-	-	-	-	1,065	**1,065**
TOTAL	**45**	**2,609**	**857**	**240**	**2,027**	**1,065**	**6,798**

Company Objectives

The objectives of Leisureworld are to:

(i) be a leading high quality provider of seniors living in Canada;

(ii) provide excellence in resident care and services;

(iii) provide shareholders with stable monthly dividends derived from operating cash flows generated from income-producing LTC homes, seniors' housing investments and community-based services;

(iv) grow the portfolio through organic growth from all lines of business, from acquisitions that can further Leisureworld's objectives and though redevelopment of LTC homes when economic conditions warrant it; and

(v) continue to develop high performing, experienced teams in each line of business.

Industry Overview

Long-Term Care

LTC homes are designed to accommodate seniors who require 24-hour per day care in a residential setting and who live with a cognitive or physical impairment. Most LTC homes either directly provide, or contract to provide, ancillary services such as pharmacy and prescription services, rehabilitation therapy and complex care such as dialysis, wound management, palliative care, dementia care, and management of conditions such as diabetes, stroke, and multiple sclerosis. In addition to being subject to general health and safety regulations and privacy laws, all LTC homes in the Province of Ontario must be licensed by the Ministry of Health and Long-term Care (the "**MOHLTC"**) under the *Long-Term Care Homes Act, 2007* (Ontario) (the "**LTCHA**"), which came into effect on July 1, 2010. In Ontario, LTC homes are eligible for funding from the MOHLTC, including through service accountability agreements with Ontario's Local Health Integration Networks, and are subject to strict regulation, care standards and inspections.

Resident ability to pay is not a barrier to admission to LTC homes in Ontario. Residents of LTC homes are directly charged only for accommodation costs and, in the event these amounts are unaffordable for the residents, government subsidies are provided through a rate reduction mechanism to reduce the basic accommodation charge. LTC accommodation is generally comprised of ward, semi-private and private

rooms. Residents pay a higher accommodation rate for private and semi-private accommodation, and such rates are fixed by government.

LTC homes are social infrastructure assets as they provide essential services. This sector can be distinguished from other sectors of the seniors' housing based on a number of factors, including the following:

- ***Provision of an essential service*:** The Ontario LTC sector provides an essential service to Ontario communities. LTC licenced homes provide 24-hour nursing support, daily assistance with personal care and supervision throughout the day to seniors. Access is controlled through Community Care Access Centres ("**CCACs")** and homes are regulated and funded by government. LTC homes provide specialized services such as memory care, falls prevention, end of life care and skin and wound management, to seniors at a much lower cost than in other settings such as hospitals.

- ***Significant barriers to entry:*** Barriers to entry are both regulatory and operational. The LTC sector is regulated by the MOHLTC, which requires that a home must be licensed in order to operate as an LTC home and to receive government funding. The licensing requirements are extensive. There are currently no issuances of new licences anticipated and there are also restrictions on the transfer of licences. Operational funding is tied to the delivery of contractually mandated services.

  Leisureworld is a well-established LTC provider, with a sophisticated understanding of the regulatory requirements and significant experience and expertise in operating LTC homes.

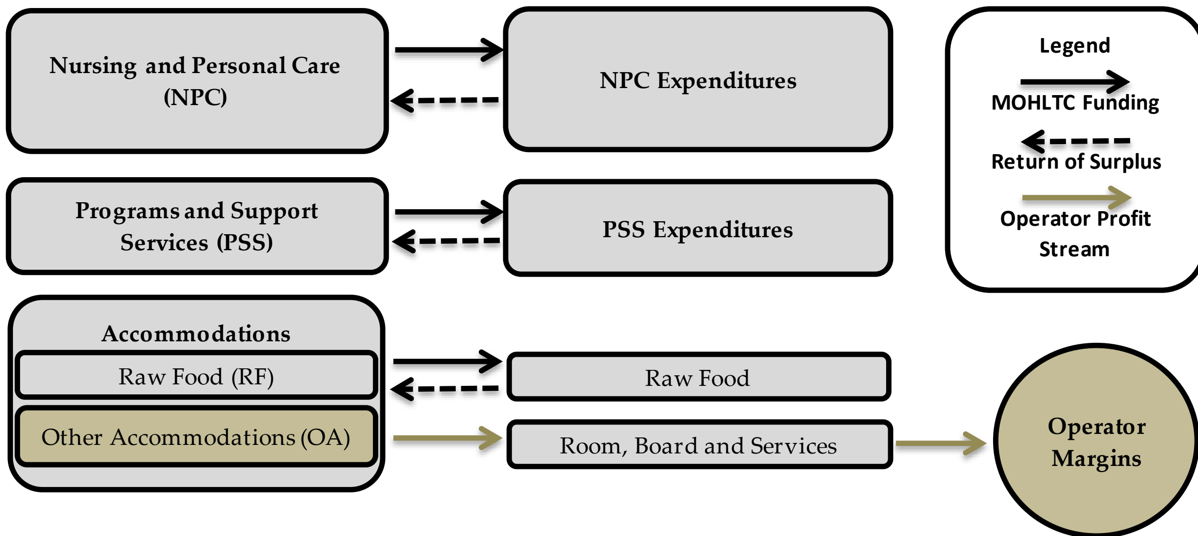
  In addition to the regulatory barriers to entry, the successful operation of an LTC home requires a broad range of expertise, which creates additional barriers to entry. The operational skills required include management of health care operations, financial management and reporting, asset management, maintenance, community relationships, labour relations, government relations and financing. Leisureworld has significant expertise in each of these areas, and has dedicated head office staff responsible for specific areas of expertise, the cost of which is allocated across many business units.

- ***Sustainable competitive advantage**:* LTC homes have a sustainable competitive advantage over other Ontario seniors' housing classes due to the affordability for seniors (ability to pay is not a barrier to entry) and the provision of 24 hour a day, 7 day a week care. Additionally, they provide a cost-effective alternative to Complex Continuing Care or acute care hospital beds for eligible patients. Moreover, there is excess demand over supply with a wait list of 21,800 as of September 2013 (MOHLTC Long Term Care System Report).

- ***Stability of revenues**:* LTC homes enjoy predictable revenue for the following reasons: (i) a significant portion of revenues are received from MOHLTC funding; (ii) LTC homes are characterized by consistently high occupancy levels; and (iii) revenue from preferred

accommodation is available for a significant portion of licenced beds and there has also been a stable trend of increases to the fixed rates for such accommodation.

LTC Funding Model



Ontario LTC homes are funded through a well-defined funding model, where licensed operators receive operational funding monthly and such funding is divided into three "funding envelopes": Nursing and Personal Care ("**NPC**"), Programs and Support Services ("**PSS**") and Other Accommodations ("**OA**"), which includes Raw Food ("**RF**"). Total operational funding received by operators includes a provincial government component as well as a direct charge to residents for accommodation services. This resident co-payment is currently $56.14 per resident per day and residents who cannot afford this payment may be eligible for subsidy by the government through a rate reduction. The current total daily per diem funding for all operators is $158.36. Operators are able to retain any surplus in the Other Accommodation envelope.

Provincial support for the Ontario LTC sector has been demonstrated by annual increases so that operators can provide the required care and services to meet increasingly complex resident needs.

If a LTC home's average annual occupancy meets or exceeds 97%, it is the MOHLTC's policy to provide funding based on 100% occupancy.

The MOHLTC categorizes and provides structural compliance and capital funding for homes according to structural classifications: Class A for homes built since 1998 to the current design standard with one and two bed rooms and more amenity space for residents, Class B and Class C, which have ward rooms with four beds, semi-private and private rooms.

Retirement and Independent Living

Retirement Homes in Ontario are regulated through the Retirement Home Regulatory Authority under the Retirement Homes Act 2010, and are all private pay based on market driven rates. The regulations for RRs provide consumer protection and ensure operators meet certain minimum standards.

RRs typically are independent living focused and assisted living, which includes some care and services based on resident needs and preferences that the resident may purchase.

Home Care

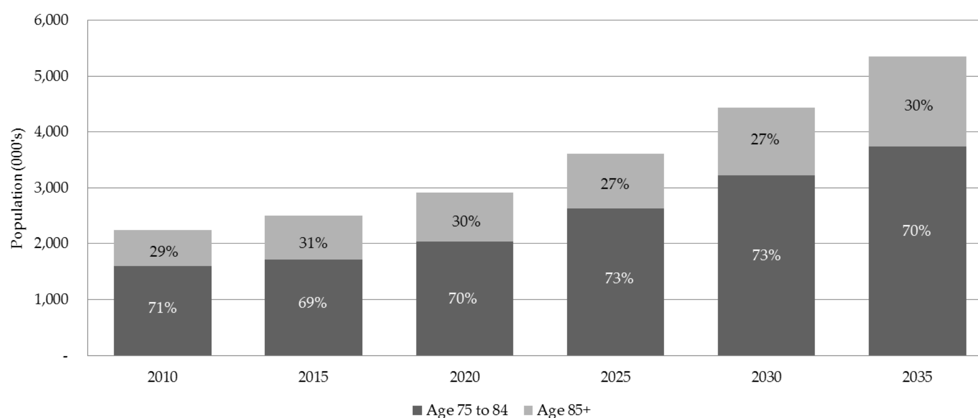
Home Care services in Ontario are designed to accommodate seniors living at home and provides assistance with daily activities and healthcare. Funding for such services is provided through Ontario's CCACs through service contracts. The Government of Ontario funds a wide range of home healthcare and community support services, which enable seniors to live at home for as long as possible. Currently, Leisureworld's PHCS holds three CCAC contracts for personal support worker services.

Demand for Services

The demand for seniors' housing and programs continues to grow in Canada. Management believes favourable demographics, increasing life expectancy, increasing seniors' affluence and changing family dynamics have and will continue to increase demand for LTC, RR and Independent Living ("**IL**") accommodations (collectively, "**Seniors' Housing**") and for professional home healthcare services. The primary factors driving demand, among others, are described below:

- ***Favourable demographics****:* The primary demographic group living in LTC homes and RR and IL communities are Canadians who are older than 85 years of age. According to Statistics Canada, the 75-plus and 85-plus age cohorts in Canada are anticipated to be among the fastest growing population groups. Canada's 85-plus age cohort is projected to grow over 148% between 2010 and 2035, representing a compound annual growth rate of 3.71%. Projected growth in 85-plus age cohort in the province of Ontario mirrors the national forecast.

Estimated Population in Canada's 75 to 84 and 85+ Age Cohorts



Source: Statistics Canada, CANSIM table 052-0005.

- ***Increasing seniors' affluence:*** Seniors generally fund the cost of the seniors' living that best suits their individual needs by: selling their existing home; from income generated from their savings and pension plans, and/or financial support from family members.

  According to Canada Mortgage and Housing Corporation, 86.3% of Canadian seniors between the ages of 75 and 84 own their homes mortgage-free.

  According to Statistics Canada, the average, after-tax household income of a Canadian economic family with two members or more (an economic family is defined as a group of individuals sharing a common dwelling unit, who are related by blood, marriage, common-law relationships, or adoption) was $60,700 in 1991 (inflation adjusted to 2011 dollars), compared to $79,600 in 2011.

  In LTC residences, seniors can choose to live in private or semi-private accommodation that affords greater dignity for the resident receiving care and services, and offers privacy for day-to-day living.

- ***Changing family dynamics****:* As more and more families have both spouses working full-time outside of the home and changes in lifestyle reducing the ability of adult children to care for their aging parents, seniors' housing facilities have become an attractive option. There is also an increasing demand for home healthcare services, retirement living and LTC.

- ***Alternative to Hospitals:*** Rising healthcare costs have resulted in pressures to reduce the length of hospital stays through the provision of home healthcare and transitions to long-term care. These pressures have been a predominant factor in the LTC wait-list numbers, demand for LTC and, high occupancy in LTC. According to the MOHLTC, there are currently 77,500 LTC beds in Ontario and a wait list of approximately 21,800 individuals. Approximately 10% of the individuals currently on wait lists for LTC beds are occupying acute care beds in Ontario hospitals. The average cost for the Ontario government to fund an acute care hospital bed for a senior is $500 to $1,000 per day, compared to approximately $158 per day in a LTC home (Source: MOHLTC Health Data Branch: Hospital HIT Indicator, 2013).

- ***Recession stability****:* The LTC sector has historically been insulated from economic cycles. This can be attributed to several factors: (i) demand for LTC housing is not usually discretionary but driven by need, which does not fluctuate during economic cycles; (ii) stability of tenure, as seniors, once having moved into a facility, are generally unable to move to alternative accommodation; (iii) the continual increase in the demand for LTC and (iv) stability of government funding and subsidization of fees.

  The Retirement sector is less insulated from economic cycles when compared to the LTC sector as seniors may not choose retirement living if affordability becomes a factor. However, certain of the same factors that support the recession stability of the LTC sector also apply to Retirement Homes: (i) seniors are generally retired and receiving stable, fixed and predictable income from private and public pensions, RRSPs and other fixed income investment securities; and (ii) stability of tenure, as seniors, once having moved into a retirement home are reluctant

or are unable to move to alternative accommodation, until they require the level of care that makes them eligible for LTC. For these reasons, management believes the potential impact of economic cycles on occupancy rates for retirement is minimal.

Outlook

Leisureworld expects to continue to benefit from its strong and stable performance in Home Care and its expanded LTC and RR portfolio resulting from the Specialty Care Acquisition discussed below. The Specialty Care Acquisition also brings to Leisureworld a proven retirement home operating platform. As this proven platform is implemented across Leisureworld's RR portfolio, management expects to experience continued steady improvement in occupancy and NOI.

Leisureworld will benefit from organic growth as the retirement homes which are currently in lease up, make progress towards a stabilized occupancy which is expected to lead to NOI growth throughout 2014 and 2015.

Leisureworld continues to invest in technology, back office process improvements and disciplined cost management and as the Specialty Care assets, management team and third party management business are integrated, Leisureworld is expected to benefit from the NOI growth.

Selected Annual Financial Information

Thousands of Dollars, except per share data	**2013**	2012	2011
Revenue	**353,323**	319,283	290,107
Income before other expenses and the provision for (recovery of) income taxes	**49,541**	43,791	33,995
Net loss	**(9,384)**	(9,134)	(11,977)
Per share and diluted per share	**(0.31)**	(0.33)	(0.52)
FFO - Basic	**30,958**	26,256	19,581
Per share	**1.04**	0.96	0.85
FFO - Diluted	**32,273**	26,256	19,581
Per share - excluding subscription receipts	**1.02**	0.96	0.85
Per share - including subscription receipts	**0.91**	0.96	0.85
AFFO - Basic	**37,134**	34,282	26,580
Per share	**1.24**	1.25	1.15
AFFO - Diluted	**38,449**	34,282	26,580
Per share - excluding subscription receipts	**1.21**	1.25	1.15
Per share - including subscription receipts	**1.08**	1.25	1.15
Dividends declared	**26,895**	23,639	19,876
Per share	**0.90**	0.85	0.85
Total assets	**977,024**	744,067	644,551
Total debt (including convertible debentures)	**598,703**	425,225	355,399

Quarterly Financial Information

Thousands of Dollars, except per share data	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Revenue	**99,815**	**86,575**	**83,229**	**83,704**	85,516	82,939	76,090	74,738
Income before other expenses and the provision for (recovery of) income taxes	**13,512**	**13,467**	**11,761**	**10,801**	11,529	12,050	11,372	8,840
Net loss	**(6,348)**	**(706)**	**(968)**	**(1,362)**	(1,347)	(139)	(5,039)	(2,609)
Per share and diluted per share	**(0.20)**	**(0.02)**	**(0.03)**	**(0.05)**	(0.05)	(0.00)	(0.19)	(0.11)
FFO - Basic	**9,812**	**8,019**	**6,901**	**6,226**	6,882	7,164	7,261	4,949
Per share	**0.31**	**0.27**	**0.24**	**0.21**	0.24	0.25	0.27	0.20
FFO - Diluted	**10,419**	**8,470**	**7,157**	**6,226**	6,882	7,164	7,261	4,949
Per share - excluding subscription receipts	**0.30**	**0.26**	**0.23**	**0.21**	0.24	0.24	0.27	0.20
Per share - including subscription receipts	**0.27**	**0.22**	**0.20**	**0.21**	0.24	0.24	0.27	0.20
AFFO - Basic	**11,429**	**8,957**	**8,568**	**8,180**	8,289	9,289	9,563	7,141
Per share	**0.36**	**0.31**	**0.29**	**0.28**	0.28	0.32	0.36	0.29
AFFO - Diluted	**12,036**	**9,408**	**8,824**	**8,180**	8,289	9,289	9,563	7,141
Per share - excluding subscription receipts	**0.35**	**0.29**	**0.28**	**0.28**	0.28	0.32	0.36	0.29
Per share - including subscription receipts	**0.31**	**0.25**	**0.25**	**0.28**	0.28	0.32	0.36	0.29
Dividends declared	**7,116**	**6,598**	**6,594**	**6,587**	6,341	6,217	5,879	5,202
Per share	**0.23**	**0.23**	**0.23**	**0.23**	0.22	0.21	0.21	0.21
Total assets	**977,024**	**826,498**	**844,362**	**744,868**	744,067	762,601	762,073	641,173
Total debt (including convertible debentures)	**598,703**	**440,880**	**460,667**	**425,543**	425,225	429,157	433,110	355,989

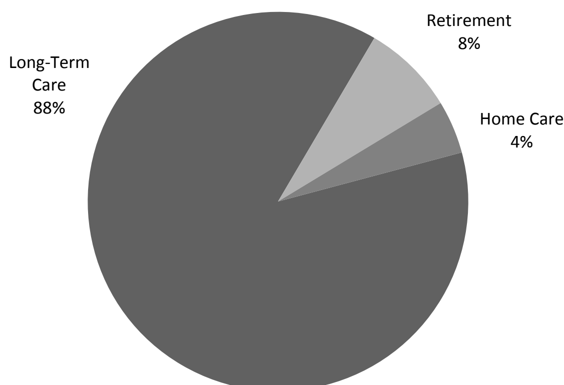
The quarterly financial results of Leisureworld are impacted by various factors including, but not limited to the timing of acquisitions, the seasonality of utility expenses, the timing of government funding rate increases and the timing of revenue recognition to match spending within the flow-through envelopes, and capital market and financing activities. The second quarter of 2012 was affected by a one-time charge for the impairment loss associated with a Human Resource Information System ("**HRIS**") project. In the fourth quarter of 2012, Leisureworld paid a one-time redemption premium of $1,095 relating to the partial repurchase and cancellation of Series A Senior Secured Debentures with a face value of $15,674 due November 24, 2015. This premium was included in the financing costs. In December 2013, Leisureworld completed the Specialty Care Acquisition, discussed below, which contributed approximately $1,783 to NOI for the one month.

A discussion of the results for the quarter and year ended December 31, 2013 compared to the same periods in the prior year is provided under the section "Operating Results".

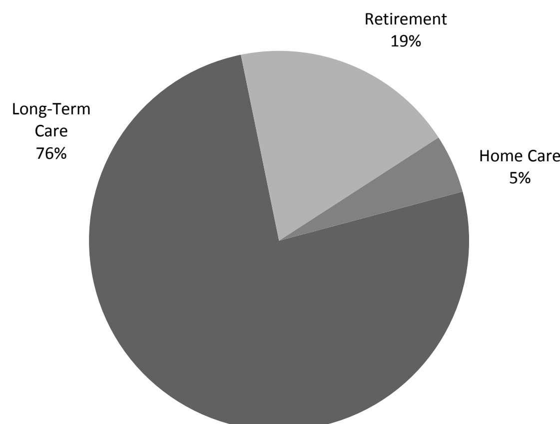
Business Overview

The following is the business segment contribution to revenues and NOI for the year ended December 31, 2013.

Net Revenue Contribution by Segment



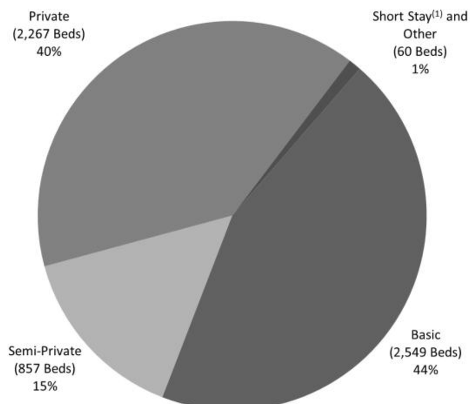
NOI Contribution by Segment



Long-Term Care

The LTC portfolio generated approximately 88% of Leisureworld's net revenues and approximately 76% of the NOI. Approximately 55% of Leisureworld's LTC beds are designated as preferred accommodation (private and semi-private rooms). Approximately 4% of the revenues and 23% of the NOI from Leisureworld's LTC operations are derived from charging residents the regulated premiums for these types of accommodations.

Summary of LTC Beds by Accommodation Type



Note:

(1) Short stay ("**SS**") and convalescent care ("**CC**") beds are reserved for people requiring stays in an LTC home of less than 30 and 90 days, respectively. SS beds are designed to provide home caregivers with relief from their caregiving duties on a periodic basis. CC beds are typically used to provide resident support following a hospital stay. SS beds are funded at 100% occupancy regardless of actual occupancy and CC beds are funded at 100% occupancy, provided average annual occupancy meets or exceeds 80%. In addition, CC beds earn additional funding as a result of the higher level of care required.

Retirement and Independent Living Residence

Leisureworld's retirement portfolio consists of nine retirement properties, three of which are located in British Columbia (the "**BC Homes**") and six of which are located in Ontario. Four properties were acquired as part of the Specialty Care Acquisition, discussed below, on December 2, 2013 and the

remaining two are The Royale Kingston and The Royale Kanata (the "**Ontario Homes**"); as well, there is one independent living community in Ontario. Leisureworld's RR portfolio, while still growing its revenue base, currently generates approximately 8% of net revenues and approximately 19% of the NOI for Leisureworld.

