2014

Leisureworld
SENIOR CARE CORPORATION

Report to Shareholders

2014

Leisureworld
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Management's Discussion and Analysis
(in thousands of Canadian Dollars)

Management's Discussion and Analysis

Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Leisureworld Senior Care Corporation ("**LSCC**", "**Leisureworld**" or the "**Company**") summarizes the financial results for the fourth quarter and year ended December 31, 2014. 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 MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2014. This material is available on the Company's website at www.leisureworld.ca.

All references to "LSCC", "Leisureworld", "we", "our", "us" or the "Company", unless otherwise indicated or the context otherwise requires, refer to Leisureworld Senior Care Corporation and its direct and indirect subsidiaries. For ease of reference "LSCC", "Leisureworld" and the "Company" are used in reference to the ownership and the operation of long term care and retirement homes and the third-party management business of the Company. The direct ownership of such homes and operation of such business is conducted by subsidiaries of the Company.

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; and "Q4" refers to the three-month period ended December 31.

Leisureworld is listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol **LW**. As of February 25, 2015, the following securities of Leisureworld were outstanding: 36,328,469 common shares; and $46,000 in aggregate principal amount of 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 can be found on Leisureworld's website at www.leisureworld.ca, by accessing the Company's public filings on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com, or by contacting Leisureworld's Chief Financial Officer, Nitin Jain, at 905-489-0787 or nitin.jain@leisureworld.ca.

Review and Approval by the Board of Directors

This MD&A is dated as of February 25, 2015, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management as of that date.

Forward-Looking Statements

This document may contain forward-looking information based on management's expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for Leisureworld as of the date of this MD&A. Forward-looking statements involve significant known and unknown 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. Such known and unknown risks, uncertainties and other factors 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", "should", "could", "anticipate", "intend", "continue", "project" and other similar terminology. The forward-looking statements contained in this MD&A are based on information currently available to management 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.

Non-IFRS Performance Measures

In this document we use certain supplemental measures of key performance that are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. These performance measures are net operating income ("**NOI**"), funds from operations ("**FFO**"), operating funds from operations ("**OFFO**"), adjusted funds from operations ("**AFFO**") and earnings before interest, taxes, depreciation and amortization ("**EBITDA**"). Management believes that NOI, FFO, OFFO, AFFO and EBITDA are relevant measures of the Company's performance, as described below. The IFRS measurement most directly related to these measures is cash flow from operations. See "Business Performance" for a reconciliation of cash flow from operations to AFFO.

"**NOI**" is defined as property revenue net of property operating expenses.

"**FFO**" is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and operate income-producing properties. FFO is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. As LSCC recently became a member of the Real Property Association of Canada ("**REALpac**") it now presents FFO in accordance with the REALpac White Paper on Funds From Operations for IFRS (Source: White Paper on Funds From Operations for IFRS - Revised April 2014). The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results.

As a result of adopting the REALpac FFO definition during the first quarter of 2014, management has now introduced the new measure of OFFO. OFFO is equivalent to the Company's historical presentation of FFO that, for reasons specific to LSCC, differed from the REALpac definition. The primary differences relate to the OFFO adjustments for one-time items such as the Series A Debentures premium payment and presentation of finance charges on a cash interest basis. Management is of the view that OFFO presents a better measure of earnings for Leisureworld.

"**AFFO**" is defined as OFFO plus the principal portion of construction funding received, amounts received from income support arrangements 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 cash performance, and is also a relevant measure of the ability of Leisureworld to 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 public-traded entities.

Key Performance Indicators

Management uses the following key performance indicators (the "**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 Performance Measures" above)
- **OFFO and OFFO per Share**: Management uses OFFO as an operating and financial performance measure. (See "Non-IFRS Performance Measures" above)
- **AFFO and AFFO per Share**: These indicators are used by management to help measure Leisureworld's ability to pay dividends. (See "Non-IFRS Performance Measures" above)
- **Payout Ratio**: Management monitors the ratio of dividends per share to basic AFFO per share, 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.
- **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 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 public-traded entities.

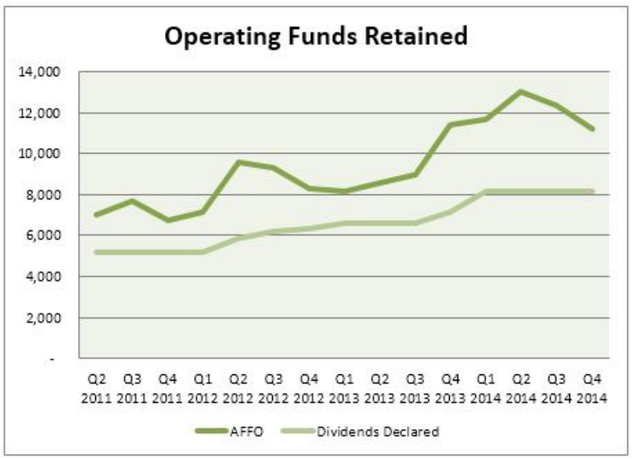
The following table presents the Key Performance Indicators for the three months and year ended December 31:

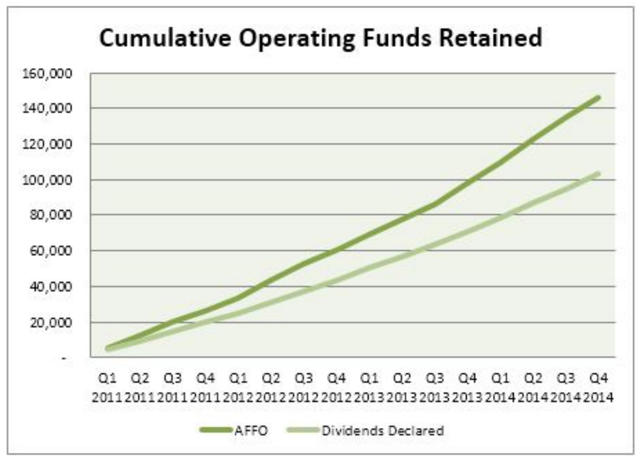
Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended 2014	2013	Change	Year Ended 2014	2013	Change
OCCUPANCY						
LTC - Average total occupancy	**98.8%**	98.7%	0.1%	**98.7%**	98.9%	-0.2%
LTC - Average private occupancy	