Property	Location	Suites	Acquisition Date	Occupancy at Acquisition	Occupancy at Quarter End							
					Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Scarborough IL	Scarborough, ON	53	--	--	88.7%	84.9%	98.1%	98.1%	98.1%	96.2%	94.3%	94.3%
The Royale Kanata	Kanata, ON	158	April 27, 2011	41.8%	58.9%	66.5%	68.4%	71.5%	68.4%	69.0%	67.7%	69.6%
The Royale Kingston	Kingston, ON	136	April 27, 2011	52.9%	65.4%	72.8%	71.3%	69.9%	68.4%	76.5%	76.5%	80.1%
The Royale Astoria	Port Coquitlam, BC	135	May 24, 2012	59.3%	--	59.3%	58.5%	57.0%	55.6%	59.3%	65.9%	71.9%
The Royale Pacifica	Surrey, BC	130	May 24, 2012	94.6%	--	90.0%	88.5%	89.2%	93.1%	93.1%	100.0%	96.2%
The Royale Peninsula	Surrey, BC	127	May 24, 2012	94.5%	--	92.9%	83.5%	82.7%	83.5%	78.0%	84.3%	80.3%
Cedarvale	Keswick, ON	130	December 2, 2013	83.1%	--	--	--	--	--	--	--	83.8%
Island Park	Campbellford, ON	85	December 2, 2013	100.0%	--	--	--	--	--	--	--	96.5%
Lincoln Park	Grimsby, ON	70	December 2, 2013	94.3%	--	--	--	--	--	--	--	87.1%
Trillium	Kingston, ON	41	December 2, 2013	92.7%	--	--	--	--	--	--	--	92.7%
TOTAL		**1,065**		**74.9%**	**66.0%**	**76.3%**	**75.4%**	**75.5%**	**75.1%**	**76.3%**	**79.4%**	**82.9%**

Home Care Services

PHCS operates Leisureworld's Home Care segment. PHCS offers personal support to seniors in their homes, funded through CCACs, private pay home care, education and relief staffing services. PHCS broadens Leisureworld's presence across the continuum of seniors' care. PHCS has been providing professional nursing and personal support services in Ontario since 1987. Leisureworld's Home Care segment contributes approximately 4% of its revenue and generates approximately 5% of its NOI.

Significant Events

Completed the Issuance of Senior B Secured Debentures

On February 3, 2014, Leisureworld Senior Care LP ("**LSCLP**"), a wholly-owned subsidiary of LSCC, issued $322.0 million of aggregate principal amount of 3.474% Series B Senior Secured Debentures with a maturity date of February 3, 2021 (the "**Series B Debentures**").

The proceeds from the issuance of the Series B Debentures were used to repay all of the outstanding 4.814% Series A Senior Secured Debentures of LSCLP due November 24, 2015 (the "**Series A Debentures**") on February 24, 2014, and to pay all associated fees and expenses.

This refinancing extended the weighted average term to maturity of Leisureworld's long-term debt (including the Convertible Debentures) from 3.1 to 5.7 years, and reduced its weighted average interest rate from 4.53% to 3.86%. Due to the redemption notice period required, the Series A Debentures were redeemed after the issuance of the Series B Debentures, resulting in a short term inefficiency.

The Series B Debentures, which bear interest at 3.474% per year payable semi-annually, were issued by LSCLP under a supplement to its existing master trust indenture. The terms of the Series B Debentures include covenants to maintain a principal reserve fund to be used for bond repayment. The principal reserve fund will be funded by LSCLP at least semi-annually to a predetermined minimum balance of $45.5 million to be available for principal repayment by the maturity date of the Series B Debentures.

DBRS Inc. ("**DBRS**") has assigned a rating of A (low), with a Stable trend, to the Series B Debentures.

Specialty Care Acquisition

On December 2, 2013, Leisureworld, through The Royale Development LP, completed the acquisition from Specialty Care Inc. and certain other related parties (collectively "**Specialty Care**") a portfolio of 10 properties in Ontario consisting of six LTC homes, two RRs and two properties containing both LTC and RR components (the "**Specialty Care Acquisition**"). The Specialty Care Acquisition comprises in total 1,235 LTC beds and 326 retirement suites, as well as the third party management businesses previously operated by Specialty Care. In addition this transaction resulted in Leisureworld gaining approximately 1,500 experienced employees.

The purchase price for the Specialty Care Acquisition was satisfied, in part, by the assumption of approximately $72,000 of existing debt and the issuance of 564,516 common shares of Leisureworld to the vendor for $7,000. A further portion of the purchase price was funded from new credit facilities totaling approximately $62,540, which bear interest at a weighted average rate of 4.4% per annum and have a weighted average term to maturity of approximately 5.8 years. The balance of the purchase price was funded from the net proceeds of Leisureworld's public offering of 6,353,750 subscription receipts (the "**Subscription Receipts**") and $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (the "**Convertible Debentures**"), completed on April 25, 2013.

On the completion of the Specialty Care Acquisition, each Subscription Receipt was exchanged for one common share of LSCC and the maturity date of the Convertible Debentures was automatically extended to June 30, 2018.

Impact of Subscription Receipts and Debenture Offering on FFO and AFFO

The issuance of Subscription Receipts and Convertible Debentures in April 2013 resulted in total proceeds of $124.8 million, with the Subscription Receipt proceeds of $78.8 million being held in escrow until the Specialty Care Acquisition closed on December 2, 2013.

As a result, of the timing difference between raising the capital and deploying the capital on December 2, 2013, Leisureworld experienced a temporary dilutive impact on FFO and AFFO per share. For the periods ended December 31, the impact was as follows:

Thousands of Dollars, except per share data	Three Months Ended 2013	Year ended 2013
Weighted average common shares outstanding - Diluted, including subscription receipts	38,605,487	35,608,416
Subscription receipts, dilutive adjustment	(4,281,875)	(3,847,065)
Weighted average common shares outstanding - Diluted, excluding subscription receipts	34,323,612	31,761,351
Diluted FFO per share, including subscription receipts	$0.270	$0.906
Diluted FFO per share, excluding subscription receipts	$0.304	$1.016
Diluted AFFO per share, including subscription receipts	$0.312	$1.080
Diluted AFFO per share, excluding subscription receipts	$0.351	$1.211

Operating Results

The following are the Operating Results for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of Dollars	**2013**	2012	Change	**2013**	2012	Change
Revenue	**99,815**	85,516	14,299	**353,323**	319,283	34,040
Expenses						
Operating expenses	**82,284**	70,544	11,740	**290,014**	262,946	27,068
Administrative expenses	**4,019**	3,443	576	**13,768**	12,546	1,222
	86,303	73,987	12,316	**303,782**	275,492	28,290
Income before other expenses and the provision for (recovery of) income taxes	**13,512**	11,529	1,983	**49,541**	43,791	5,750
Other expenses						
Depreciation and amortization	**7,802**	7,132	670	**28,845**	27,900	945
Net finance charges	**6,078**	5,982	96	**22,097**	18,580	3,517
Transaction costs	**6,577**	36	6,541	**8,840**	1,448	7,392
Impairment loss	**-**	-	-	**-**	2,697	(2,697)
	20,457	13,150	7,307	**59,782**	50,625	9,157
Loss before income taxes	**(6,945)**	(1,621)	(5,324)	**(10,241)**	(6,834)	(3,407)
Provision for (recovery of) income taxes						
Current	**(1,160)**	425	(1,585)	**613**	1,826	(1,213)
Deferred	**563**	(699)	1,262	**(1,470)**	474	(1,944)
	(597)	(274)	(323)	**(857)**	2,300	(3,157)
Net loss	**(6,348)**	(1,347)	(5,001)	**(9,384)**	(9,134)	(250)
Total assets	**977,024**	744,067	232,957	**977,024**	744,067	232,957
Total debt	**598,703**	425,225	173,478	**598,703**	425,225	173,478

Revenue Breakdown

Thousands of Dollars	Three Months Ended			Year Ended		
	2013	2012	Change	**2013**	2012	Change
Long Term Care						
Same property	**76,738**	72,677	4,061	**289,535**	279,787	9,748
Acquisitions and other	**11,145**	2,745	8,400	**20,551**	5,036	15,515
Total Long Term Care Revenue	**87,883**	75,422	12,461	**310,086**	284,823	25,263
Retirement						
Same property	**3,119**	3,047	72	**12,249**	11,503	746
Acquisitions and other	**4,855**	3,535	1,320	**15,574**	8,941	6,633
Total Retirement Revenue	**7,974**	6,582	1,392	**27,823**	20,444	7,379
Home Care						
Same property	**4,525**	4,159	366	**17,663**	16,221	1,442
Acquisitions and other	**-**	-	-	**-**	-	-
Total Home Care Revenue	**4,525**	4,159	366	**17,663**	16,221	1,442
Total Revenue						
Same property	**84,382**	79,883	4,499	**319,447**	307,511	11,936
Acquisitions and other	**16,000**	6,280	9,720	**36,125**	13,977	22,148
Intersegment eliminations	**(567)**	(647)	80	**(2,249)**	(2,205)	(44)
Total Revenue	**99,815**	85,516	14,299	**353,323**	319,283	34,040

Operating Expense Breakdown

Thousands of Dollars	Three Months Ended			Year Ended		
	2013	2012	Change	**2013**	2012	Change
Long Term Care						
Same property	**65,349**	61,681	3,668	**244,104**	235,377	8,727
Acquisitions and other	**9,247**	2,384	6,863	**17,900**	4,415	13,485
Total Long Term Care Expenses	**74,596**	64,065	10,531	**262,004**	239,792	22,212
Retirement						
Same property	**1,745**	1,787	(42)	**6,953**	6,785	168
Acquisitions and other	**2,773**	1,908	865	**8,794**	5,029	3,765
Total Retirement Expenses	**4,518**	3,695	823	**15,747**	11,814	3,933
Home Care						
Same property	**3,737**	3,431	306	**14,512**	13,545	967
Acquisitions and other	**-**	-	-	**-**	-	-
Total Home Care Expenses	**3,737**	3,431	306	**14,512**	13,545	967
Total Operating Expenses						
Same property	**70,831**	66,899	3,932	**265,569**	255,707	9,862
Acquisitions and other	**12,020**	4,292	7,728	**26,694**	9,444	17,250
Intersegment eliminations	**(567)**	(647)	80	**(2,249)**	(2,205)	(44)
Total Operating Expenses	**82,284**	70,544	11,740	**290,014**	262,946	27,068

For the Quarter

Revenue

Revenues for the fourth quarter of 2013 increased by $14,299, or 16.7%, to $99,815. Of note, LTC revenue increased by $12,461 to $87,883 due to the following:

- The Specialty Care LTC homes contributed revenues for the month of December of $7,734.

- The Muskoka property was renovated from a RR to a LTC property in early 2013. The additional LTC beds at the Muskoka property generated revenues of $463.
- LTC same property revenues increased $4,061, primarily as a result of funding rate changes and the timing of revenue recognition related to the flow-through envelopes.

The retirement portfolio revenues increased by $1,392 to $7,974 due to the following:

- The Specialty Care RR homes contributed revenues for the month of December of $1,057.
- For the BC and Ontario Homes, higher overall occupancy generated approximately $320 to the incremental revenue.
- Rental rate and ancillary revenues were consistent period over period.

Home Care's net revenue of $3,958 was $446 higher than the comparable period. Home Care continued to benefit from higher volumes for CCAC service contracts.

Operating Expenses

Operating expenses were $82,284 for the quarter, an increase of $11,740 compared to the same period last year. LTC represented $74,596 of the total expenses, compared to $64,065 in the comparable quarter last year. The $10,531 increase in LTC operating expenses was attributed to:

- The Specialty Care LTC homes incurred expenses of $6,336 for the month of December.
- Same property expenses increased by approximately $3,668, due to higher flow-through expenses of $3,317 consistent with increased revenues in the flow-through envelopes.
- Increased expenses of $406 relating to the change in use of the Muskoka property from retirement to LTC.

Retirement operating expenses for the quarter were $4,518, compared to $3,695 last year. The increase of $823 was related to:

- The Specialty Care RR homes incurred expenses of $672 for the month of December.
- The Ontario Homes expenses remained constant despite increasing occupancy.
- The BC Homes incurred incremental expenses of $200, relating to increased occupancy levels.

Home Care's operating expenses increased by $306, which related to the higher volume of personal support contracts associated with the higher revenues.

Administrative Expenses

Administrative expenses increased 16.7% to $4,019, compared to $3,443 for the fourth quarter of 2012. The increase of $576 was primarily the result of higher people costs ("**people costs**" includes wages, benefit and other staffing related costs). This increase is primarily attributable to the increase in administrative staff and senior staff changes resulting from the completion of the Specialty Care Acquisition.

Depreciation and Amortization

Depreciation and amortization increased to $7,802 for the fourth quarter of 2013, from $7,132 for the same period last year. The increase was principally related to the incremental depreciation and amortization of the Specialty Care assets for the month of December.

Net Finance Charges

Net finance charges for the fourth quarter of 2013 were $6,078, compared to $5,982, for the same period last year. Movements of the underlying debt instruments were as follows:

- Dividend equivalents on Subscription Receipts, net of interest earned on the offering proceeds held in escrow account, amounted to $818, which was recorded as a finance charge for accounting purposes.
- Convertible Debentures interest expense of $551.
- The above noted increases were partly offset by lower interest of $1,579 on the Series A Debentures due to the premium associated with the partial repurchase of $15,674 face value, during the fourth quarter of 2012.

Transaction Costs

Transaction costs for the fourth quarter of 2013 were $6,577, and were primarily related to the Specialty Care Acquisition. Of this amount, approximately $4,081 was related to amounts paid pursuant to a cost sharing arrangement in respect of vendor debt not assumed, and fees for the administration of debt assumed. The remaining costs related to legal, consulting, audit and other related services associated with the transaction.

Income Taxes

The total tax recovery for the period is $597, compared to $274 last year. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. Current taxes reflect a recovery of $1,160 in the quarter, compared to a provision of $425 in the prior year. This was principally due to the additional tax shield generated from the acquisition of the Specialty Care assets. Deferred taxes were a provision of $563 in the quarter compared to a recovery of $699 last year. The movement of $1,262 was the result of timing differences as well as the deferred tax items associated with the Specialty Care Acquisition.

For the Year

Revenue

Leisureworld had total revenue of $353,323, compared to $319,283 in 2012, representing an increase of $34,040 or 10.7%. LTC revenue of $310,086 reflects a $25,263 increase over the year ended December 31, 2012. This increase was due to:

- The Specialty Care LTC homes generated revenues for the month of December of approximately $7,734.
- Revenue attributable to the acquisition of the Madonna property, which closed in July 2012, and had total incremental revenue of $6,345 for the year ended December 31, 2013.
- The change in use of the Muskoka property generated $1,436 of LTC revenue during 2013.

- Same property revenues increased by $9,748, primarily due to funding rate increases.

The retirement segment revenues were $27,823, compared to $20,444 last year. The increase was primarily due to the following:

- The BC Homes, acquired in May 2012, had incremental revenue in the current year of $5,890.
- The Specialty Care RR homes generated revenues for the month of December of $1,057
- The Ontario Homes had increased revenues of $711 principally due to improved occupancy in 2013.
- The Muskoka change in use decreased revenues by approximately $314 for the year.

Home Care's external revenue increased to $15,414, or 10.0% over 2012. Home Care continues to benefit from higher volumes for service contracts, and the current year operating results also include an increase in revenues from educational services and products.

Operating Expenses

Total operating expenses for Leisureworld were $290,014, compared to $262,946 last year, representing an increase of $27,068. LTC expenses were $262,004, which reflects an increase of $22,212 over the prior year. This increase was due to the following:

- The Specialty Care LTC homes incurred expenses for the month of December of approximately $6,336.
- The Madonna property, acquired in the second half of 2012, incurred incremental operating expenses of $5,825 for the year.
- The converted Muskoka property incurred operating expenses of $1,324 for the year.
- Same property operating expenses increased by $8,727 or 3.7%. The same property variances were mainly due to increased expenditures related to the flow-through envelopes of $7,429. Other increases are partially attributed to utility expenses of $471, dietary costs of $276, and laundry services of $199.

Retirement segment operating expenses increased to $15,747 from $11,814 last year. The increase was the result of the following:

- The BC Homes expenses increased by $3,460, principally as a result of the timing of the acquisition in the prior year.
- The Specialty Care RR Homes incurred expenses for the month of December of approximately $672.
- The Ontario Homes expenses increased by $322, due primarily to variable expenses associated with increased occupancy levels.

Home Care's operating expenses were $14,512, an increase of $967, primarily related to the higher volume of personal support contracts associated with the higher revenues.

Administrative Expenses

Administrative expenses for the year totaled $13,768, an increase of $1,222, compared to $12,546 last year. The increase in administrative expenses was the result of:

- Higher people related costs of $1,091 primarily arising from the prior year's reversal of executive compensation expense of approximately $432, incremental staff due to the Specialty Care Acquisition and other changes in administrative staffing.

Depreciation and Amortization

Depreciation and amortization were $28,845, an increase of $945 over last year. The increase was attributable to property and equipment and the intangible assets acquired as part of the Specialty Care Acquisition.

Net Finance Charges

Net finance charges totaled $22,097, compared to $18,580 last year. The $3,517 increase was attributable to the following:

- Finance charges of $3,303 for the dividend equivalents accounting treatment on the Subscription Receipts, net of interest earned on the escrow account balance.
- Interest on the Convertible Debentures of $1,513.
- Incremental charges from the BC Homes acquisition in 2012 of $900.
- Incremental interest charges of $417 related to the Madonna property acquired in 2012.
- The above noted increases were partly offset by lower finance charges on the Series A Debenture of $2,151, as a result of the partial repurchase late last year.
- There were favourable variances of $567 on the interest rate swap contracts' mark-to-market adjustments.

Transaction Costs

Transaction costs were $8,840, compared to $1,448 in the prior year. During 2013, approximately $8,635 of transaction costs were incurred for the Specialty Care Acquisition. The main components of the Specialty Care Acquisition related expenses include amounts paid pursuant to a cost sharing arrangement in respect of vendor debt not assumed and fees for the administration of debt assumed totaling approximately $4,081. The remaining costs related to legal, consulting, audit and other related services associated with the transaction.

Impairment Loss

During the second quarter of 2012, Leisureworld determined that the carrying amount of the HRIS being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a $2,697 impairment of intangible assets. Refer to the December 31, 2012 MD&A for a full discussion.

Income Taxes

Current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. The total income tax provision for the year was $613, compared to $1,826 in 2012. The decrease in current taxes of $1,213 was primarily related to the tax shield generated from the Specialty

Care acquisition partly offset by incremental in 2012 year relating to the change in corporate tax rates and the timing of the reversal of certain tax values. The change in deferred taxes of $1,944 principally arose from a charge of $3,721 recorded last year relating to the change in corporate tax rates and the timing of the reversal of certain tax values. The balance is the result of timing differences as well as the deferred tax items associated with the Specialty Care Acquisition

Business Performance

Net Operating Income Reconciliation

The following is a reconciliation of the net loss to NOI for the periods ended December 31.

	Three Months Ended			Year Ended		
Thousands of Dollars	**2013**	2012	Change	**2013**	2012	Change
Net loss	**(6,348)**	(1,347)	(5,001)	**(9,384)**	(9,134)	(250)
Provision for (recovery of) income taxes	**(597)**	(274)	(323)	**(857)**	2,300	(3,157)
Loss before income taxes	**(6,945)**	(1,621)	(5,324)	**(10,241)**	(6,834)	(3,407)
Depreciation and amortization	**7,802**	7,132	670	**28,845**	27,900	945
Net finance charges	**6,078**	5,982	96	**22,097**	18,580	3,517
Transaction costs	**6,577**	36	6,541	**8,840**	1,448	7,392
Impairment loss	**-**	-	-	**-**	2,697	(2,697)
Income before other expenses and the provision for (recovery of) income taxes	**13,512**	11,529	1,983	**49,541**	43,791	5,750
Administrative expenses	**4,019**	3,443	576	**13,768**	12,546	1,222
Net Operating Income (NOI)	**17,531**	14,972	2,559	**63,309**	56,337	6,972

Funds from Operations and Adjusted Funds from Operations

The following is a summary of the FFO and AFFO for the periods ended December 31.

Thousands of Dollars, except share and per share data	Three Months Ended			Year Ended		
	2013	2012	Change	**2013**	2012	Change
Net Operating Income (NOI)	**17,531**	14,972	2,559	**63,309**	56,337	6,972
Interest income on construction funding receivable	**844**	778	66	**3,096**	3,060	36
Net finance charges[1]	**(5,704)**	(6,132)	428	**(21,071)**	(19,997)	(1,074)
One-time bond redemption premium	**-**	1,095	(1,095)	**-**	1,095	(1,095)
Current income taxes	**1,160**	(425)	1,585	**(613)**	(1,826)	1,213
Administrative expenses[2]	**(4,019)**	(3,406)	(613)	**(13,763)**	(12,413)	(1,350)
Funds from Operations (FFO)	**9,812**	6,882	2,930	**30,958**	26,256	4,702
HRIS expense	**-**	-	-	**-**	52	(52)
Deferred share unit plan compensation	**353**	244	109	**1,050**	506	544
Income support	**-**	316	(316)	**694**	3,188	(2,494)
Construction funding principal	**1,762**	1,430	332	**6,362**	5,696	666
Maintenance capex[3], [4]	**(498)**	(583)	85	**(1,930)**	(1,416)	(514)
Adjusted Funds from Operations (AFFO)	**11,429**	8,289	3,140	**37,134**	34,282	2,852
Basic FFO per share	**$0.311**	$0.235	$0.076	**$1.036**	$0.960	$0.076
Basic AFFO per share	**$0.362**	$0.284	$0.078	**$1.243**	$1.253	($0.010)
Weighted average common shares outstanding - Basic	**31,577,343**	29,239,828		**29,871,656**	27,351,568	
Diluted FFO per share[5]	**$0.304**	$0.235	$0.069	**$1.016**	$0.959	$0.057
Diluted AFFO per share[5]	**$0.351**	$0.283	$0.068	**$1.211**	$1.252	($0.041)
Weighted average common shares outstanding - Diluted[5]	**34,323,612**	29,272,889		**31,761,351**	27,391,208	

Notes:

(1) Net finance charges is reconciled as follows:

Reported Net Finance Charges per Statement of Operations	**6,078**	5,982	(96)	**22,097**	18,580	(3,517)
Net accretion of fair value adjustments on long-term debt	**(390)**	(867)	(477)	**(1,679)**	(2,460)	(781)
Dividend equivalents accrued on subscription receipts	**(953)**	-	953	**(3,812)**	-	3,812
Interest income on subscription receipt funds held in escrow	**135**	-	(135)	**509**	-	(509)
Interest income on construction funding receivable	**844**	778	(66)	**3,096**	3,060	(36)
Gain on the interest rate swap contracts	**210**	319	109	**1,649**	1,082	(567)
Amortization of deferred financing charges	**(220)**	(80)	140	**(789)**	(265)	524
Net Finance Charges for FFO	**5,704**	6,132	428	**21,071**	19,997	(1,074)

(2) The presented administrative expenses have been decreased by $nil, $36, $5, and $133 respectively for share-based compensation expense related to stock issued to senior management in relation to the IPO, the effect being a reduction in proceeds to the seller.

(3) Maintenance capex has been decreased by $nil, $nil, $nil, $435 respectively for capital expenditures related to the HRIS project.

(4) Maintenance capex for the quarter and twelve month periods adjusted for redevelopment costs related to the Muskoka property of $(6) and $621.

(5) The following is a reconciliation of the Basic FFO and AFFO to the Diluted FFO and AFFO used for the purposes of the calculations above.

FFO, Basic	**9,812**	6,882	2,930	**30,958**	26,256	4,702
Interest expense on convertible debt	**826**	-	826	**1,788**	-	1,788
Current income tax expense adjustment	**(219)**	-	(219)	**(473)**	-	(473)
FFO, Diluted	**10,419**	6,882	3,537	**32,273**	26,256	6,017
AFFO, Basic	**11,429**	8,289	3,140	**37,134**	34,282	2,852
FFO dilutive adjustments above, net	**607**	-	607	**1,315**	-	1,315
AFFO, Diluted	**12,036**	8,289	3,747	**38,449**	34,282	4,167

The following is the reconciliation of the weighted average shares outstanding per IFRS to the outstanding shares excluding subscription receipts, used in the above.

Weighted average common shares outstanding - Diluted, including subscription receipts	**38,605,487**	29,272,889	9,332,598	**35,608,416**	27,391,208	8,217,208
Subscription receipts, dilutive adjustment	**(4,281,875)**	-	(4,281,875)	**(3,847,065)**	-	(3,847,065)
Weighted average common shares outstanding - Diluted, excluding subscription receipts	**34,323,612**	29,272,889	5,050,723	**31,761,351**	27,391,208	4,370,143
Diluted FFO per share, including subscription receipts	**$0.270**	$0.235	$0.035	**$0.906**	$0.959	($0.053)
Diluted AFFO per share, including subscription receipts	**$0.312**	$0.283	$0.029	**$1.080**	$1.252	($0.172)

Net Operating Income Breakdown

Thousands of Dollars	Three Months Ended 2013	2012	Change	Year Ended 2013	2012	Change
Long Term Care						
Same property	**11,389**	10,996	393	**45,431**	44,410	1,021
Acquisitions and other	**1,898**	361	1,537	**2,651**	621	2,030
Total Long Term Care NOI	**13,287**	11,357	1,930	**48,082**	45,031	3,051
Retirement						
Same property	**1,374**	1,260	114	**5,296**	4,718	578
Acquisitions and other	**2,082**	1,627	455	**6,780**	3,912	2,868
Total Retirement NOI	**3,456**	2,887	569	**12,076**	8,630	3,446
Home Care						
Same property	**788**	728	60	**3,151**	2,676	475
Acquisitions and other	**-**	-	-	**-**	-	-
Total Home Care NOI	**788**	728	60	**3,151**	2,676	475
Total NOI						
Same property	**13,551**	12,984	567	**53,878**	51,804	2,074
Acquisitions and other	**3,980**	1,988	1,992	**9,431**	4,533	4,898
Intersegment eliminations	**-**	-	-	**-**	-	-
Total NOI	**17,531**	14,972	2,559	**63,309**	56,337	6,972

For the Quarter

NOI

Leisureworld generated NOI of $17,531 for the quarter ended December 31, 2013. This represented an increase of $2,559.

LTC NOI increased by $1,930 for the quarter. The increase was attributed to the Specialty Care Acquisition and a 3.6% improvement in same property performance.

The retirement segment generated NOI of $3,456, an increase of $569 from the same period last year. The Specialty Care Acquisition contributed $385 of the increase, while the BC Homes NOI increased by $63. The Ontario Homes had favourable NOI contributions over the prior year of $133. The NOI improvement in the Ontario Homes was the result of increased revenues resulting from higher occupancy levels.

Home Care's NOI of $788 reflects an increase of $60, or 8.2%, over the comparable period. The increase was the result of increased contributions from personal support contract volumes, partly offset by the increase in associated labour costs.

FFO

FFO totaled $9,812, compared to $6,882 in the same quarter last year, representing an increase of $2,930. The improved NOI and the tax benefit of the Specialty Care Acquisition were partly offset by the higher finance charges (including the adjustment for the one-time Series A Debenture redemption premium) and higher administrative expenses.

AFFO

AFFO totaled $11,429, an increase of $3,140 over the same quarter last year. The increase was principally related to the improved FFO performance noted above and the decrease in income support

related to the acquisition of Astoria property in 2012 being offset by the increase in construction funding principal received.

For the Year

NOI

Leisureworld's NOI was $63,309, an increase of $6,972 over last year's NOI of $56,337. The LTC segment generated NOI of $48,082, which was an increase of $3,051 over 2012. Of this amount, $2,030 related to acquisition activities, primarily the Specialty Care Acquisition. The remaining increase was attributable to higher NOI from same property operations.

The retirement segment NOI totaled $12,076, an increase of $3,446 over last year. The BC Homes contributed $2,430 of the increase, primarily as a result of the timing of the acquisition in 2012. The Ontario Homes had a year over year increase in NOI of $573 as a result of higher occupancy, while the Specialty Care Acquisition contributed $385 of the increase.

Home Care's NOI increased by $475 to $3,151 for the year. This was the result of increased personal support contract volumes and higher contributions from educational services.

FFO

FFO for the year totaled $30,958, an increase of $4,702 or 17.9% over the prior year. This improvement was due to the improved NOI, noted above, and the favourable tax shield related to the Specialty Care Acquisition. The increase was partly offset by the increase in net finance charges of $2,169, including the adjustment in the prior year for the one-time Series A Debenture redemption premium. The reduced interest from the Series A Debenture redemption of approximately $1,797 was replaced with interest on the Convertible Debentures which were issued in April in the amount of $1,513. As well, there was incremental interest related to the debt attributable to the Specialty Care properties of approximately $517 and incremental interest costs from the BC Homes of $885. Administrative expenses were higher by $1,350 compared to the prior year. The increase was primarily due to the prior year's reversal of executive compensation expense of approximately $432, incremental staff due to the Specialty Care Acquisition and other changes in administrative staffing.

AFFO

Leisureworld's AFFO was $37,134, representing an increase of $2,852 or 8.3% over the prior year. The favourable FFO noted above was offset by the decrease in income support of $2,494, as the income support draws were substantially completed in the second quarter of 2012 as well as the Astoria income support drawn down in respect of the acquisition of the Ontario Homes. Further, maintenance capex increased by $514 over the prior year. AFFO was also affected by the offset of the $544 incremental add-back for deferred share unit compensation and higher construction funding received.

Liquidity and Capital Resources

Financial Position Analysis

The following is a summary of cash flows for the periods ended December 31.

Thousands of Dollars	Three Months Ended			Year Ended		
	2013	2012	Change	**2013**	2012	Change
Cash flow from operations before non-cash working capital items	**7,329**	11,795	(4,466)	**41,887**	43,104	(1,217)
Non-cash changes in working capital	**885**	(2,307)	3,192	**7,112**	(3,372)	10,484
Interest, interest rate swap settlements and taxes paid	**(10,541)**	(9,445)	(1,096)	**(22,766)**	(21,017)	(1,749)
Cash provided by (used in):						
Operating activities	**(2,327)**	43	(2,370)	**26,233**	18,715	7,518
Investing activities	**(154,685)**	1,626	(156,311)	**(162,158)**	(87,622)	(74,536)
Financing activities	**148,330**	(12,285)	160,615	**142,305**	56,229	86,076
Increase (decrease) in cash and cash equivalents	**(8,682)**	(10,616)	1,934	**6,380**	(12,678)	19,058
Cash and cash equivalents	**15,623**	9,243	6,380	**15,623**	9,243	6,380

For the Quarter

Operating Activities

For the current quarter ended December 31, 2013, operating activities used $2,327 of cash primarily as a result of:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $7,329.
- Increase in accounts payable and accrued liabilities of $5,882, primarily related to the timing of trade payables and wage and benefit accruals and payments, including those related to the homes acquired through the Specialty Care Acquisition.
- Interest utilized $9,988 of cash.
- Change in net balances of government funding utilized $5,677 due to timing.
- Increase in accounts receivables and other assets of $646 due to the timing of receipts.

For the fourth quarter of the prior year, operating activities provided $43 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $11,795.
- Increase in accounts payable and accrued liabilities of $1,260 as a result of the timing of payroll related accruals and payments.
- Decrease in income support of $430, due to the completion of the escrow drawdown on the Ontario Homes and the remaining amount related to the Astoria property that was part of the BC Homes acquisition.
- Interest paid used $8,720 of cash.
- Decrease in net balances of government funding of $4,609 due to timing as a result of the timing of revenue recognition as it relates to the expenditures incurred as Leisureworld has not had significant adjustments relating to the settlement of prior year balances.
- Increase in accounts receivables and other assets of $243 arising from the timing of settlements.

Investing Activities

Investing activities for the quarter utilized $154,685 of cash. The principal use of cash related to the Specialty Care Acquisition for $156,866. As well, funds were used to purchase other property and equipment of $503. Funds received from construction funding were $2,606.

In the prior year, investing activities provided $1,626 of cash. This was due to the funds received from construction funding of $2,234, partially offset by cash used for property and equipment purchases of $583.

Financing Activities

Financing activities in the quarter provided $148,330 of cash. This was primarily related to the following:

- Proceeds of issuance of long-term debt of $83,540 related to the Specialty Care Acquisition.
- Issuance of common shares of $71,823, related to the exchange of the Subscription Receipts for common shares.
- Partly offset by dividends paid in the quarter of $6,597.

For the prior year, financing activities used $12,285 of cash as a result of:

- Repayment of long-term debt of $16,991.
- Dividend payments of $6,217.
- Partly offset by the issuance of long-term debt of $11,181.

For the Year

Operating Activities

Operating activities for the year provided $26,233 of cash, $41,887 from operations net of usage of $15,654 for changes in non-cash working capital, interest paid, net settlement on interest rate swap contracts and taxes. The net usage of $15,654 primarily related to:

- Interest paid and net settlement of interest rate swap contracts totaled $20,854.
- Utilization from changes in net balances of government funding of $2,566.
- Income taxes paid in the period totaled $1,912.
- Partly offset by an increase in accounts payable and accrued liabilities of $7,294, primarily due to the timing of wage and benefit accruals and payments, including those related to the homes acquired through the Specialty Care Acquisition.
- Decrease in accounts receivable and other assets of $1,508.
- Decrease in income support of $945.

For the prior year, operating activities provided $18,715 of cash, $43,104 related to operations and changes in non-cash working capital items, interest paid, net settlement of interest rate swap contracts and taxes used cash of $24,389 as a result of the following:

- Interest paid and net settlement of interest rate swap contracts totaled $19,250.
- Utilization from changes in net balances of government funding of $4,900.
- Income taxes paid in the period totaled $1,767.

- Increase in accounts receivable and other assets of $1,167 which was related to higher receivable balances.
- Increase in prepaid expenses and deposits of $897.
- Partly offset by increased accounts payable and accrued liabilities of $2,142 primarily related to the movement in payroll related accruals, partly offset by lower trade payables and accrued liabilities.
- Decrease income support totaling $1,450 as a result of the drawdown of the escrow in relation to the Ontario Homes, offset by establishing the escrow amount in relation to the BC Homes, net of drawdowns.

Investing Activities

Investing activities used $162,158 of cash for the period as a result of the following:

- Acquisition of the Specialty Care assets, $166,866.
- Purchase of property and equipment totaling $2,628.
- Purchase of the Christie Gardens licences for $2,200.
- Partly offset by construction funding received of $9,458.

In 2012, investing activities utilized $87,622 of cash related to:

- Acquisition of the BC Homes properties totaling $91,710.
- Acquisition of the Madonna property for $2,776.
- Purchase of property and equipment totaling $1,416.
- Purchase of intangible assets for $435.
- Partly offset by construction funding received of $8,756.

Financing Activities

Financing activities provided $142,305 resulting from:

- Proceeds from the issuance of long-term debt of $101,514.
- Issuance of common shares of $71,823, related to the exchange of the Subscription Receipts for common shares.
- Proceeds from the Convertible Debentures of $44,160.
- Partly offset by repayment of long-term debt of $47,550.
- Dividend payments of $26,373.

In the prior year, financing activities provided $56,229 of cash from the following:

- Issuance of long-term debt totaled $63,100 related to the BC Homes acquisition.
- Issuance of common shares provided $53,787 for the BC Homes acquisition.
- Partly offset by repayment of long-term debt of $37,213.
- Dividend payments of $23,177.

Capital Resources

Leisureworld's total debt as at December 31, 2013 was $598,703 compared to $425,225 as at December 31, 2012. The increase of $173,478 primarily relates to the issuance of Convertible Debentures in the period which totaled $43,828, net of issuance related costs, as well as the debt attributable to the Specialty Care Acquisition, consisting of assumed debt in the amount of $74,667 and new debt of $62,540. Also, the conversion of the Pacifica credit facility to a mortgage provided net proceeds of $17,363, which was $8,705 less than the balance of the credit facility outstanding at the end of the previous quarter due to the repayment of the financing on the 15 strata condominium units owned in an adjacent building. The difference was settled in cash. As at December 31, 2013, Leisureworld had committed and undrawn facilities of $26,000.

As of December 31, 2013, Leisureworld had negative working capital of $45,173 primarily arising from short term debt of $27,286 from the Specialty Care Acquisition maturing in 2014. Management is anticipating settling part of the short term debt in cash provided by operations and refinancing the remaining components. To support Leisureworld's working capital deficiency, Leisureworld will use its operating cash flows and, if necessary, undrawn credit facilities.

Liquidity and Capital Commitments

Liquidity

Leisureworld's primary source of liquidity is its cash flow generated from operating activities. Leisureworld expects to meet its operating cash requirements through 2014, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

Capital Commitments

Leisureworld monitors all of its properties for capital requirements. As part of the monitoring exercise, items are assessed and prioritized based on the urgency and necessity of the expenditure.

Debt Strategy

Management's objectives are to access and maintain the lowest cost of debt with the most flexible terms available. Leisureworld's debt strategy revolves around the use of five types of debt: secured debentures, conventional property-specific secured mortgages, credit facilities, construction loans and convertible debentures. With respect to the issuance of the Series B Debentures, subsequent to the year end and in replacement of the Series A Debentures, management is of the view that Leisureworld secured the lowest cost debt available and it represented the highest loan to value option of the available financing alternatives.

Commencing in 2014 and beyond, management will start building a debt maturity schedule (for fixed term debt) spread evenly over a 10-year period as a means to manage interest rate risks, and to be able to finance acquisition opportunities as they arise. Management believes that in 2015 and beyond, Leisureworld will capitalize on external growth opportunities and management intends to build the ten-year debt maturity ladder around the Senior B Debentures so as to reduce the risk of this single large debt maturing.

Leisureworld has adopted interest coverage guidelines which are consistent with the coverage covenants contained in its credit facilities covenants. Interest coverage ratios provide an indication of the ability to service or pay interest charges relating to the underlying debt. Some interest coverage ratios as defined in certain debt instruments may be defined differently and there may be unique calculations depending on the lender.

Leisureworld has also adopted leverage guidelines which are measures intended to manage leverage.

Interest Coverage Ratio

Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations. In general, higher ratios indicate a lower risk of default.

	Three Months Ended		Year Ended	
Thousands of Dollars, except ratio	**2013**	2012	**2013**	2012
Net finance charges	**6,078**	5,982	**22,097**	18,580
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**(390)**	(867)	**(1,679)**	(2,460)
Amortization of deferred financing charges	**(220)**	(80)	**(789)**	(265)
Redemption premium on Series A Debentures	**-**	-	**-**	(1,095)
Dividend equivalents on subscription receipts	**(953)**	-	**(3,812)**	-
Interest income on construction funding receivable	**844**	778	**3,096**	3,060
Interest income on subscription receipts funds held in escrow	**135**	-	**509**	-
Other interest income	**82**	27	**243**	214
Gain on interest rate swap contracts	**210**	319	**1,649**	1,082
Net finance charges, adjusted	**5,786**	6,159	**21,314**	19,116
EBITDA	**16,118**	13,763	**58,999**	52,547
Interest coverage ratio	**2.8**	2.2	**2.8**	2.7

The following is the reconciliation of Net income (loss) to EBITDA:

	Three Months Ended		Year Ended	
Thousands of Dollars	**2013**	2012	**2013**	2012
Net income (loss)	**(6,348)**	(1,347)	**(9,384)**	(9,134)
Net finance charges	**6,078**	5,982	**22,097**	18,580
Provision for (recovery of) income taxes	**(597)**	(274)	**(857)**	2,300
Depreciation and amortization	**7,802**	7,132	**28,845**	27,900
Transaction costs	**6,577**	36	**8,840**	1,448
Impairment loss	**-**	-	**-**	2,697
Proceeds from construction funding	**2,606**	2,234	**9,458**	8,756
EBITDA	**16,118**	13,763	**58,999**	52,547

Debt Service Coverage Ratio

Debt service coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations, as well, this forms part of Leisureworld's covenant requirements. In general, higher ratios indicate a lower risk of default. EBITDA adjusted, as referenced below, is presented per defined terms in certain covenant calculations.

	Year Ended	
Thousands of Dollars, except ratio	**2013**	2012
Net finance charges	**22,097**	18,580
Add (deduct):		
Net accretion of fair value adjustments on long-term debt	**(1,679)**	(2,460)
Amortization of deferred financing charges	**(789)**	(265)
Redemption premium on Series A Debentures	**-**	(1,095)
Dividend equivalents on subscription receipts	**(3,812)**	-
Interest income on construction funding receivable	**3,096**	3,060
Interest income on subscription receipts funds held in escrow	**509**	-
Other interest income	**243**	214
Gain on interest rate swap contracts	**1,649**	1,082
Net finance charges, adjusted	**21,314**	19,116
Principal repayments	**1,450**	441
Total debt service	**22,764**	19,557
EBITDA	**58,999**	52,547
Add (deduct):		
Maintenance capex	**(1,930)**	(1,416)
Cash income taxes	**(613)**	(1,826)
EBITDA, adjusted	**56,456**	49,305
Debt service coverage ratio	**2.5**	2.5

Leverage Ratio

Leverage ratio is an indicator of the approximate number of years required for current cash flows to repay all indebtedness.

	Three Months Ended		Year Ended	
Thousands of Dollars, except ratio	**2013**	2012	**2013**	2012
Weighted average debt				
Series A Senior Secured Debentures	**294,326**	304,545	**294,326**	308,629
Credit facilities	**59,761**	91,285	**78,921**	79,238
Mortgages	**95,354**	38,919	**58,822**	21,311
Construction loan	**4,351**	-	**1,097**	-
Convertible debentures	**46,000**	-	**31,759**	-
	499,792	434,749	**464,925**	409,178
EBITDA (Quarterly Annualized)	**64,472**	55,052	**58,999**	52,547
Debt to EBITDA	**7.8**	7.9	**7.9**	7.8

Debt to Gross Book Value

Debt to gross book value indicates the leverage applied against the total gross book value of the entity.

Thousands of Dollars, except ratio	**2013**	2012
Total indebtedness		
Series A Senior Secured Debentures	**294,326**	294,326
Credit facilities	**73,000**	98,100
Mortgages	**177,229**	38,919
Construction loan	**13,351**	-
Convertible debentures	**46,000**	-
	603,906	431,345
Total assets	**977,024**	744,067
Accumulated deprecation on property and equipment	**69,302**	48,867
Accumulated amortization on intangible assets	**43,673**	35,263
Gross book value	**1,089,999**	828,197
Debt to Gross Book Value	**55.4%**	52.1%

Capital Disclosure

Leisureworld defines its capital as the total of its long-term debt and shareholders' equity less cash and cash equivalents.

Leisureworld's objectives when managing capital are to:

(i) maintain a capital structure that provides options to Leisureworld for access to capital, on commercially reasonable terms, without exceeding its debt capacity, pursuant to limitations in the credit facilities, or taking on undue risks;
(ii) maintain financial flexibility in order to meet financial obligations, including debt servicing payments and reliable dividend payments; and
(iii) deploy capital to provide an appropriate investment return to its shareholders.

Leisureworld's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, Leisureworld may issue additional shares, issue additional long-term debt, issue long-term debt to replace existing long-term debt with similar or different characteristics, or adjust the amount of dividends paid to Leisureworld's shareholders. Leisureworld's financing and refinancing decisions are made on a specific transaction basis and depend on factors such as Leisureworld's needs and the market and economic conditions at the time of the transaction.

The Board of Directors reviews and approves dividends (paid monthly) on a quarterly basis.

The Series B Debentures and a $10,000 revolving credit facility are (and the Series A Debentures previously were) collateralized by all assets of Leisureworld Senior Care LP ("**LSCLP**"). Under the indenture governing the Series B Debentures (and previously the Series A Debentures), LSCLP is subject to certain financial and non-financial covenants including the maintenance of a certain debt service coverage ratio defined as income from operations and construction funding ("**EBITDA**") to debt service.

The debts incurred as part of the acquisition of the Ontario Homes and the Astoria property are secured by each of the properties' assets, guaranteed by LSCC and are subject to certain customary financial and non-financial covenants. The mortgages assumed in connection with the acquisition of the Peninsula and Madonna properties and the mortgage on the Pacifica property are collateralized by first collateral mortgages on the respective properties, guaranteed by LSCC only in the case of the Madonna mortgage and in the case of the Pacifica mortgage as to approximately $5,400, and are subject to certain customary financial and non-financial covenants. Leisureworld is in compliance with all financial covenants on its borrowings. However, there can be no assurance that covenant requirements will be met at all times in the future. If Leisureworld does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

There were no changes in Leisureworld's approach to capital management during the period.

Contractual Obligations and Other Commitments

Long-Term Debt

					Amortizing Debt				
Year	Series A Debentures	Floating Rate Debt	Convertible Debentures	Construction Loans	Regular Principal Payments	Principal Due at Maturity	Total	% of Total	Weighted Average Interest on Maturing Debt
2014	-	-	-	13,351	6,846	13,243	33,440	5.5%	4.6%
2015	294,326	73,000	-	-	6,444	-	373,770	61.9%	4.5%
2016	-	-	-	-	6,745	10,020	16,765	2.8%	4.2%
2017	-	-	-	-	26,772	11,329	38,101	6.3%	4.1%
2018	-	-	46,000	-	5,109	22,217	73,326	12.1%	5.0%
2019	-	-	-	-	3,938	37,860	41,798	6.9%	4.3%
2020	-	-	-	-	1,181	-	1,181	0.2%	-%
2021	-	-	-	-	1,232	-	1,232	0.2%	-%
2022	-	-	-	-	1,284	-	1,284	0.2%	-%
2023	-	-	-	-	953	12,407	13,360	2.2%	3.0%
Thereafter	-	-	-	-	4,172	5,477	9,649	1.6%	5.2%
	294,326	73,000	46,000	13,351	64,676	112,553	603,906	100.0%	
Mark-to-market adjustment arising from acquisition							(1,337)		
Less: Deferred financing costs							(1,694)		
Less: Deferred financing costs convertible debentures							(1,657)		
Less: Equity component of convertible debentures							(515)		
							598,703		

Convertible Debentures

On April 25, 2013, Leisureworld issued $46,000 aggregate principal amount of 4.65% Convertible Debentures due January 2, 2014, convertible at $16.75 per common share, for net proceeds of $44,160. When the Specialty Care Acquisition closed on December 2, 2013 the maturity date of the Convertible Debentures was automatically extended to June 30, 2018. The Convertible Debentures bear interest at 4.65% per annum, which is payable semi-annually in June and December.

Operating Leases

Leisureworld has a 10-year lease with respect to its Markham corporate office, which expires on December 31, 2015. Leisureworld also assumed an office lease in connection with the Specialty Care Acquisition that expires in August, 2019. As well, there are various operating leases for office and other equipment that expire over the next five years and thereafter, are as follows:

2014	947
2015	894
2016	818
2017	385
2018	303
Thereafter	202
	3,549

Acquisitions

On December 2, 2013, Leisureworld completed the Specialty Care Acquisition, described above.

On April 19, 2013, Leisureworld completed the acquisition of a licence to operate 88 LTC beds from Christie Gardens Apartments and Care Inc. for $2,200.

On July 16, 2012, one of Leisureworld's subsidiaries, The Royale Development LP, completed the acquisition of Madonna, a 160 bed, Class A LTC home in Orleans, Ontario, a suburb of Ottawa. The net purchase price for the transaction was $3,035, net of assumed debt of $15,718. The net purchase price was settled in cash. As part of the acquisition of Madonna, Leisureworld assumed a mortgage in the amount of $15,718 described above.

On May 24, 2012, Leisureworld's subsidiaries, The Royale LP and The Royale West Coast LP completed the acquisition of the BC Homes. The net purchase price was $92,710 including a $1,000 mark-to-market adjustment on assumed debt. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, Leisureworld raised gross proceeds of $56,400, issuing 4,680,500 common shares (including the over-allotment of 610,500 common shares) at a price of $12.05 per common share, and issued 82,988 common shares to one of the sellers at an issue price of $12.05 per common share. The balance of the purchase price was financed through short-term bridge financing based on floating rates.

Related Party Transactions

A subsidiary of Leisureworld has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the year ended December 31, 2013 was $1,992 (2012 - $1,939). Included in accounts receivable is $94 owing from Spencer House Inc. at December 31, 2013 (2012 - $71). These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As at December 31, 2013, Leisureworld has amounts outstanding from certain key executives of $178 (2012 - $74) (refer to Note 19 of the Consolidated Financial Statements for the year ended December 31, 2013) in relation to the long term incentive plan issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, Leisureworld loaned the Chief Executive Officer $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as of December 31, 2013 was $489 (December 31, 2012 - $nil), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the Chief Executive Officer.

Key Performance Drivers

There are a number of factors that drive the performance of Leisureworld outlined below:

Government funding

The Government funding model in LTC and funding for Home Care through CCACs is described above under "Industry Overview". Approximately 60% of LTC revenue is received from the MOHLTC. Leisureworld also receives capital cost funding of $10.35 per bed, per day from the MOHLTC for Class A homes, as well as co-payments from residents for both basic and preferred accommodation. Leisureworld also receives structural compliance premiums from the MOHLTC of $2.50 and $1.00, on a per resident per day basis, for Class B and C homes, respectively. Additionally, the MOHLTC provides funding to LTC homes that have been accredited and reimburses up to 85% of property tax costs.

Occupancy levels enhance cash flow

Occupancy is a key driver of Leisureworld's performance. A LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy.

Under current MOHLTC policy, a LTC home that provides basic accommodation for at least 40% of residents in Class A homes may offer the remaining residents private or semi-private accommodation at a regulated premium. The LTC home operator retains the premiums collected from residents for such accommodation. Effective July 1, 2013, the MOHLTC increased the private room premium up to $21.50 per day and $10.00 per day for semi-private accommodations for all new admissions in Class A homes. Existing residents were grandfathered at the historic rates. Leisureworld has approximately 35% of beds designated as private accommodation and has converted approximately 35% of the resident base from the previous daily rates to the new prescribed rates.

The retirement portfolio occupancy is market-driven, and provides Leisureworld the opportunity for significant organic growth.

Disciplined cost management

Leisureworld is the largest LTC owner and operator in Ontario, which provides opportunities to realize significant economies of scale in administration, operations, purchasing and cost controls. The average size of a Leisureworld LTC home (at 167 beds) is greater than the Ontario provincial average of 125 beds, which also enhances available economies of scale. Leisureworld prudently manages its costs (in line with the established funding levels in the case of LTC operating costs) while continuing to provide quality accommodation and services to residents.

Ensuring continued maintenance and upgrade of properties

Annual capital budgets and regular operational and equipment/building service contract reviews are used by management in the planning, monitoring and maintenance of Leisureworld's physical assets. Leisureworld has established an active, ongoing preventative maintenance program to maintain and operate its properties efficiently.

Significant Judgments and Estimates

The preparation of this MD&A and the consolidated financial statements under IFRS requires Leisureworld to make estimates and use assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Property and equipment and intangible assets

(i) Fair values

Property and equipment and intangible assets from acquisitions were initially recorded at their estimated fair values.

(ii) Indefinite-lived intangible assets

In the Province of Ontario, all LTC homes must be licensed. The Long-Term Care Homes Act, 2007 ("LTCHA") became effective July 1, 2010. The LTCHA provides licence terms for Leisureworld's LTC homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by the MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and the transfer or revocation of existing licences. With an existing wait-list of approximately 21,800 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

Goodwill and indefinite-lived intangible asset impairment analysis

On an annual basis, Leisureworld uses forecasted cash flow information to assess whether goodwill and indefinite-lived intangible assets may be impaired. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required. Any impairment losses are recognized in net income (loss). Impairment losses on goodwill are permanent.

Share-based compensation

The assumptions used in calculating the fair value of share-based compensation have a significant impact upon the amount of the charge recognized in the consolidated statement of operations and comprehensive loss. Details of the principal assumptions used in calculating the share-based compensation expense are included in Notes to the Consolidated Financial Statements.

Deferred taxes

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income.

Income taxes

The actual tax on the results for the period is determined in accordance with tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits which are recognized in the consolidated financial statements. Leisureworld considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the consolidated financial statements.

Financial Instruments

In accordance with International Accounting Standard ("**IAS**") 39 – Financial Instruments – Recognition and Measurement ("**IAS 39**"), financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and Leisureworld's designation of such instruments.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Leisureworld is recognized as a separate asset or liability.

A financial liability is derecognized when Leisureworld's contractual obligations are discharged, cancelled or expired.

Financial instruments are comprised of cash and cash equivalents, accounts receivable and other assets, bond forward contracts to which hedge accounting has been applied, construction funding receivable, government funding receivable/payable, restricted cash, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts.

The following is a summary of the accounting model Leisureworld elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	Loans and receivables
Accounts receivable and other assets	Loans and receivables
Construction funding receivable	Loans and receivables
Government funding receivable	Loans and receivables
Restricted cash	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Government funding receivable/payable	Other financial liabilities
Long-term debt	Other financial liabilities
Interest rate swap contracts	Fair value through profit and loss

Cash and cash equivalents

Cash includes deposits held with Canadian chartered banks. Cash equivalents are short-term investments with an initial maturity of less than three months. Cash and cash equivalents are classified as loans and receivables and are accounted for at amortized cost, which approximates fair value. Interest earned is recorded in the consolidated statements of operations and comprehensive loss.

Accounts receivable and other assets

Accounts receivable and other assets are classified as loans and receivables. Accounts receivable and other assets are initially recorded at fair value and subsequently measured at amortized cost. The carrying value of accounts receivable and other assets, after consideration of the provision for doubtful accounts, approximates their fair value due to the short-term maturity of these instruments.

Construction funding receivable

The construction funding receivable is classified as loans and receivables. The construction funding receivable is initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Restricted cash

Restricted cash consists of deposits held with Canadian chartered banks, and relates to capital expenditure reserves required for certain mortgages. Restricted cash is classified as loans and receivables and is measured at amortized cost, which approximates fair value.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term nature of the instruments.

Long-term debt

Leisureworld's long-term debt is initially recorded at fair value and is subsequently measured at amortized cost using the effective interest method, and is classified as other financial liabilities. The fair

value of Leisureworld's long-term debt is subject to changes in interest rates and Leisureworld's credit rating.

Government funding receivable/payable

The government funding balances are classified as either loans and receivables or other liabilities which are measured at amortized cost. Government funding receivable/payable represents the difference between the amounts earned and those received from the MOHLTC, which are non-interest bearing. The carrying value of the government funding approximates its fair value.

Derivatives for which hedge accounting has not been applied

Leisureworld has interest rate swap contracts for which hedge accounting has not been applied. These interest rate swap contracts are carried at fair value and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The changes in fair value are recorded in the consolidated statement of operations and comprehensive loss.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. Leisureworld has determined that it does not have any outstanding contracts or financial instruments with embedded derivatives that require separation, except for convertible debentures (refer to Note 13 in the Notes to the Consolidated Financial Statements for the year ended December 31, 2013).

Derivatives for which hedge accounting has been applied

Leisureworld has entered into certain derivatives that have been designated as hedges in accordance with the criteria specified in IAS 39 for applying and accounting for permitted hedging strategies. The hedging strategies applied by Leisureworld include cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in Other Comprehensive Income ("**OCI**") while the ineffective portion is recognized in net income (loss). Amounts related to cash flow hedges that have been recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss. When hedge accounting is discontinued, the amounts previously recognized in Accumulated Other Comprehensive Income ("**AOCI**") are classified to net income (loss) during the periods when the variability in the cash flows of the hedged items affects net income (loss). Gains and losses on derivatives are reclassified immediately to net income (loss) when the hedged item is sold or terminated.

Critical Accounting Estimates and Accounting Policies

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which are measured at fair value.

Basis of preparation

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below under the heading “Significant judgments and estimates”.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised and in future periods if affected.

The following accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

Basis of consolidation and business combinations

The consolidated financial statements comprise the financial statements of Leisureworld and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Total consideration on the acquisition is measured at the fair value of the assets transferred and equity instruments issued on the date of the acquisition. Transaction costs related to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured at their fair value at the date of acquisition. The excess of fair value of consideration transferred above the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net income (loss) on the acquisition date.

Subsidiaries are 100% owned and controlled by Leisureworld. Subsidiaries are consolidated in these financial statements from the date of acquisition where control is transferred to the group and continue to be consolidated until the date where Leisureworld no longer controls the subsidiary.

All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

Revenue recognition

Revenue includes amounts earned from the operation of LTC homes, retirement residences and the independent living facility, PHCS and management fees associated with the operation of Spencer House Inc. A significant portion of the LTC homes’ revenue is funded by the MOHLTC.

Long-term care revenue

Ontario’s LTC sector is regulated by the MOHLTC, which provides government funding to LTC homes. As described above under “Industry Overview”, operational funding, received monthly, is divided into three envelopes: nursing, programs, and other accommodations, which includes

funding for raw food. Revenue for nursing, programs and raw food is recognized to the extent that an eligible expense has been incurred. All envelope funding received that is not spent is recorded as a government funding payable. The exception to this is the non-raw food portion of the other accommodation funding, which is recognized as earned in the month of receipt. Approximately 70% of revenue from Leisureworld LTC homes is received from the MOHLTC. Leisureworld also receives structural compliance premiums from the MOHLTC on a per resident per day basis. In addition, the MOHLTC provides funding to Leisureworld LTC homes that have been accredited and reimburses up to 85% of property tax costs.

Revenue for accommodation fees is recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the MOHLTC. Revenue for each LTC home is recognized based on full occupancy. In the event the annualized occupancy rate falls below 97%, revenue will be adjusted. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels above 90% and below 97%, the adjustment range is up to 2% over actual occupancy. There is no adjustment to occupancy below the 90% threshold. Other LTC revenue paid by residents relating to accommodation fees and ancillary services are recognized in the period in which the services are rendered.

Retirement residence and independent living residence revenue

Residents pay for accommodations and other services on a monthly basis and revenue is recognized when the service is rendered.

PHCS revenue

Revenue associated with PHCS is recognized when the service is rendered. Revenue generated from providing services to other operating segments of Leisureworld is eliminated upon consolidation.

Spencer House Inc. revenue

Spencer House Inc. is a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario. A subsidiary of Leisureworld owns the land, building and equipment used by the home and has been contracted to manage the operations of Spencer House Inc. Leisureworld earns rental income from leasing the land, building and equipment to Spencer House Inc. as well as a management fee based on a percentage of gross revenues of the operation for managing the home. Revenue is recognized when the services are rendered.

Construction funding

The MOHLTC provides funding to homes constructed after April 1, 1998. Under the development agreements, these homes received a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed, which was dependent on actual construction costs. The construction funding receivable is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs are capitalized to the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the cost will flow to Leisureworld and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repair and maintenance costs are charged to net income (loss) during the period in which they are incurred.

Leisureworld records depreciation at rates designed to depreciate the cost of the property and equipment less the estimated residual value over the estimated useful lives. The annual depreciation rates and methods are as follows:

Buildings	20 to 55 years straight-line
Furniture and fixtures	10 years straight-line
Automobiles	5 years straight-line
Computer hardware	5 years straight-line
Circulating equipment	Not depreciated

Circulating equipment is comprised of china, linen, glassware and silverware in circulation, which is valued at cost. The cost of acquiring a basic inventory is capitalized and any replacement incurred thereafter is expensed.

Leisureworld allocates the initial cost of an item of property and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are included in net income (loss).

Intangible assets

Intangible assets include LTC licences, resident relationships, service contracts and computer software that is not integral to the computer hardware included in property and equipment. Intangible assets with finite useful lives are amortized over their respective estimated useful lives. The annual amortization rates and methods are as follows:

Licences	Not amortized
Resident relationships	2 - 3 years straight-line
Service contracts	3 - 8 years straight-line
Computer software	5 years straight-line

Goodwill

Goodwill arises on the acquisition of subsidiaries, and is the excess of the purchase consideration over the fair value attributable to the net identifiable assets acquired.

Goodwill is tested for impairment annually or more frequently if there is an indicator of impairment. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortized and impairment losses are permanent. Goodwill is allocated to cash-generating units ("**CGUs**") for the purpose of assessing impairment. Each home, independent living residence, retirement residence and

PHCS is a separate CGU. The allocation is made to the CGU, or group of CGUs, that is expected to benefit from the acquisition.

Impairment of non-financial assets

Leisureworld reviews the carrying amounts of its property and equipment and finite-lived intangible assets at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. In assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Intangible assets with indefinite useful lives are tested for impairment annually or if there is an indication that the asset may be impaired. Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Impairment of financial assets

Financial assets are reviewed at each consolidated statement of financial position date to assess whether there is objective evidence that indicates an impairment of a financial asset. If such evidence exists, Leisureworld recognizes an impairment loss measured at the excess of the carrying amount over the fair value of the asset, which is reflected in net income (loss).

Transaction costs

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability or equity. Leisureworld incurs transaction costs primarily through the issuance of debt or shares, and classifies these costs with the related debt, or as a reduction of the value of the proceeds received for the share issuance. Transaction costs associated with the issuance of debt are amortized into interest expense using the effective interest method over the life of the related debt instrument. Transaction costs directly attributable to the issuance of shares are recognized as a reduction of share capital. Transaction costs associated with business acquisitions are expensed as incurred.

Interest bearing debt obligations

All interest bearing debt obligations are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing debt obligations are subsequently measured at their amortized cost using the effective interest method.

Operating lease payments

Payments made under operating leases are recognized in the consolidated statement of operations and comprehensive loss on a straight-line basis over the term of the lease.

Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issuance of shares are recognized as a reduction from shareholders' equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the period in which the dividends are declared by the Board of Directors of Leisureworld.

Earnings (loss) per share

Basic earnings (loss) per share ("**EPS**") is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Leisureworld's potentially dilutive instruments include the convertible debentures and the unvested shares issued to a senior executive which are currently anti-dilutive.

Share-based compensation

Leisureworld applies the fair value method of accounting for share-based compensation. The loans offered to senior executives ("**Participants**") related to the long-term incentive plan ("**LTIP**") are recorded as a reduction to shareholders' equity. Fair value of the shares are measured at the grant date using the Cox-Ross-Rubinstein binomial tree model. The fair value of restricted share units ("**RSU**") and deferred share units ("**DSU**") are measured based on the closing price of Leisureworld's shares at each reporting date.

Leisureworld issued shares to a senior executive. These shares vest over three years (33% per year). Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period by increasing share capital.

The expense related to share-based compensation is recognized in administrative expenses.

Employee benefits

Short-term benefits

Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Assuming the obligation can be reasonably estimated, liabilities are recognized for the amounts expected to be paid within the next 12 months as Leisureworld has an obligation to pay the amount as a result of past service provided by the employee. These benefits are recorded in accounts payable and accrued liabilities.

Long-term benefits

Payments to defined contribution retirement benefit plans are based on 4% of gross wages and charged to expense as incurred.

Income taxes

Leisureworld follows the asset and liability method of accounting for income taxes. Income taxes are comprised of current and deferred taxes. Income taxes are recognized in the consolidated statement of operations and comprehensive loss except to the extent that they relate to items recognized directly in shareholders' equity. Income tax balances are also recorded on initial recognition of a deferred tax asset or liability arising from business combinations.

Current taxes are the expected taxes payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

In general, deferred taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are also recognized on business acquisitions. Deferred taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset. This applies when they relate to income taxes levied by the same taxation authority and Leisureworld intends to settle its current tax assets and liabilities on a net basis.

Segmented reporting

Leisureworld operates solely within Canada, hence no geographical segment disclosures are presented. Segmented information is presented in respect of business segments, based upon management's internal reporting structure. Further details are provided in Notes to the Consolidated Financial Statements.

Changes in Accounting Policies

Leisureworld has adopted the following new and revised standards effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

Amendment to IFRS 7, Financial instruments: disclosures

Amendments to IFRS 7 require disclosure of information about the rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. This amendment had no impact on the financial statements.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated financial statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard had no impact on the financial statements.

IFRS 11, Joint arrangements

IFRS 11 replaces IAS 31, Interests in joint ventures and SIC-13, Jointly-controlled entities - non-monetary contributions by venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. This standard had no impact on the financial statements.

IFRS 12, Disclosure of interest in other entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Refer to Note 28 of the Consolidated Financial Statements for the year ended December 31, 2013 for disclosures relating to Leisureworld's subsidiaries.

IFRS 13, Fair Value Measurement

IFRS 13, Fair value measurement, provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. This standard impacted the disclosures in the notes of the financial statements.

Amendment to IAS 36, Impairment of assets

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory until January 1, 2014, however, Leisureworld has decided to early adopt the amendment as of January 1, 2013. This amendment did not have a material impact on the financial statements.

Amendment to IAS 1, Presentation of items of other comprehensive income

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that could be reclassified (or recycled) to income or loss at a future point in time are to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on Leisureworld's financial position or performance.

Accounting Standards Issued But Not Yet Applied

IFRS 9, Financial Instruments

IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, Financial instruments: recognition and measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on Leisureworld's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is chosen for financial liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income (loss), unless this creates an accounting mismatch. In November 2013, IFRS 9 was amended to remove the mandatory effective date of January 1, 2015. Leisureworld has not adopted this standard and management has not yet determined the impact of this standard.

IAS 32, Financial instruments: presentation and IFRS 7, Financial instruments: disclosures

In December 2011, the IASB amended both IAS 32 - Financial instruments: presentation and IFRS 7 – Financial instruments: disclosures by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. The effective date of the amendments is for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted but must be applied together with IFRS 9. These amendments will not have a material impact on the financial statements.

IFRS Interpretation Committee ("IFRIC") 21, Levies

This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, contingent liabilities and contingent assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. This interpretation is applicable and effective for annual periods beginning on or after January 1, 2014. Leisureworld has not adopted this standard and management has not yet determined the impact of this standard.

Other than the above, there are no other accounting standards issued but not yet applied that would be expected to have a material impact on Leisureworld.

Risk and Uncertainties

There are certain risks inherent in the activities of Leisureworld, including the ones described below.

Business Risks

Leisureworld is subject to general business risks inherent in the seniors' housing industry. These risks include fluctuations in levels of occupancy and the inability to achieve accommodation funding or residency fees (including anticipated increases in such fees). The inability to achieve such funding or fees could occur as a result of, among other factors, regulations controlling LTC funding or regulations controlling rents for RR homes. Additional risks include possible future changes in labour relations; increases in labour costs, other personnel costs, and other operating costs; competition from or oversupply of other similar properties; changes in conditions of the Leisureworld properties or general economic conditions; the imposition of increased or new taxes; capital expenditure requirements; health-related risks and disease outbreaks. Moreover, there is no assurance future occupancy rates at the Leisureworld homes will be consistent with historical occupancy rates achieved. Any one of, or a combination of, these factors may have an adverse impact on the business, operating results and financial condition of Leisureworld, which could adversely affect its results and Leisureworld's ability to pay dividends to shareholders.

Government Regulation and LTC Funding in Ontario

LTC homes are subject to extensive regulation and frequent regulatory change. There can be no assurance that future regulatory changes affecting the seniors' housing industry, will not adversely affect Leisureworld's business.

All LTC homes are required to adhere to quality control and other care-related operating standards. Accordingly, all LTC homes are subject to inspections by government authorities to ensure compliance

with applicable regulations and to investigate complaints, including resident injury or death. It is not unusual for the stringent MOHLTC inspection procedures to identify deficiencies in operations across LTC homes in Ontario. Every effort is made by the Issuer to correct legitimate problem areas that have been identified. It is possible the Issuer may not be able to remedy deficiencies or address complaints within the time frames allowed or in a manner satisfactory to the MOHLTC, which could lead to the MOHLTC requiring periods of enhanced monitoring and imposing sanctions (such as limiting admissions at the applicable LTC home), which, in turn, could have an impact on Leisureworld's business.

The provincial regulation of LTC homes includes the control of resident co-payment fees. The MOHLTC funds care and support programs provided in LTC homes and subsidizes accommodation costs for qualifying residents. As a result of increasing healthcare costs, the risk exists that funding agencies may in the future reduce the level of, or eliminate, such fees, payments or subsidies. There can be no assurance that the current level of such fees, payments and subsidies will be continued or that such fees, payments and subsidies will increase commensurate with expenses. A reduction of these fees, payments or subsidies could have an impact on the business, operating results or financial condition of Leisureworld, which could adversely affect its results and ability to pay dividends to shareholders.

Beginning in April 2012, all RRs are required to obtain a license under the Retirement Homes Act, 2010 (Ontario) (the "**RHA**") to operate in Ontario and RRs in Ontario are regulated under the RHA. Leisureworld has obtained all required licenses. There can be no assurance that future regulatory changes affecting RRs will not adversely affect Leisureworld.

Licence Terms

The LTCHA contains a licence term regime for all LTC homes which will result in licence terms for the Leisureworld homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC including approval of new licences, and transfer, renewal or revocation of existing licences. Although the licence does not support any guarantee of continued operation beyond the term of the licence, with an existing wait-list of approximately 21,800 in Ontario and the demand for LTC beds projected to increase management is of the view that licenses will continue to be renewed. A failure of Leisureworld's LTC licences to be renewed or conditional renewal could have an impact on the Leisureworld business.

Acquisitions

The success of Leisureworld's business acquisition activities will be determined by numerous factors, including the ability of Leisureworld to identify suitable acquisition targets, competition for acquisition opportunities, purchase price, ability to obtain adequate financing on reasonable terms, financial performance of the businesses after acquisition, and the ability of Leisureworld to effectively integrate and operate the acquired businesses. Acquired businesses may not meet financial or operational expectations due to unexpected costs associated with the acquisition, as well as the general investment risks inherent in any real estate investment or business acquisition, including the existence of unexpected or undisclosed liabilities and the risk that Leisureworld's recourse against third parties may not be adequate to mitigate such liabilities entirely. Moreover, new acquisitions may require significant management attention or capital expenditures that would otherwise be allocated to existing businesses. Any failure by Leisureworld to identify suitable candidates for acquisition or operate the acquired

businesses effectively may have an adverse effect on its business, results of operations or financial condition.

Capital intensive industry

The ability of Leisureworld to maintain and enhance its properties, predominately relating to its LTC homes, in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in its markets will require it to commit a portion of cash to its facilities and equipment. Significant future capital requirements could have a material adverse effect on the business, operating results or financial condition of Leisureworld, which could adversely affect Leisureworld's results and ability to pay dividends to its shareholders.

Financing Risk

Leisureworld expects its working capital needs and capital expenditure needs to increase in the future as it continues to expand and enhance its portfolio. Leisureworld's ability to raise additional capital will depend on the financial success of its current business and the successful implementation of its key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond its control. No assurance can be given that it will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a further dilutive effect on shareholders. If Leisureworld is unsuccessful in raising additional capital, it may not be able to continue its business operations and advance its growth initiatives, which could adversely impact its results and the ability to pay dividends to its shareholders.

A portion of Leisureworld's cash flow is devoted to servicing its debt and there can be no assurance that Leisureworld will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its debt. If Leisureworld were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it could have an impact upon the business, operating results or financial condition of Leisureworld, which could adversely affect its results and ability to pay dividends. Leisureworld is subject to the risk that its existing indebtedness may not be able to be refinanced at maturity or that the terms of any refinancing may not be as favourable as the terms of its existing indebtedness. If Leisureworld requires additional debt financing, its lenders may require it to agree on restrictive covenants that could limit its flexibility in conducting future business activities or that contain customary provisions that, upon an event of default or other breach of debt covenant, result in the acceleration of repayment of amounts owed and that restrict the dividends that may be paid to shareholders. Some of Leisureworld's current debt instruments include such covenants.

Redevelopment of Class B and C homes

Any redevelopment of Leisureworld's Class B and Class C beds would include significant capital outlays. To the extent such redevelopment plans proceed on significantly different timing or terms, including with respect to the levels of expected MOHLTC funding, there could be an adverse effect on Leisureworld's results and ability to pay dividends to its shareholders.

Real property ownership

All real property investments are subject to a degree of risk. They are affected by various factors, including changes in general economic conditions (such as the availability of long-term mortgage funds)

and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to residents, competition from other available space and various other factors, including increasing property taxes. In addition, fluctuations in interest rates could have a material adverse effect on the business, operating results or financial condition of Leisureworld.

Reconciliations of MOHLTC funding will result in current year adjustments made in respect of prior years

Reconciliations of MOHLTC funding versus actual expenses are performed annually, based on previous calendar years. From time to time, the reconciliations will result in current year adjustments made in respect of prior years. These ''prior period adjustments'' can have either a favourable or unfavourable impact on NOI generally related to differences identified in the reconciliation attributable to occupancy days, special circumstances and differences between projected and actual property tax.

Labour relations

Employees working at the Leisureworld properties are unionized with approximately 80% of employees represented by union locals of either the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada, the Canadian Union of Public Employees or Unifor. While the Issuer has traditionally maintained positive labour relations, there can be no assurance the Leisureworld will not at any time, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees, which could have a material adverse effect on the Issuer's operating results and financial condition. However, all LTC homes in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act (Ontario), which prohibits strikes and lockouts in the seniors housing industry. Therefore, collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

The Leisureworld business is labour intensive

The Leisureworld business is labour intensive, with labour-related costs comprising a substantial portion of Leisureworld's direct operating expenses. Leisureworld's businesses compete with other providers with respect to attracting and retaining qualified personnel. Any shortage of qualified personnel and general inflationary pressures may require Leisureworld to enhance its pay and benefits package to compete effectively for such personnel. An increase in labour related costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of Leisureworld, which could adversely affect its results and ability to pay dividends.

Reliance on key personnel

Leisureworld's success depends upon the retention of senior management. There can be no assurance that Leisureworld would be able to find qualified replacements for the individuals who make up its senior management team if their services were no longer available. The loss of services of one or more members of such senior management team could have a material adverse effect on Leisureworld's business, its operating results and financial condition. Leisureworld does not currently carry any ''key man'' life insurance on its executives.

Any significant damage to administrative or Leisureworld properties, as a result of fire or other calamities, could have a material adverse effect

Leisureworld's ability to sustain or grow its business is heavily dependent on efficient, proper and uninterrupted operations at its Leisureworld properties. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to natural disasters or other causes could severely affect its ability to continue operations. While it does maintain certain insurance policies covering losses due to fire, lightning and explosions, there can be no assurance its coverage would be adequate to compensate Leisureworld for the actual cost of replacing such buildings, equipment and infrastructure nor can there be any assurance that such events would not have a material adverse effect on its business, financial condition, results of operations or prospects.

Liability and insurance

The businesses, which are carried on, directly or indirectly, by Leisureworld, entail an inherent risk of liability, including with respect to injury to or death of its residents. Management expects that from time to time Leisureworld may be subject to such lawsuits as a result of the nature of its businesses. Leisureworld maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. There are certain types of risks, generally of a catastrophic nature, such as war, terrorism or environmental contamination, which are either uninsurable or are not insurable on an economic basis. A successful claim against Leisureworld not covered by, or in excess of, its insurance could have a material adverse effect on Leisureworld and its business, operating results and financial condition. Claims against Leisureworld, regardless of their merit or eventual outcome, also may have a material adverse effect on the ability to attract residents or expand Leisureworld's business, and will require management of Leisureworld to devote time to matters unrelated to the operation of the business.

Competition

Numerous other seniors housing facilities, predominantly RRs, compete with Leisureworld's RR in seeking residents. While the existence of competing owners and competition for Leisureworld residents could have an adverse effect on Leisureworld's ability to find residents for its seniors housing properties and on the rents charged, and could adversely affect Leisureworld's revenues and its ability to meet its debt obligations and Leisureworld's ability to pay dividends on its common shares.

Geographic concentration

A majority of the business and operations of Leisureworld are conducted in Ontario. The fair value of the Leisureworld assets and the income generated therefrom could be negatively affected by changes in local and regional economic conditions. Leisureworld has expanded its retirement portfolio to include properties in British Columbia.

Changes in Leisureworld's credit ratings may affect Leisureworld's capital structure

The credit ratings assigned to the Senior B Debentures are an assessment of Leisureworld's ability to pay its obligations. DBRS has assigned a rating of A (low), with a Stable trend, to the Series B Debentures. Real or anticipated changes in Leisureworld's credit ratings may affect its capital structure.

Environmental Liabilities

Leisureworld is subject to various environmental laws and regulations under which it could become liable for the costs of removing or remediating certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations, in some cases regardless of whether or not Leisureworld knew of or was responsible for their presence. The failure to address such issues may adversely affect Leisureworld's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against Leisureworld by private plaintiffs. Notwithstanding the above, management is not aware of any material non-compliance, liability or other claim in connection with any of Leisureworld's properties. It is Leisureworld's operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring or financing any property. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted.

Environmental laws and regulations may change and Leisureworld may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on Leisureworld's business, financial condition or results of operation, and dividends.

Risks Relating to a Public Company and Common Shares

Volatile market price for common shares

The market price for common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Leisureworld's control, including the following:

- actual or anticipated fluctuations in Leisureworld's quarterly results of operations;
- changes in estimates of future results of operations by Leisureworld or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to Leisureworld;
- addition or departure of Leisureworld's executive officers and other key personnel;
- release or other transfer restrictions on outstanding common shares;
- sales or perceived sales of additional common shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Leisureworld or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in Leisureworld's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases,

been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the common shares may decline even if Leisureworld's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of Leisureworld's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the common shares by those institutions, which could adversely affect the trading price of the common shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility continue, Leisureworld's operations and the trading price of the common shares may be adversely affected.

LSCC is a holding company

LSCC is a holding company and a substantial portion of its assets are the partnership units of its subsidiaries. As a result, investors in Leisureworld are subject to the risks attributable to its subsidiaries. As a holding company, Leisureworld conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, Leisureworld's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to Leisureworld. The ability of these entities to pay distributions will depend on their operating results and may be subject to applicable laws and regulations which require that solvency and capital standards be maintained and to contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of Leisureworld's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to Leisureworld.

Dividend policy

Commencing with the December 2012 dividend, the Board established a dividend policy authorizing the declaration and payment of an annual dividend of $0.90 per common share (formerly $0.85 per common share), to be paid to holders of common shares on a monthly basis. Any determination to pay cash dividends will be at the discretion of the Board after taking into account such factors as Leisureworld's financial condition, results of operations, current and anticipated cash needs, regulatory capital requirements, the requirements of any future financing agreements and other factors that the Board may deem relevant, with a view to paying dividends whenever operational circumstances permit.

Leisureworld needs to comply with financial reporting and other requirements as a public company

Leisureworld is subject to reporting and other obligations under applicable Canadian securities laws and Toronto Stock Exchange rules, including National Instrument 52-109. These reporting and other obligations place significant demands on Leisureworld's management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause Leisureworld to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If Leisureworld cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors

to lose confidence in Leisureworld's reported financial information, which could result in a lower trading price of its common shares.

Management does not expect that Leisureworld's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Future sales of common shares by directors and executive officers

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their common shares in the future. No prediction can be made as to the effect, if any, such future sales of common shares will have on the market price of the common shares prevailing from time to time. However, the future sale of a substantial number of common shares by Leisureworld's officers and directors and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the common shares.

Directors and officers may have conflicts of interest

Certain of the directors and officers of Leisureworld may also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving Leisureworld are being made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of Leisureworld.

Dilution and future sales of common shares may occur

Certain of the directors and officers of Leisureworld may also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any such directors and officers involving Leisureworld are being made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of Leisureworld.

Controls and Procedures

Leisureworld's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Leisureworld is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to Management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2013, an evaluation was carried out, under the supervision of and with the participation of Management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of Leisureworld's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Leisureworld's disclosure controls and procedures were effective as at December 31, 2013.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of Leisureworld's internal controls over financial reporting as at December 31, 2013, and based on that assessment determined that Leisureworld's internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the COSO framework, published by the Committee of Sponsoring Organizations of the Treadway Commission.

No changes were made in Leisureworld's design of internal controls over financial reporting during the year ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, Leisureworld's internal controls over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Leisureworld
SENIOR CARE CORPORATION

2013

Consolidated Financial Statements

(in thousands of Canadian Dollars)

Consolidated Financial Statements

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Management's Responsibility for Financial Reporting

The consolidated financial statements are the responsibility of the management of Leisureworld Senior Care Corporation ("Leisureworld"), and have been approved by the Board of Directors of Leisureworld. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Report is consistent with the consolidated financial statements.

Leisureworld maintains a system of internal controls that are designed to provide reasonable assurance that the financial records are reliable and accurate and form a proper basis for the preparation of the financial statements.

The external auditors, PricewaterhouseCoopers LLP, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Shareholders their opinion on the consolidated financial statements. The following report of PricewaterhouseCoopers LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

The consolidated financial statements have been further examined by the Board of Directors and by its Audit Committee. The Audit Committee meets with the auditors and management to review the activities of each, and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with the committee both with and without management present on a quarterly basis. The Board of Directors, directly and through its Audit Committee, oversees management responsibilities and is responsible for reviewing and approving the financial statements.

"Lois Cormack"
Lois Cormack
President and Chief Executive Officer

"Tim McSorley"
Tim McSorley
Chief Financial Officer (Interim)

Markham, Canada
February 26, 2014

February 26, 2014

Independent Auditor's Report

To the Shareholders of Leisureworld Senior Care Corporation

We have audited the accompanying consolidated financial statements of Leisureworld Senior Care Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of changes in shareholders' equity, operations and comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Leisureworld Senior Care Corporation and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Consolidated Statements of Financial Position

Thousands of dollars

	Notes	**December 31, 2013**	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	7	**15,623**	9,243
Accounts receivable and other assets	25	**5,670**	6,943
Bond forward contracts		**1,885**	-
Income support		**1,300**	945
Prepaid expenses and deposits		**3,546**	3,004
Government funding receivable		**6,113**	4,371
Construction funding receivable	23	**8,975**	6,157
Income taxes receivable		**1,260**	-
		44,372	30,663
Government funding receivable		**614**	567
Restricted cash	8	**913**	255
Construction funding receivable	23	**93,873**	69,746
Property and equipment	9	**598,489**	455,882
Intangible assets	10	**139,959**	95,488
Goodwill	11	**98,804**	91,466
Total assets		**977,024**	744,067
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	18	**53,818**	40,869
Government funding payable		**1,605**	2,072
Current portion of long-term debt	12	**34,079**	27,206
Interest rate swap contracts	5	**43**	336
Income taxes payable		**-**	39
		89,545	70,522
Long-term debt	12	**520,796**	398,019
Convertible debentures	13	**43,828**	-
Deferred income taxes	16	**65,190**	65,682
Government funding payable		**3,067**	3,297
Share-based compensation liability	19	**1,677**	600
Interest rate swap contracts	5	**435**	1,791
Total liabilities		**724,538**	539,911
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**252,486**	204,156
Total liabilities and shareholders' equity		**977,024**	744,067
Commitments and contingencies	22		

See accompanying notes.

Approved by the Board of Directors of Leisureworld Senior Care Corporation.

“Dino Chiesa”
Dino Chiesa
Chairman and Director

“Janet Graham”
Janet Graham
Director

Consolidated Statements of Changes in Shareholders' Equity
Thousands of dollars

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, January 1, 2013		**289,098**	**-**	**10**	**(84,952)**	**-**	**204,156**
Issuance of convertible debentures	**13**	**-**	**515**	**-**	**-**	**-**	**515**
Issuance of shares	**17**	**82,660**	**-**	**-**	**-**	**-**	**82,660**
Net loss		**-**	**-**	**-**	**(9,384)**	**-**	**(9,384)**
Other comprehensive income		**-**	**-**	**-**	**-**	**1,386**	**1,386**
Long-term incentive plan	**19**	**14**	**-**	**17**	**-**	**-**	**31**
Share purchase loan	**25**	**12**	**-**	**-**	**-**	**-**	**12**
Share-based compensation	**19**	**5**	**-**	**-**	**-**	**-**	**5**
Dividends	**18**	**-**	**-**	**-**	**(26,895)**	**-**	**(26,895)**
Balance, December 31, 2013		**371,789**	**515**	**27**	**(121,231)**	**1,386**	**252,486**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, January 1, 2012		233,207	-	-	(52,179)	-	181,028
Issuance of shares	17	55,470	-	-	-	-	55,470
Net loss		-	-	-	(9,134)	-	(9,134)
Long-term incentive plan	19	173	-	10	-	-	183
Deferred tax rate change		115	-	-	-	-	115
Share-based compensation	19	133	-	-	-	-	133
Dividends	18	-	-	-	(23,639)	-	(23,639)
Balance, December 31, 2012		289,098	-	10	(84,952)	-	204,156

See accompanying notes.

Consolidated Statements of Operations

	Notes	Year ended December 31, 2013	2012
Revenue	25, 26	**353,323**	319,283
Expenses			
Operating		**290,014**	262,946
Administrative		**13,768**	12,546
	27	**303,782**	275,492
Income before other expenses and the provision for (recovery of) income taxes		**49,541**	43,791
Depreciation and amortization		**28,845**	27,900
Net finance charges	14	**22,097**	18,580
Transaction costs	4	**8,840**	1,448
Impairment loss	10	**-**	2,697
Total other expenses		**59,782**	50,625
Loss before income taxes		**(10,241)**	(6,834)
Provision for (recovery of) income taxes			
Current		**613**	1,826
Deferred		**(1,470)**	474
	16	**(857)**	2,300
Net loss		**(9,384)**	(9,134)
Basic and diluted loss per share		**($0.31)**	($0.33)
Weighted average number of common shares outstanding		**29,871,656**	27,351,568

Consolidated Statements of Comprehensive Loss

	Notes	Year ended December 31, 2013	2012
Net loss		**(9,384)**	(9,134)
Unrealized gain on bond forward contracts (net of tax in 2013 - ($499); 2012 - $nil)		**1,386**	-
Total comprehensive loss		**(7,998)**	(9,134)

See accompanying notes.

	Notes	**2013**	2012
OPERATING ACTIVITIES			
Net loss		**(9,384)**	(9,134)
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**20,435**	18,954
Amortization of intangible assets		**8,410**	8,946
Current income taxes		**613**	1,826
Deferred income taxes		**(1,470)**	474
Share-based compensation	19	**1,186**	761
Net finance charges	14	**22,097**	18,580
Impairment loss	10	**-**	2,697
		41,887	43,104
Non-cash changes in working capital			
Accounts receivable and other assets		**1,508**	(1,167)
Prepaid expenses and deposits		**(69)**	(897)
Accounts payable and accrued liabilities		**7,294**	2,142
Income support		**945**	1,450
Government funding, net		**(2,566)**	(4,900)
		7,112	(3,372)
Interest paid on long-term debt		**(20,304)**	(18,492)
Net settlement payment on interest rate swap contracts		**(550)**	(758)
Income taxes paid		**(1,912)**	(1,767)
Cash provided by operating activities		**26,233**	18,715
INVESTING ACTIVITIES			
Purchase of property and equipment	9	**(2,628)**	(1,416)
Purchase of intangible assets	10	**(2,204)**	(435)
Amounts received from construction funding		**9,458**	8,756
Interest received from cash and cash equivalents		**243**	214
Acquisition of the Specialty Care Portfolio, net of cash acquired	4	**(166,866)**	-
Acquisition of the Madonna LTC, net of cash acquired	4	**-**	(2,776)
Acquisition of the Astoria property	4	**-**	(36,718)
Acquisition of the Pacifica property	4	**-**	(39,731)
Acquisition of the Peninsula property	4	**-**	(15,261)
Change in restricted cash		**(161)**	(255)
Cash used in investing activities		**(162,158)**	(87,622)
FINANCING ACTIVITIES			
Net proceeds from issuance of common shares		**71,823**	53,787
Share issuance costs		**(425)**	-
Interest received from subscription receipts funds held in escrow	14	**509**	-
Net proceeds from issuance of convertible debentures	13	**44,160**	-
Repayment of long-term debt		**(47,550)**	(37,213)
Proceeds from issuance of long-term debt		**101,514**	63,100
Deferred financing costs		**(1,353)**	(268)
Dividends paid	18	**(26,373)**	(23,177)
Cash provided by financing activities		**142,305**	56,229
Increase (decrease) in cash and cash equivalents during the year		**6,380**	(12,678)
Cash and cash equivalents, beginning of year	7	**9,243**	21,921
Cash and cash equivalents, end of year	7	**15,623**	9,243

See accompanying notes.

1 Organization

General information and nature of operations

Leisureworld Senior Care Corporation ("Leisureworld") was incorporated under the *Business Corporations Act* (Ontario) on February 10, 2010 and was continued under the *Business Corporations Act* (British Columbia) on March 18, 2010. Leisureworld closed its Initial Public Offering ("IPO") on March 23, 2010.

The head office of Leisureworld is located at 302 Town Centre Blvd., Suite 200, Markham, Ontario, L3R 0E8. The registered office of Leisureworld is located at 1900 – 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

Leisureworld and its predecessors have been operating since 1972. Through its subsidiaries, Leisureworld owns and operates 35 long-term care ("LTC") homes (representing an aggregate of 5,733 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates 10 retirement residences ("RR") (representing 1,065 suites) in the Provinces of Ontario and British Columbia, which combined constitute its retirement segment. An ancillary business of Leisureworld is Preferred Health Care Services ("Home Care" or "PHCS"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes.

Leisureworld is listed on the Toronto Stock Exchange (the "TSX") under the ticker symbol LW. As of December 31, 2013, the following securities of Leisureworld were outstanding: 36,239,653 common shares; $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (Note 13).

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the Accounting Handbook of The Canadian Institute of Chartered Accountants.

The consolidated financial statements were approved by the Board of Directors for issue on February 26, 2014.

3 Summary of significant accounting policies, judgments and estimation uncertainty

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which are measured at fair value.

Basis of preparation

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below under the heading “Significant judgments and estimates”.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised and in future periods if affected.

The following accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

Basis of consolidation and business combinations

The consolidated financial statements comprise the financial statements of Leisureworld and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Total consideration on the acquisition is measured at the fair value of the assets transferred and equity instruments issued on the date of the acquisition. Transaction costs related to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured at their fair value at the date of acquisition. The excess of fair value of consideration transferred above the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net income (loss) on the acquisition date.

Subsidiaries are 100% owned and controlled by Leisureworld. Subsidiaries are consolidated in these financial statements from the date of acquisition where control is transferred to the group and continue to be consolidated until the date where Leisureworld no longer controls the subsidiary.

All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

Revenue recognition

Revenue includes amounts earned from the operation of LTC homes, retirement residences and the independent living facility, PHCS and management fees associated with the operation of Spencer House Inc. A significant portion of the LTC homes’ revenue is funded by the Ministry of Health and Long-Term Care (“MOHLTC”).

Long-term care revenue

Ontario’s LTC sector is regulated by the MOHLTC, which provides government funding to LTC homes. Operational funding, received monthly, is divided into three envelopes: nursing, programs, and other accommodations, which includes funding for raw food. Revenue for nursing, programs and raw food is recognized to the extent that an eligible expense has been incurred. All envelope

funding received that is not spent is recorded as a government funding payable. The exception to this is the non-raw food portion of the other accommodation funding, which is recognized as earned in the month of receipt. Approximately 60% of revenue from Leisureworld LTC homes is received from the MOHLTC. Leisureworld also receives structural compliance premiums from the MOHLTC on a per resident per day basis. In addition, the MOHLTC provides funding to Leisureworld including, but not limited to, funding for LTC homes that have been accredited and reimburses up to 85% of property tax costs.

Revenue for accommodation fees is recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the MOHLTC. Revenue for each LTC home is recognized based on full occupancy. In the event the annualized occupancy rate falls below 97%, revenue will be adjusted. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels above 90% and below 97%, the adjustment range is up to 2% over actual occupancy. There is no adjustment to occupancy below the 90% threshold. Other LTC revenue paid by residents relating to accommodation fees and ancillary services are recognized in the period in which the services are rendered.

Retirement residence and independent living residence revenue

Residents pay for accommodations and other services on a monthly basis and revenue is recognized when the service is rendered.

PHCS revenue

Revenue associated with PHCS is recognized when the service is rendered. Revenue generated from providing services to other operating segments of Leisureworld is eliminated upon consolidation.

Spencer House Inc. revenue

Spencer House Inc. is a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario. A subsidiary of Leisureworld owns the land, building and equipment used by the home and has been contracted to manage the operations of Spencer House Inc. Leisureworld earns rental income from leasing the land, building and equipment to Spencer House Inc. as well as a management fee based on a percentage of gross revenues of the operation for managing the home. Revenue is recognized when the services are rendered.

Construction funding

The MOHLTC provides funding to homes constructed after April 1, 1998. Under the development agreements, these homes received a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed, which was dependent on actual construction costs. The construction funding receivable is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are capitalized to the asset’s carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the cost will flow to Leisureworld and the cost can be measured reliably. The carrying amount of a replaced asset is

derecognized when replaced. Repair and maintenance costs are charged to net income (loss) during the period in which they are incurred.

Leisureworld records depreciation at rates designed to depreciate the cost of the property and equipment less the estimated residual value over the estimated useful lives. The annual depreciation rates and methods are as follows:

Buildings	20 to 55 years straight-line
Furniture and fixtures	10 years straight-line
Automobiles	5 years straight-line
Computer hardware	5 years straight-line
Circulating equipment	Not depreciated

Circulating equipment is comprised of china, linen, glassware and silverware in circulation, which is valued at cost. The cost of acquiring a basic inventory is capitalized and any replacement incurred thereafter is expensed.

Leisureworld allocates the initial cost of an item of property and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are included in net income (loss).

Intangible assets

Intangible assets include LTC licences, resident relationships, service contracts and computer software that is not integral to the computer hardware included in property and equipment. Intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with indefinite lives are measured at cost less accumulated impairment losses and are not amortized. The annual amortization rates and methods are as follows:

Licences	Not amortized
Resident relationships	2 - 3 years straight-line
Service contracts	2 - 8 years straight-line
Computer software	5 years straight-line

Goodwill

Goodwill arises on the acquisition of subsidiaries, and is the excess of the purchase consideration over the fair value attributable to the net identifiable assets acquired.

Goodwill is tested for impairment annually or more frequently if there is an indicator of impairment. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortized and impairment losses are permanent. Goodwill is allocated to cash-generating units (“CGUs”) for the purpose of assessing impairment. Each home, independent living residence, retirement residence and PHCS is a separate CGU. The allocation is made to the CGU, or group of CGUs, that is expected to benefit from the acquisition.

Impairment of non-financial assets

Leisureworld reviews the carrying amounts of its property and equipment and finite-lived intangible assets at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Finite and indefinite lived long-lived assets are tested for impairment at the lowest level at which they generated largely independent cash inflows. Leisureworld has defined each home to be a CGU. Homes are tested for impairment annually if the CGU contains an indefinite lived license or if there is an indication of impairment. Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

In accordance with International Accounting Standard ("IAS") 39 – Financial instruments – recognition and measurement ("IAS 39"), financial assets and financial liabilities are initially recognized on the date that they are originated at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and Leisureworld's designation of such instruments.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Leisureworld is recognized as a separate asset or liability.

A financial liability is derecognized when Leisureworld's contractual obligations are discharged, cancelled or expired.

Financial instruments are comprised of cash and cash equivalents, accounts receivable and other assets, bond forward contracts (to which hedge accounting has been applied – see Note 5), construction funding receivable, government funding receivable/payable, restricted cash, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts.

The following is a summary of the accounting model Leisureworld elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	Loans and receivables
Accounts receivable and other assets	Loans and receivables
Construction funding receivable	Loans and receivables
Government funding receivable	Loans and receivables
Restricted cash	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Government funding receivable/payable	Other financial liabilities
Long-term debt	Other financial liabilities
Interest rate swap contracts	Fair value through profit and loss

Cash and cash equivalents

Cash includes deposits held with Canadian chartered banks. Cash equivalents are short-term investments with an initial maturity of less than three months. Cash and cash equivalents are classified as loans and

receivables and are accounted for at amortized cost, which approximates fair value. Interest earned is recorded in the consolidated statements of operations and comprehensive loss.

Accounts receivable and other assets

Accounts receivable and other assets are classified as loans and receivables. Accounts receivable and other assets are initially recorded at fair value and subsequently measured at amortized cost. The carrying value of accounts receivable and other assets, after consideration of the provision for doubtful accounts, approximates their fair value due to the short-term maturity of these instruments.

Construction funding receivable

The construction funding receivable is classified as loans and receivables. The construction funding receivable is initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Restricted cash

Restricted cash consists of deposits held with Canadian chartered banks, and relates to capital expenditure reserves required for certain mortgages. Restricted cash is classified as loans and receivables and is measured at amortized cost, which approximates fair value.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term nature of the instruments.

Long-term debt

Leisureworld's long-term debt is initially recorded at fair value and is subsequently measured at amortized cost using the effective interest method, and is classified as other financial liabilities. The fair value of Leisureworld's long-term debt is subject to changes in interest rates and Leisureworld's credit rating.

Government funding receivable/payable

The government funding balances are classified as either loans and receivables or other liabilities which are measured at amortized cost. Government funding receivable/payable represents the difference between the amounts earned and those received from the MOHLTC, which are non-interest bearing. The carrying value of the government funding approximates its fair value.

Derivatives for which hedge accounting has not been applied

Leisureworld has interest rate swap contracts for which hedge accounting has not been applied. These interest rate swap contracts are carried at fair value and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The changes in fair value are recorded in the consolidated statement of operations and comprehensive loss.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. Leisureworld has determined that it does not have any outstanding contracts or financial instruments with embedded derivatives that require separation, except for the convertible debentures (Note 13).

Derivatives for which hedge accounting has been applied

Leisureworld has entered into certain derivatives that have been designated as hedges in accordance with the criteria specified in IAS 39 for applying and accounting for permitted hedging strategies. The hedging strategies applied by Leisureworld include cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in Other Comprehensive Income (“OCI”) while the ineffective portion is recognized in net income (loss). Amounts related to cash flow hedges that have been recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss. When hedge accounting is discontinued, the amounts previously recognized in Accumulated Other Comprehensive Income (“AOCI”) are classified to net income (loss) during the periods when the variability in the cash flows of the hedged items affects net income (loss). Gains and losses on derivatives are reclassified immediately to net income (loss) when the hedged item is sold or terminated.

Impairment of financial assets

Financial assets are reviewed at each consolidated statement of financial position date to assess whether there is objective evidence that indicates an impairment of a financial asset. If such evidence exists, Leisureworld recognizes an impairment loss measured at the excess of the carrying amount over the fair value of the asset, which is reflected in net income (loss).

Transaction costs

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability or equity. Leisureworld incurs transaction costs primarily through the issuance of debt or shares, and classifies these costs with the related debt, or as a reduction of the value of the proceeds received for the share issuance. Transaction costs associated with the issuance of debt are amortized into interest expense using the effective interest method over the life of the related debt instrument. Transaction costs directly attributable to the issuance of shares are recognized as a reduction of share capital. Transaction costs associated with business acquisitions are expensed as incurred.

Interest bearing debt obligations

All interest bearing debt obligations are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing debt obligations are subsequently measured at their amortized cost using the effective interest method.

Operating lease payments

Payments made under operating leases are recognized in the consolidated statement of operations and comprehensive loss on a straight-line basis over the term of the lease.

Share capital

Common shares are classified as shareholders’ equity. Transaction costs directly attributable to the issuance of shares are recognized as a reduction from shareholders’ equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the period in which the dividends are declared by the Board of Directors of Leisureworld.

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Leisureworld's potentially dilutive instruments include the convertible debentures and the unvested shares issued to a senior executive which are currently anti-dilutive.

Share-based compensation

Leisureworld applies the fair value method of accounting for share-based compensation. The loans offered to senior executives related to the long-term incentive plan ("LTIP") are recorded as a reduction to shareholders' equity. Fair value of the shares are measured at the grant date using the Cox-Ross-Rubinstein binomial tree model. The fair value of restricted share units ("RSU") and deferred share units ("DSU") are measured based on the closing price of Leisureworld's shares at each reporting date.

Leisureworld issued shares to a senior executive. These shares vest over three years (33% per year). Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period by increasing share capital.

The expense related to share-based compensation is recognized in administrative expenses.

Employee benefits

Short-term benefits

Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Assuming the obligation can be reasonably estimated, liabilities are recognized for the amounts expected to be paid within the next 12 months as Leisureworld has an obligation to pay the amount as a result of past service provided by the employee. These benefits are recorded in accounts payable and accrued liabilities.

Long-term benefits

Payments to defined contribution retirement benefit plans are based on 4% of gross wages and charged to expense as incurred.

Income taxes

Leisureworld follows the asset and liability method of accounting for income taxes. Income taxes are comprised of current and deferred taxes. Income taxes are recognized in the consolidated statement of operations and comprehensive loss except to the extent that they relate to items recognized directly in shareholders' equity. Income tax balances are also recorded on initial recognition of a deferred tax asset or liability arising from business combinations.

Current taxes are the expected taxes payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

In general, deferred taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are also recognized on business acquisitions. Deferred taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset. This applies when they relate to income taxes levied by the same taxation authority and Leisureworld intends to settle its current tax assets and liabilities on a net basis.

Segmented reporting

Leisureworld operates solely within Canada, hence no geographical segment disclosures are presented. Segmented information is presented in respect of business segments, based upon management's internal reporting structure. Further details are provided in Note 29.

New accounting policies adopted in 2013

The following standards have been adopted by Leisureworld on January 1, 2013:

Amendment to IFRS 7, Financial instruments: disclosures

Amendments to IFRS 7 require disclosure of information about the rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. This amendment had no impact on the financial statements.

IFRS 10, Consolidated financial statements

IFRS 10, Consolidated financial statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard had no impact on the financial statements.

IFRS 11, Joint arrangements

IFRS 11 replaces IAS 31, Interests in joint ventures and SIC-13, Jointly-controlled entities - non-monetary contributions by venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. This standard had no impact on the financial statements.

IFRS 12, Disclosure of interest in other entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Refer to Note 28 for Leisureworld's disclosures relating to its subsidiaries.

IFRS 13, Fair value measurement

IFRS 13, Fair value measurement, provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. This standard impacted the disclosures in the notes of the financial statements.

Amendment to IAS 1, Presentation of items of other comprehensive income

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that could be reclassified (or recycled) to income or loss at a future point in time are to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on Leisureworld's financial position or performance.

Amendment to IAS 36, Impairment of assets

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory until January 1, 2014, however, Leisureworld has decided to early adopt the amendment as of January 1, 2013. This amendment did not have a material impact on the financial statements.

Recent accounting pronouncements

IFRS 9, Financial instruments

IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, Financial instruments: recognition and measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on Leisureworld's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is chosen for financial liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income (loss), unless this creates an accounting mismatch. In November 2013, IFRS 9 was amended to remove the mandatory effective date of January 1, 2015. Leisureworld has not adopted this standard and management has not yet determined the impact of this standard.

IAS 32, Financial instruments: presentation and IFRS 7, Financial instruments: disclosures

In December 2011, the IASB amended both IAS 32 - Financial instruments: presentation and IFRS 7 – Financial instruments: disclosures by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. The effective date of the amendments is for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted but must be applied together with IFRS 9. These amendments will not have a material impact on the financial statements.

IFRS Interpretation Committee (“IFRIC”) 21, Levies
This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, contingent liabilities and contingent assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. This interpretation is applicable and effective for annual periods beginning on or after January 1, 2014. Leisureworld has not adopted this standard and management has not yet determined the impact of this standard.

There are no other accounting standards issued but not yet applied that would be expected to have a material impact on Leisureworld.

Significant judgments and estimates

The preparation of the consolidated financial statements under IFRS requires Leisureworld to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Property and equipment and intangible assets

(i) Fair values

Property and equipment and intangible assets from acquisitions were initially recorded at their estimated fair values.

(ii) Indefinite-lived intangible assets

In the Province of Ontario, all LTC homes must be licensed. The Long-Term Care Homes Act, 2007 (“LTCHA”) became effective July 1, 2010. The LTCHA provides licence terms for Leisureworld’s LTC homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by the MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and the transfer or revocation of existing licences. With an existing wait-list of approximately 21,800 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

Goodwill and indefinite-lived intangible asset impairment analysis
On an annual basis, Leisureworld uses the fair value less costs of disposal valuation model to assess whether goodwill and indefinite-lived intangible assets may be impaired. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required. Any impairment losses are recognized in net income (loss). Impairment losses on goodwill are permanent. The significant estimates used in the valuation model include the discount rates and growth assumptions.

Deferred taxes

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income.

Income taxes

The actual tax on the results for the period is determined in accordance with tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits which are recognized in the consolidated financial statements. Leisureworld considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the consolidated financial statements.

4 Acquisitions

Specialty Care Portfolio

On December 2, 2013, Leisureworld completed the acquisition of 10 properties in Ontario consisting of six LTC homes, two RRs and two properties containing both LTC and RR components from Specialty Care Inc. and certain other related parties ("Specialty Care Portfolio"). The acquisition of the Specialty Care Portfolio ("Specialty Care Acquisition") comprises in total 1,235 LTC beds and 326 retirement suites, as well as the third party seniors living management business previously operated by Specialty Care Inc.

The total net purchase price was allocated to the assets and liabilities on a preliminary basis as follows:

	Specialty Care Group	Specialty Care / Woodhall Park	Total
Assets			
Cash	16	2	**18**
Accounts receivable and other assets	174	35	**209**
Prepaid expenses and deposits	564	60	**624**
Government funding receivable	-	175	**175**
Construction funding receivable	28,685	4,622	**33,307**
Restricted cash	497	-	**497**
Property and equipment	145,358	15,056	**160,414**
Intangible assets	47,039	3,638	**50,677**
Goodwill	7,338	-	**7,338**
Total assets	**229,671**	**23,588**	**253,259**
Liabilities			
Accounts payable and accrued liabilities	2,931	310	**3,241**
Government funding payable	255	-	**255**
Long-term debt	74,667	-	**74,667**
Deferred income taxes	1,495	38	**1,533**
Total liabilities	**79,348**	**348**	**79,696**
Net assets acquired	**150,323**	**23,240**	**173,563**
Cash consideration			165,584
Shares issued to vendor (note 17)			6,503
Due to vendor			1,476
Total consideration			**173,563**

As part of the total purchase consideration for the Specialty Care Portfolio, Leisureworld put in place a $1,300 one-year income support agreement with the vendor, which is held in escrow as an income

guarantee to supplement cash flow during the lease-up period for certain retirement residences acquired. For the year ended December 31, 2013, Leisureworld did not draw any amount from this income support.

Transaction costs expensed related to the Specialty Care Acquisition for the year ended December 31, 2013 was $8,635.

The Specialty Care Portfolio's revenue and net income recorded for the period from December 2, 2013 to December 31, 2013 were $8,791 and $368, respectively.

If the Specialty Care Acquisition had taken place on January 1, 2013, the revenue and net loss for Leisureworld for the year ended December 31, 2013 are estimated to have been $450,025 and $4,294, respectively.

BC Portfolio

On May 24, 2012, Leisureworld completed the acquisition of three luxury retirement residences containing 392 suites and located in the Greater Vancouver Area in British Columbia ("BC Portfolio").

The total net purchase price of $92,710 was allocated to the assets and liabilities as follows:

	Astoria	Pacifica	Peninsula	**Total**
Assets				
Accounts receivable and other assets	-	-	5	**5**
Prepaid expenses and deposits	50	-	29	**79**
Property and equipment	36,228	33,830	34,311	**104,369**
Intangible assets - resident relationships	2,471	7,111	7,010	**16,592**
Total assets	**38,749**	**40,941**	**41,355**	**121,045**
Liabilities				
Accounts payable and accrued liabilities	353	518	507	**1,378**
Deferred income taxes	678	692	871	**2,241**
Long-term debt	-	-	24,716	**24,716**
Total liabilities	**1,031**	**1,210**	**26,094**	**28,335**
Net assets acquired	**37,718**	**39,731**	**15,261**	**92,710**

As part of the total purchase consideration for the Astoria property, Leisureworld negotiated a $2,030 three-year income support agreement with the vendor, which was held in escrow as an income guarantee to supplement cash flow during the lease-up period. As at December 31, 2013, Leisureworld has fully drawn down $2,030 (December 31, 2012 - $1,085). As a part of the consideration transferred for the property, Leisureworld issued $1,000 of shares to the vendor.

The vendor had the ability to earn up to an additional $6,000, in aggregate, should the net operating income of the Pacifica or Peninsula properties exceed specified targets over the twelve month period commencing from the acquisition date. These specified targets were not met and no payments were made.

Transaction costs expensed related to the acquisition of the BC Portfolio for the year ended December 31, 2012 were $754.

The BC Portfolio's revenue and net loss recorded for the period from May 24, 2012 to December 31, 2012 were $8,627 and $2,316, respectively.

Madonna

On July 16, 2012, Leisureworld completed the acquisition of a LTC home containing 160 beds located in Orleans, Ontario ("Madonna").

The total net purchase price of $3,035 was allocated to the assets and liabilities as follows:

Assets	
Cash	259
Accounts receivable and other assets	65
Prepaid expenses and deposits	79
Construction funding receivable	6,445
Property and equipment	11,635
Intangible assets - resident relationships	611
Intangible assets - licences	3,120
Deferred income taxes	350
Total assets	**22,564**
Liabilities	
Accounts payable and accrued liabilities	1,333
Government funding payable	161
Long-term debt	15,718
Interest rate swap contract	2,317
Total liabilities	**19,529**
Net assets acquired	**3,035**

Transaction costs expensed related to the acquisition of the Madonna LTC home for the year ended December 31, 2012 were $713.

Madonna's revenue and net income recorded for the period from July 16, 2012 to December 31, 2012 were $5,036 and $523, respectively.

5 Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. When independent prices are not available, fair values are determined using valuation techniques that refer to observable market data where available. These techniques include comparisons with similar instruments where observable market prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

The carrying value of certain financial instruments approximates their fair value. These financial instruments include cash and cash equivalents, accounts receivables and other assets, government funding receivable/payable, restricted cash, and accounts payable and accrued liabilities. The following

table indicates the fair value and the carrying value of certain financial instruments as at December 31, 2013 and 2012:

	As at December 31, 2013		As at December 31, 2012	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial Assets:				
Bond forward contracts	1,885	1,885	-	-
Construction funding receivable	102,848	106,127	75,903	82,631
Financial Liabilities:				
Long-term debt	554,875	578,980	425,225	453,096
Convertible debentures	43,828	45,770	-	-
Interest rate swap contracts	478	478	2,127	2,127

The fair value of construction funding receivable is estimated by discounting the expected future cash flows using current applicable rates for Government of Ontario bonds of comparable maturity plus a risk premium. At December 31, 2013, the construction funding receivable was discounted using rates between 2.79% (2012 - 2.44%) and 4.98% (2012 - 2.44%).

The fair values of floating-rate debt approximate their carrying values. The fair values of fixed-rate debt are estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2013, the fixed-rate debt were discounted using rates between 1.97% (2012 – 2.63%) and 4.73% (2012 – 3.86%).

The fair value of the convertible debentures is based on quoted market price.

The fair values of the bond forward contracts and interest rate swap contracts are calculated through discounting future expected cash flows using the Banker's Acceptance ("BA") based swap curve.

Impairment charges on accounts receivable are disclosed below. All finance income and costs from financial instruments have been disclosed in Note 14.

Fair value hierarchy

Financial instruments carried or disclosed at fair value are categorized under three levels of fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Inputs that are observable for the assets or liabilities either directly or indirectly

Level 3: Inputs for assets or liabilities that are not based on observable market data

	As at December 31, 2013			As at December 31, 2012		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Financial Assets:						
Bond forward contracts	-	**1,885**	-	-	-	-
Construction funding receivable	-	-	**106,127**	-	-	82,631
Financial Liabilities:						
Long-term debt	-	**578,980**	-	-	453,096	-
Convertible debentures	-	**45,770**	-	-	-	-
Interest rate swap contracts	-	**478**	-	-	2,127	-

Maturities of financial instruments

For the years ending December 31, 2014 through 2018, and thereafter, Leisureworld has estimated that the following undiscounted cash flows will arise from its government funding receivable/payable, interest rate swap contracts, construction funding receivable, long-term debt and convertible debentures at the consolidated statement of financial position date:

	As at December 31, 2013					
	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Government funding receivable/payable						
Cash inflows	6,113	614	-	-	-	-
Cash outflows	(1,605)	(1,535)	(1,532)	-	-	-
	4,508	(921)	(1,532)	-	-	-
Interest rate swap contracts						
Net cash outflows	(43)	(42)	(40)	(39)	(37)	(277)
Construction funding receivable						
Cash inflows	13,079	13,079	13,114	13,079	13,079	60,720
Long-term debt						
Cash outflows	(57,686)	(395,508)	(23,218)	(42,575)	(31,118)	(74,657)
Convertible debentures						
Cash outflows	(2,139)	(2,139)	(2,139)	(2,139)	(47,070)	-
Net cash inflows (outflows)	**(42,281)**	**(385,531)**	**(13,815)**	**(31,674)**	**(65,146)**	**(14,214)**

Nature and extent of risks arising from financial instruments

The following discussion is limited to the nature and extent of risks arising from financial instruments. Leisureworld's normal operating, investing and financing activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk. Leisureworld is not exposed to foreign currency risk as all operations are located in Canada and all purchases are contracted in Canadian dollars. Leisureworld does not have significant exposure to price risk as most of its revenues are regulated by the MOHLTC. Leisureworld's overall risk management process is designed to identify, manage and mitigate business risk, which includes financial risk.

Interest rate risk

Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. Leisureworld is subject to interest rate risk on floating-rate debt associated with the acquisitions of the Kingston and Kanata retirement residences ("Ontario Portfolio") and Madonna. The floating interest rate on the Madonna debt is offset by interest rate swap

contracts. Leisureworld has not adopted hedge accounting for the interest rate swap contracts. Interest rates, maturities and security affecting the interest rate and credit risk of Leisureworld's financial liabilities have been disclosed in Notes 12, 13 and 15.

Leisureworld's credit facilities are, and future borrowings may be, at variable or floating rates of interest, which exposes Leisureworld to the risk of interest rate volatility.

Credit risk

Financial instruments that potentially subject Leisureworld to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable and interest rate swap contracts. Leisureworld is exposed to credit risk from its residents and customers. However, Leisureworld has a significant number of residents and customers, which minimizes concentration of credit risk. The credit risk related to amounts owed by LTC residents is further mitigated by Leisureworld's ability to recover 50% of any LTC amounts written off from the MOHLTC. A provision for management's estimate of uncollectible accounts receivable is established when there is objective evidence Leisureworld will not be able to collect all amounts due. Leisureworld assesses collectability of specific accounts receivable and also assesses the requirement for a provision based on historical experience. The amount of the provision is reduced by amounts that would be recovered from the MOHLTC upon ultimate write-off. When a receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of operations and comprehensive loss.

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

Balance, January 1, 2012	729
Provision for receivables during the year	347
Receivables written off during the year	(515)
Balance, December 31, 2012	561
Provision for receivables during the year	437
Receivables written off during the year	(748)
Balance, December 31, 2013	**250**

Leisureworld has $2,866 in trade and other receivables (December 31, 2012 - $3,669) that are past due but not impaired. These amounts have not been provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable. Leisureworld does not hold any collateral for the support of these balances.

The aging analysis of these receivables is as follows:

	2013	2012
0 - 30 days	**1,846**	2,648
31 - 60 days	**585**	297
61 - 90 days	**163**	127
Over 90 days	**272**	597
	2,866	3,669

Leisureworld is also exposed to credit risk through the amounts receivable from the MOHLTC. Leisureworld has assessed the credit risk associated with the amounts owed by the MOHLTC as low, as they are receivable from the Ontario government. Management has assessed the credit risks associated with the interest rate swap contracts, bond forward contracts and cash and cash equivalents balances as low given the counterparties are major Canadian financial institutions that have been accorded investment grade ratings by a primary rating agency.

Liquidity risk

Liquidity risk is the risk Leisureworld may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. Leisureworld has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. A failure by Leisureworld to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

Management is currently in the process of refinancing and extending the maturity date of mortgages totaling $13,949 and a construction loan totaling $13,351. There can be no assurances that the amounts or terms of any refinancing would be favourable to Leisureworld. Should refinancing be unsuccessful, Leisureworld's alternatives to meet its obligations include utilizing existing cash, drawing on revolving credit facilities totaling $26,000 and issuing additional debt or additional equity.

Sensitivity analysis

IFRS requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of Leisureworld's financial position, performance and fair value of cash flows associated with Leisureworld's financial instruments to changes in market variables. The sensitivity analysis provided discloses the effect on the consolidated statement of operations and comprehensive loss at December 31, 2013 assuming that a reasonably possible change in the relevant risk variable has occurred at December 31, 2013. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on December 31, 2013 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives at December 31, 2013 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as Leisureworld's actual exposure to market rates may change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in the market variable and the change in fair values or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by Leisureworld.

		Interest rate risk	
		-1%	+1%
	Fair Value	Comprehensive Income	Comprehensive Income
Financial assets			
Restricted cash	913	(2)	4
Bond forward contracts	1,885	(22,779)	17,567
Financial liabilities			
Long-term debt at variable rates subject to interest rate risk	73,000	687	(687)
Interest rate swap contract	478	(1,660)	1,660

Any changes in the interest payable under the debt assumed with Madonna would be offset by a change in the cash flows from the related swap contracts.

6 Capital management

Leisureworld defines its capital as the total of its long-term debt and shareholders' equity less cash and cash equivalents.

Leisureworld's objectives when managing capital are to: (i) maintain a capital structure that provides financing options to Leisureworld when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and dividend payments; and (iii) deploy capital to provide an appropriate investment return to its shareholders.

Leisureworld's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, Leisureworld may issue additional shares, issue additional long-term debt, issue long-term debt to replace existing long-term debt with similar or different characteristics, or adjust the amount of dividends paid to Leisureworld's shareholders. Leisureworld's financing and refinancing decisions are made on a specific transaction basis and depend on such things as Leisureworld's needs and market and economic conditions at the time of the transaction.

The Board of Directors reviews the level of monthly dividends paid on a quarterly basis.

The Series A Senior Secured Debentures ("Series A Debentures") and revolving credit facility (Note 12) are collateralized by all assets of LSCLP and the subsidiary partnerships and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The debt assumed in connection with the acquisition of the Ontario Portfolio and entered into to refinance the acquisition of the BC Portfolio is secured by each of the properties' assets, guaranteed by Leisureworld and are subject to certain customary financial and non-financial covenants. The mortgage assumed on the acquisition of Madonna is collateralized by a first collateral mortgage on the property and guaranteed by Leisureworld and is subject to certain customary financial and non-financial covenants. The debt assumed and entered into as part of the Specialty Care Acquisition are secured by

each of the properties' assets, guaranteed by Leisureworld and are subject to certain customary financial and non-financial covenants. Leisureworld is in compliance with all financial covenants on its borrowings as at December 31, 2013. However, there can be no assurance future covenant requirements will be met. If Leisureworld does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

There were no changes in Leisureworld's approach to capital management during the year.

7 Cash and cash equivalents

	December 31, 2013	December 31, 2012
Cash	**15,623**	9,160
Cash equivalents	**-**	83
Cash and cash equivalents	**15,623**	9,243

8 Restricted cash

Restricted cash relates to the capital expenditure reserves required for certain mortgages.

9 Property and equipment

	Land	**Buildings**	**Furniture and fixtures**	**Automobiles**	**Computer hardware**	**Circulating equipment**	**Total**
Cost							
At January 1, 2012	48,031	328,165	9,752	-	478	985	387,411
Acquisition of the BC Portfolio	14,700	86,475	3,018	176	-	-	104,369
Acquisition of Madonna	800	10,749	86	-	-	-	11,635
Additions	-	1,026	183	-	207	-	1,416
Disposals	-	-	-	-	(82)	-	(82)
At December 31, 2012	63,531	426,415	13,039	176	603	985	504,749
Acquisition of the Specialty Care Portfolio	13,687	142,671	3,874	123	59	-	160,414
Additions	-	1,975	574	10	66	3	2,628
At December 31, 2013	**77,218**	**571,061**	**17,487**	**309**	**728**	**988**	**667,791**
Accumulated depreciation							
At January 1, 2012	-	25,520	4,298	-	177	-	29,995
Charges for the year	-	16,832	1,881	20	221	-	18,954
Disposals	-	-	-	-	(82)	-	(82)
At December 31, 2012	-	42,352	6,179	20	316	-	48,867
Charges for the year	-	18,514	1,784	39	98	-	20,435
At December 31, 2013	**-**	**60,866**	**7,963**	**59**	**414**	**-**	**69,302**
Net book value							
At December 31, 2012	63,531	384,063	6,860	156	287	985	455,882
At December 31, 2013	**77,218**	**510,195**	**9,524**	**250**	**314**	**988**	**598,489**

10 Intangible assets

	Licences	Resident relationships	Service contracts	Computer software	Total
Cost					
At January 1, 2012	76,000	30,967	3,080	2,643	112,690
Acquisition of the BC Portfolio	-	16,592	-	-	16,592
Acquisition of Madonna	3,120	611	-	-	3,731
Additions	-	-	-	435	435
Impairment	-	-	-	(2,697)	(2,697)
At December 31, 2012	79,120	48,170	3,080	381	130,751
Acquisition of the Specialty Care Portfolio	24,700	18,089	7,888	-	50,677
Additions	2,200	-	-	4	2,204
At December 31, 2013	**106,020**	**66,259**	**10,968**	**385**	**183,632**
Accumulated amortization					
At January 1, 2012	-	24,303	1,822	192	26,317
Charges for the year	-	7,855	1,027	64	8,946
At December 31, 2012	-	32,158	2,849	256	35,263
Charges for the year	-	7,932	406	72	8,410
At December 31, 2013	**-**	**40,090**	**3,255**	**328**	**43,673**
Net book value					
At December 31, 2012	79,120	16,012	231	125	95,488
At December 31, 2013	**106,020**	**26,169**	**7,713**	**57**	**139,959**

During the year ended December 31, 2012, Leisureworld determined that the carrying amount of the Human Resource Information System being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a $2,697 impairment of intangible assets recorded in net income (loss).

On April 19, 2013, Leisureworld acquired a licence to operate 88 LTC beds from Christie Gardens Apartments and Care Inc. for $2,200.

11 Goodwill

Cost and carrying value, at January 1, 2013 and 2012	91,466
Specialty Care Acquisition	7,338
Cost and carrying value, at December 31, 2013	98,804

Goodwill acquired in business combinations is allocated to the CGUs that are expected to benefit from that business combination based on the relative fair value of the CGU at the time of acquisition. CGUs are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Leisureworld has determined that each LTC home, independent living residence, retirement residence and PHCS are separate CGUs for goodwill impairment testing purposes. Leisureworld also allocates indefinite-lived intangible assets which relate to the LTC business to the LTC CGUs on a per bed basis. Leisureworld has allocated $98,804 and $106,020 of goodwill and indefinite-lived intangible assets, respectively, to the individual CGUs.

The recoverable amount of the CGU is the higher of its value in use and fair value less costs of disposal ("fair value"). Fair value is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted to arrive at the recoverable amount. In assessing fair value, the estimated future cash flows are derived from the most recent financial budget, adjusted where appropriate to reflect market participant assumptions. For the 2013 goodwill impairment analysis, Leisureworld used an average post-tax discount rate of approximately 7.07% across the CGUs and an average growth rate of 2.01% before considering expansion projects. Leisureworld has not recognized any goodwill impairment losses.

12 Long-term debt

	Interest rate	Maturity date	**December 31, 2013**	December 31, 2012
Series A Senior Secured Debentures	4.814%	November 24, 2015	**294,326**	294,326
Credit facilities	Floating	2015	**73,000**	98,100
Mortgages at fixed rates	3.02% - 7.11%	2014 - 2023	**162,083**	23,362
Mortgage at variable rate	Floating	2017	**15,146**	15,557
Construction loan	Prime + 1.25%	2014	**13,351**	-
			557,906	431,345
Mark-to-market adjustments on acquisition			**(1,337)**	(5,087)
Financing costs			**(1,694)**	(1,033)
Total debt			**554,875**	425,225
Less: current portion			**34,079**	27,206
			520,796	398,019

Principal repayments on long-term debt are as follows:

2014	33,440
2015	373,770
2016	16,765
2017	38,101
2018	27,326
Thereafter	68,504
	557,906

Series A Senior Secured Debentures

The 4.814% Series A Senior Secured Debentures, due November 24, 2015, have a remaining face value of $294,326 as at December 31, 2013 (December 31, 2012 - $294,326) and are collateralized by the assets of Leisureworld Senior Care LP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Interest on the Series A Debentures is payable semi-annually in arrears on May 24 and November 24 of each year.

The Series A Debentures may be redeemed in whole or in part at the option of Leisureworld at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the Series A Debentures. The redemption price is the greater of: (i) the face amount of the Series A Debentures to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such Series A Debentures equal to the Canada Yield Price, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.18%. During the year ended December 31, 2012, Leisureworld redeemed Series A Debentures with a face value of $15,674 for $16,769 in cash, which

includes a redemption premium of $1,095. Fair value adjustment of $317 was accreted to finance costs in connection with the redemption. During the year ended December 31, 2013, Leisureworld did not redeem any of the Series A Debentures. Subsequent to year end, Leisureworld repurchased the Series A Debentures. Further details are disclosed in Note 31.

Credit facilities

On April 27, 2011, Leisureworld entered into a two-year credit facility (“Bridge Loan”) for $55,000 to finance the acquisition of the Ontario Portfolio, which bears interest at 187.5 basis points (“bps”) per annum over the floating 30-day BA rate. On June 29, 2012, the Bridge Loan was converted to a $61,500 revolving credit facility (“Revolving Credit Facility”) that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of Leisureworld’s subsidiary, The Royale LP, guaranteed by Leisureworld and is subject to certain customary financial and non-financial covenants. On September 24, 2013, Leisureworld extended the maturity date on the $61,500 revolving credit facility to April 26, 2015. As at December 31, 2013, Leisureworld has drawn $47,000 under this credit facility (December 31, 2012 - $46,000). Leisureworld, in conjunction with the $55,000 credit facility, entered into an interest rate swap contract to effectively fix the interest rate at 4.045%. The interest rate swap contract matured on April 26, 2013.

On May 24, 2012, Leisureworld entered into a one-year credit facility for $26,100 to finance the acquisition of the Pacifica property and a two-year credit facility for $26,000 to finance the acquisition of the Astoria property. Both facilities bear a floating interest rate equal to the BA rate plus 187.5 bps. These term loans are secured by each of the properties’ assets and guaranteed by Leisureworld and are subject to certain customary financial and non-financial covenants. Interest on the term loans is payable in advance each month. As part of the term loans, Leisureworld incurred financing costs of $181 directly associated with obtaining the financing. These costs have been recorded as a reduction of the total financing received and are expensed over the term of each loan. On May 23, 2013, the Pacifica Credit Facility matured and Leisureworld repaid the $26,100 with net proceeds from a new mortgage. The difference between the amount settled under the Pacifica Credit Facility and the new mortgage amount was settled in cash. On June 28, 2013, Leisureworld extended the maturity date on the $26,000 Astoria Credit Facility to May 23, 2015.

Mortgages at fixed rates

As part of the acquisition of the Peninsula property, Leisureworld assumed a mortgage in the amount of $23,716 with a fair value of $24,716. The mortgage assumed bears an interest rate of 5.18% and matures on January 1, 2017. The mortgage is collateralized by a first collateral mortgage on the land and building located at 2088-152nd Street, Surrey, BC and a general security agreement providing a first charge on all assets and undertakings.

On April 19, 2013, Leisureworld entered into a $17,974 Canadian Mortgage and Housing Corporation (“CMHC”) insured mortgage on the Pacifica property (“Pacifica Mortgage”). The Pacifica Mortgage bears interest at 3.04%, has a 25-year amortization period and matures on June 1, 2023. The Pacifica Mortgage is collateralized by a first collateral mortgage on the Pacifica property and a general security agreement providing a first charge on all assets and undertakings, is guaranteed by Leisureworld as to $5,400, and is subject to certain customary financial and non-financial covenants. As part of the Pacifica Mortgage, Leisureworld incurred financing costs of $611 directly associated with obtaining the financing.

As part of the Specialty Care Acquisition, Leisureworld assumed mortgages in the amount of $59,229 with fair value of $61,299. The mortgages assumed bear fixed interest rates ranging from 3.02% to 7.11%

with maturity dates through to 2018. The mortgages are secured by a first charge on all assets owned by Leisureworld and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

In addition, to fund the Specialty Care Acquisition, Leisureworld entered into new mortgages totaling $62,540 on December 2, 2013. The new mortgages bear interest rates ranging from 4.30% to 4.60% with maturity dates through to 2019. The mortgages are secured by a first charge on all assets owned by Leisureworld and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

Mortgage at variable rate

As part of the acquisition of the Madonna LTC home, Leisureworld assumed a mortgage in the amount of $15,718, which bears interest at the floating monthly BA rate plus a stamping fee of 1.5% per annum. The mortgage is secured by a first collateral mortgage on the property, is guaranteed by Leisureworld, and is subject to certain customary financial and non-financial covenants. Leisureworld, in conjunction with the mortgage, assumed the interest rate swap contract in the amount of $2,317, to effectively fix the floating BA rate at 3.7%. The swap is collateralized by a second mortgage of the property.

Construction loan

As part of the Specialty Care Acquisition, Leisureworld assumed a construction loan. The loan is interest-only, and bears interest at prime rate plus 1.25% per annum. The loan is collateralized by a first charge on the specific property and is payable on demand on or before December 31, 2014.

13 Convertible debentures

On April 25, 2013, Leisureworld issued $46,000 aggregate principal amount of 4.65% extendible convertible unsecured subordinated debentures due January 2, 2014 (“Convertible Debentures”), convertible into common shares of Leisureworld at $16.75 per common share, for net proceeds of $44,160. Upon closing of the Specialty Care Acquisition on December 2, 2013, the maturity date of the Convertible Debentures was automatically extended to June 30, 2018. The Convertible Debentures bear interest at 4.65% per annum, which is payable semi-annually in June and December.

The Convertible Debentures may not be redeemed by Leisureworld prior to June 30, 2016, except in the event of the satisfaction of certain conditions after a change of control has occurred. On or after June 30, 2016 and prior to June 30, 2017, the Convertible Debentures may be redeemed by Leisureworld in whole or in part from time to time, on not more than 60 days’ and not less than 30 days’ prior notice, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given exceeds 125% of the conversion price. On or after June 30, 2017, the Convertible Debentures may be redeemed by Leisureworld in whole or in part and from time to time, on not more than 60 days’ and not less than 30 days’ prior notice, at a price equal to the principal amount thereof plus accrued and unpaid interest.

Upon the occurrence of a change of control, whereby more than 66.67% of the common shares are acquired by any person, or group of persons acting jointly, each holder of the Convertible Debentures

may require Leisureworld to purchase their debentures at 101% of the principal amount plus accrued and unpaid interest. If 90% or more of the Convertible Debenture holders do so, Leisureworld has the right to redeem all of the remaining Convertible Debentures.

Upon closing of the offering on April 25, 2013, the debt and equity components of the Convertible Debentures were bifurcated as the financial instrument is considered a compound instrument with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. Leisureworld incurred financing costs of $2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and recognized as part of net finance charges.

14 Net finance charges

	2013	2012
Finance costs		
Interest expense on long-term debt	**19,062**	18,297
Interest expense on convertible debentures	**1,513**	-
Interest expense and fees on revolving credit facility	**189**	61
Net accretion of the fair value adjustments on long-term debt	**1,679**	2,460
Amortization of deferred financing charges	**789**	265
Redemption premium on Series A Debentures	**-**	1,095
Net settlement payment on interest rate swap contracts	**550**	758
Dividend equivalent on subscription receipts	**3,812**	-
	27,594	22,936
Finance income		
Interest income on construction funding receivable	**3,096**	3,060
Interest income on subscription receipts funds held in escrow	**509**	-
Other interest income	**243**	214
Gain on interest rate swap contracts	**1,649**	1,082
	5,497	4,356
Net finance charges	**22,097**	18,580

15 Revolving credit facilities

LSCLP has a $10,000 revolving credit facility with a Canadian chartered bank which it can access for working capital purposes. This facility is collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. It bears interest on cash advances at 150 bps per annum over the floating BA rate (30, 60 or 90 days), or at 50 bps per annum over the prime rate and bears interest on letters of credit at 150 bps per annum. As at December 31, 2013, Leisureworld had no amounts drawn on this facility (2012 - $nil) and no letters of credit were outstanding (2012 - $nil). During the year ended December 31, 2013, charges related to standby fees totaled $37 (2012 - $38).

During the year ended December 31, 2013, Leisureworld obtained an additional $1,500 revolving operating loan to finance working capital requirements. This loan is collateralized by the assets of Royale Development LP. It bears interest at prime rate plus 0.50% per annum. As at December 31, 2013, Leisureworld had no amounts drawn on this loan (2012 - $nil).

16 Income taxes

Total income tax provision (recovery) for the year can be reconciled to the consolidated statement of operations and comprehensive loss as follows:

	2013	2012
Loss before income taxes	**(10,241)**	(6,834)
Canadian combined income tax rate	**26.47%**	26.47%
Income tax recovery	**(2,711)**	(1,809)
Adjustments to income tax provision:		
Non-deductible items	**2,088**	382
Tax rate change	**-**	3,721
Other items	**(234)**	6
Income tax expense (recovery)	**(857)**	2,300

The following are the major deferred tax assets (liabilities) recognized by Leisureworld and movements thereon during the year:

	Accelerated tax depreciation	**Intangible assets**	**Share issuance**	**Construction funding interest**	**Other**	**Total**
As at January 1, 2012	(58,695)	(9,013)	3,010	4,599	(4,029)	(64,128)
Due to acquisition of the BC Portfolio	(3,045)	543	-	-	261	(2,241)
Due to acquisition of Madonna	(706)	(300)	-	742	614	350
Credit (charge) to net loss net of rate changes	2,777	1,830	(1,085)	(810)	535	3,247
Effect of change in income tax rates	(3,257)	(455)	-	217	(226)	(3,721)
Credit to shareholders' equity	-	-	811	-	-	811
As at December 31, 2012	(62,926)	(7,395)	2,736	4,748	(2,845)	(65,682)
Due to acquisition of Specialty Care Portfolio	(3,643)	(2,270)	-	3,833	654	(1,426)
Credit (charge) to net loss	745	919	(1,269)	(819)	1,894	1,470
Charge to other comprehensive income	-	-	-	-	(499)	(499)
Credit to shareholders' equity	-	-	947	-	-	947
As at December 31, 2013	**(65,824)**	**(8,746)**	**2,414**	**7,762**	**(796)**	**(65,190)**

The following chart details the reversal of the recognized deferred tax liabilities.

	December 31, 2013	December 31, 2012
Within one year	**(3,409)**	(2,136)
One to four years	**(6,829)**	(9,795)
After four years	**(54,952)**	(53,751)
Total	**(65,190)**	(65,682)

17 Share capital

Authorized

Unlimited number of common shares, without nominal or par value
Unlimited number of preferred shares, without nominal or par value

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2012	24,490,149	233,207
Issued common shares	4,680,500	54,470
Common shares issued to vendor	82,988	1,000
Long-term incentive plan, net of loans receivable	19,252	173
Deferred income tax rate change	-	115
Share-based compensation	-	133
Balance, December 31, 2012	29,272,889	289,098
Long-term incentive plan, net of loans receivable (Note 19)	9,435	14
Share-based compensation (Note 19)	-	5
Issued common shares (Note 25)	39,063	12
Common shares issued in exchange of subscription receipts, net of tax and transaction costs	6,353,750	76,157
Common shares issued to vendor	564,516	6,503
Balance, December 31, 2013	**36,239,653**	**371,789**

On May 23, 2012, Leisureworld issued 19,252 shares to the Participants related to the LTIP. Total net value of the share-based payment at the grant date was $13. During the year ended December 31, 2012, one of the Participants repaid $142 of their loan in full, which was recorded as an increase in share capital. The LTIP issued to this Participant was revalued in conjunction with the repayment, which resulted in an increase in share capital of $18. Total net value of the share-based payment as at December 31, 2012 was $173.

On May 24, 2012, Leisureworld raised $54,470, net of underwriters' fees and other issuance related costs of $2,626 and the deferred income tax impact of $696, through a public offering of 4,680,500 common shares. Leisureworld also issued 82,988 common shares as part of the purchase price paid to the vendors related to the acquisition of the BC Portfolio. The total fair value of the share-based payment was $1,000.

On April 25, 2013, Leisureworld completed a bought deal offering of 6,353,750 subscription receipts at a price of $12.40 per subscription receipt for gross proceeds of $78,787. The purchased subscription receipts included 828,750 subscription receipts made available for issuance pursuant to the exercise of the over allotment option granted to the syndicate of underwriters. Upon closing of the Specialty Care Acquisition on December 2, 2013, each outstanding subscription receipt was exchanged for one common share of Leisureworld. Underwriters' fees and other issuance related costs of $3,577 and deferred income tax impact of $947 were netted against the gross proceeds of $78,787 in share capital.

On December 2, 2013, Leisureworld issued 564,516 common shares as part of the purchase price paid to the vendor related to the Specialty Care Acquisition.

18 Dividends

Leisureworld paid dividends at $0.075 per month per common share totaling $26,373 for the year ended December 31, 2013 (2012 - $23,177). Dividends of $2,718 are included in accounts payable and accrued liabilities as at December 31, 2013 (2012 - $2,196). Subsequent to December 31, 2013, the Board of Directors declared dividends of $0.075 per common share for January and February 2014 totaling $5,436. These dividends are not included in accounts payable and accrued liabilities.

19 Share-based compensation

Leisureworld has share-based compensation plans described as follows:

LTIP

Certain senior executives ("Participants") may be awarded incentive amounts on an annual basis based on performance targets being achieved. Participants have the option to purchase the number of common shares equal to their eligible incentive amount divided by the weighted average closing price of common shares on the TSX for the five trading days ("Average Closing Price"), prior to date of grant. At most 95% of the eligible incentive amount may be financed by a loan from Leisureworld to the Participant for the purpose of investing into the LTIP and bearing interest at the prime rate per annum, fixed at the time of the loan. The loan and interest are due and payable five years from the grant date. Until the loan has been repaid in full, the related shares will be pledged to Leisureworld as security against the outstanding balance of the loan and any cash dividends declared on such shares will be applied against the outstanding balance of the loan, first to interest then to principal.

On February 21, 2013, incentive amounts entitling Participants to acquire 9,435 shares were awarded under this plan. On the grant date, the Participants paid $6, which represents 5% of their incentive amounts. This payment was recorded as an increase in share capital. Related to the LTIP in the year ended December 31, 2013, Leisureworld recorded an increase of $14 in share capital (2012 - $173) and $17 in contributed surplus (2012 - $10). Included as a reduction to shareholders' equity is an outstanding loan balance of $178 (2012 - $74). Total expense related to the LTIP for the year ended December 31, 2013 was $17 (2012 - $28).

The fair value of LTIP awards was determined by using the Cox-Ross-Rubinstein binominal tree model. The following table summarizes the market-based rates and assumptions as well as projections of certain inputs used in determining the fair values used in this model:

Valuation date	February 21, 2013
Fair value at grant date	$12.72
Volatility	15.67%
Monthly discrete dividend	$0.075
Risk-free rate	1.79%
Annual interest rate on participant's loan - prime rate	3.00%
Forfeiture rate	0.00%

RSU

Participants may be awarded RSUs annually based on performance targets being achieved. Participants are awarded the number of notional shares equal to a portion of their compensation amount divided by the Average Closing Price on the grant date. RSU plan Participants are entitled to receive notional distributions equal to the amount of dividend per common share. Such distributions will be granted to

the Participant in the form of additional RSUs equal to the dividend amount divided by the Average Closing Price as of the day such dividend was declared. The RSUs vest equally at the end of year one, two and three from the grant date and the related compensation expense is recognized on a graded basis over the vesting periods. Upon vesting of the RSUs, the Participants have the option to redeem all or a portion of vested RSUs in cash or receive one common share of Leisureworld for each RSU redeemed. Any lump sum payment in cash will be calculated by multiplying the number of RSUs to be redeemed for cash by the Average Closing Price as of the applicable vesting date. The value of each RSU is measured at each reporting date and is equivalent to the market value of a common share of Leisureworld at the reporting date.

On February 21, 2013, 9,435 RSUs were granted to certain Participants under this plan. On May 30, 2013, 5,105 RSUs were granted to certain Participants under this plan. On December 2, 2013, 5,650 RSUs were granted to certain Participants under this plan. Total expenses related to the RSU plan for the year ended December 31, 2013 was $114 (2012 - $94), which was recognized in administrative expenses. During the year ended December 31, 2013, 6,859 RSUs vested and were settled in cash, resulting in a decrease of $87 to share-based compensation liability. The total liability recorded as a part of the share-based compensation liability as at December 31, 2013 was $121 (2012 - $94).

A summary of the movement of the RSUs granted is as follows:

	Number of RSUs
Outstanding, January 1, 2012	-
Granted	19,252
Forfeited	(8,719)
Dividends reinvested	956
Outstanding, December 31, 2012	11,489
Granted	20,190
Dividends reinvested	1,207
Settled in cash	(6,859)
Outstanding, December 31, 2013	**26,027**

DSU

Eligible members of the Board of Directors (“Members”) can elect on an annual basis to receive their annual retainer fees up to 100% as DSUs, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using the Average Closing Price on the grant date. Leisureworld will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the DSUs, as long as the Member continues to serve on the Board of Directors, as additional notional units under DSU plan. The compensation, nominating and governance committee reserves the right to amend the eligible participants and compensation structure under this plan. The value of each DSU is measured at each reporting date and is equivalent to the fair market value of a common share of Leisureworld at the reporting date. Total expense related to this plan for the year ended December 31, 2013 was $1,050, which was recognized in administrative expenses (2012 - $506). The total liability recorded as a part of the share-based compensation liability as at December 31, 2013 was $1,556 (2012 - $506).

Shares awarded

Leisureworld awarded 130,000 common shares to a senior executive in 2010 in relation to the IPO. Of this amount, 30,000 shares vested immediately upon issuance. The remaining 100,000 shares vested in

three equal installments on the first, second and third anniversary of the grant date and also have trading restrictions imposed. The fair value of these shares was determined to be approximately $1,147 based on the Black-Scholes option pricing model.

During the year ended December 31, 2012, an additional 25,000 of the 100,000 shares vested in accordance with an agreement between Leisureworld and the senior executive. Share-based compensation expense was $5 for the year ended December 31, 2013 (2012 - $133), which was recognized in administrative expenses with a corresponding increase in share capital. As at December 31, 2013, there were no unvested shares.

A summary of the movement of the shares granted is as follows:

	Shares awarded	Weighted average exercise price (dollars)
Unvested, January 1, 2012	66,667	N/A
Vested	(58,333)	N/A
Unvested, December 31, 2012	8,334	N/A
Vested	(8,334)	N/A
Unvested, December 31, 2013	**-**	**N/A**

The fair value of the shares granted was calculated using the Black-Scholes option pricing model. The assumptions used in the model were as follows:

Risk-free rate	1.42%
Exercise price	$0.00
Expected life (in years)	0 - 3
Weighted average fair value of shares granted	$8.82
Expected dividend yield	8.50%

20 Employee benefits

Payroll costs for all employees including key management consist of:

	2013	2012
Salaries and short-term employee benefits	**215,631**	197,960
Defined contribution pension benefits	**5,193**	4,265
Termination benefits	**646**	389
Share-based compensation	**1,186**	761
	222,656	203,375

21 Key management compensation

The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures.

	2013	2012
Salaries and short-term employee benefits	**1,334**	1,853
Share-based compensation	**1,180**	761
	2,514	2,614

22 Commitments and contingencies

Leisureworld has a ten-year operating lease with respect to its corporate office located in Markham; the lease expires on December 31, 2015. As a result of the Specialty Care Acquisition, Leisureworld assumed a ten-year operating lease with respect to its corporate office located in Vaughan; the lease expires on August 31, 2019. Leisureworld also has various operating leases for office and other equipment.

Lease payments in respect of the remaining years of the operating leases are as follows:

2014	947
2015	894
2016	818
2017	385
2018	303
Thereafter	202
	3,549

Leisureworld is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on Leisureworld's financial position, results of operation or liquidity. However, actual outcomes may differ from management's expectations.

23 Construction funding receivable

The MOHLTC provides funding to new homes constructed after April 1, 1998. Under the development agreements, these new homes receive a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed, depending on actual construction costs. The funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care communities for the remaining period. As of December 31, 2013, the condition for the funding has been met.

As at December 31, 2013, Leisureworld will receive gross funding from the Ontario government of approximately $126,149 (2012 - $93,767) related to the construction costs of LTC homes. The amounts are non-interest bearing and will be received for certain LTC homes for various periods ending over the next 16 years.

The construction funding receivable is initially recorded at estimated fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates. Included in net finance charges is interest income on the construction funding receivable of $3,096 for the year ended December 31, 2013 (2012 - $3,060).

24 Trust funds

Leisureworld maintains separate trust accounts on behalf of its LTC home residents, which are not included in these consolidated financial statements. The total balance in the trust bank accounts as at December 31, 2013 was $1,116 (2012 - $996).

25 Related party transactions

A subsidiary of Leisureworld has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the year ended December 31, 2013 was $1,992 (2012 - $1,939). Included in accounts receivable is $94 owing from Spencer House Inc. at December 31, 2013 (2012 - $71). These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As at December 31, 2013, Leisureworld has amounts outstanding from certain key executives of $178 (2012 - $74) (Note 19) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, Leisureworld loaned the Chief Executive Officer ("CEO") $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as of December 31, 2013 was $489 (December 31, 2012 - $nil), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

26 Economic dependence

Leisureworld holds licences related to each of its LTC homes and receives funding from the MOHLTC related to these licences. Funding is received on or about the 22nd of each month. During the year ended December 31, 2013, Leisureworld received approximately $221,773 (2012 - $204,328), in respect of these licences for operating revenues and other MOHLTC funded initiatives.

27 Expenses by nature

	2013	2012
Salaries, benefits and people costs	**230,143**	211,303
Food	**14,215**	12,929
Property taxes	**10,534**	10,151
Utilities	**9,072**	7,940
Laundry and housekeeping services and supplies	**12,474**	11,406
Other	**27,344**	21,763
Total expenses	**303,782**	275,492

28 Subsidiaries

The following are the significant subsidiaries of the Company, all of which are included in these consolidated financial statements:

		Percentage of equity interest	
Name	**Country of Incorporation**	**December 31, 2013**	December 31, 2012
Leisureworld Senior Care LP (Ontario)	Canada	100%	100%
2063412 Investment LP (Ontario)	Canada	100%	100%
2063414 Investment LP (Ontario)	Canada	100%	100%
2063415 Investment LP (Ontario)	Canada	100%	100%
2067474 Investment LP (Ontario)	Canada	100%	100%
2067475 Investment LP (Ontario)	Canada	100%	100%
Vigour Limited Partnership (Ontario)	Canada	100%	100%
The Royale LP (Ontario)	Canada	100%	100%
The Royale Development LP (Ontario)	Canada	100%	100%
The Royale West Coast LP (Ontario)	Canada	100%	100%
2371281 Investment LP (Ontario)	Canada	100%	n/a

29 Segmented information

Segmented information is presented in respect of Leisureworld's business segments. The primary format, business segments, is based on Leisureworld's management and internal reporting structure. Leisureworld operates solely within Canada, hence no geographical segment disclosures are presented. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Leisureworld is comprised of the following main business segments:

- LTC business – LTC is the core business of Leisureworld;
- Retirement – Retirement includes 10 retirement residences;
- Home Care – Home Care is an accredited provider of professional nursing, personal support and education services for both community-based home care and LTC homes; and
- Corporate, Eliminations and Other – This segment represents the results of head office, intercompany eliminations and other items that are not allocatable to the segments.

The significant accounting policies of the reportable operating segments are the same as those disclosed in Note 3.

	Year ended December 31, 2013				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**315,979**	**27,823**	**17,663**	**26,895**	**388,360**
Less: Internal revenue	**5,893**	**-**	**-**	**29,144**	**35,037**
Net revenue	**310,086**	**27,823**	**17,663**	**(2,249)**	**353,323**
Income (loss) before other expenses and the provision for (recovery of) income taxes	**48,082**	**12,076**	**3,151**	**(13,768)**	**49,541**
Transaction costs	**-**	**-**	**-**	**8,840**	**8,840**
Depreciation of property and equipment	**15,067**	**5,367**	**1**	**-**	**20,435**
Amortization of intangible assets	**574**	**7,597**	**239**	**-**	**8,410**
Finance costs	**17,398**	**4,592**	**-**	**5,604**	**27,594**
Finance income	**(4,695)**	**(189)**	**-**	**(613)**	**(5,497)**
Income tax recovery	**-**	**-**	**-**	**(857)**	**(857)**
Net income (loss)	**19,738**	**(5,291)**	**2,911**	**(26,742)**	**(9,384)**
Purchase of property and equipment	**2,179**	**372**	**-**	**77**	**2,628**
Purchase of intangible assets	**2,204**	**-**	**-**	**-**	**2,204**

	Year ended December 31, 2012				
	Long-Term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Gross revenue	290,307	20,444	16,221	23,639	350,611
Less: Internal revenue	5,484	-	-	25,844	31,328
Net revenue	284,823	20,444	16,221	(2,205)	319,283
Income (loss) before other expenses and the provision for (recovery of) income taxes	45,031	8,630	2,676	(12,546)	43,791
Transaction costs	-	-	-	1,448	1,448
Depreciation of property and equipment	14,654	4,298	2	-	18,954
Amortization of intangible assets	3,092	4,818	1,036	-	8,946
Finance costs	18,735	4,201	-	-	22,936
Finance income	(3,586)	(706)	-	(64)	(4,356)
Impairment loss	2,697	-	-	-	2,697
Income tax expense	-	-	-	2,300	2,300
Net income (loss)	9,439	(3,981)	1,638	(16,230)	(9,134)
Purchase of property and equipment	1,275	141	-	-	1,416
Purchase of intangible assets	435	-	-	-	435

	As at December 31, 2013				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Total assets	**666,929**	**301,177**	**8,161**	**757**	**977,024**
Goodwill	**89,772**	**2,511**	**6,521**	**-**	**98,804**
Intangible assets	**118,703**	**21,250**	**6**	**-**	**139,959**

	As at December 31, 2012				
	Long-Term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Total assets	477,757	256,740	8,884	686	744,067
Goodwill	84,945	-	6,521	-	91,466
Intangible assets	79,754	15,489	245	-	95,488

30 Comparative figures

Certain comparative figures have been reclassified from the consolidated financial statements previously presented to conform to the presentation adopted in the current year. These reclassifications include:

- On the consolidated statements of operations, a new line item has been created for depreciation and amortization, which was previously included in operating expenses. In addition, a new line item has been created for transaction costs, which was previously included in administrative expenses.
- On the consolidated statements of cash flows, interest paid has been reclassified from financing activities to operating activities.

These reclassifications had no impact on the reported net loss.

31 Subsequent events

On February 3, 2014, LSCLP issued $322,000 of aggregate principal amount of 3.474% Series B Senior Secured Debentures due February 3, 2021 (“Series B Debentures”). The net proceeds of $319,907, after financing costs of $2,093, were used on February 24, 2014 to repurchase for cash $294,326 principal amount of its Series A Debentures for cash consideration of $312,718, which includes a redemption premium of $18,392.

On February 3, 2014, when the Series B Debentures were issued, Leisureworld settled its bond forward contracts and realized a settlement loss of $6,234 due to a decrease in interest rates for the reference securities, based on which the issued debt was priced. Leisureworld is qualified to use hedge accounting to account for its bond forward contracts and, accordingly, will recognize the settlement loss over the term to maturity of the Series B Debentures. The settlement loss will be amortized from accumulated other comprehensive income (loss) and added to finance charges.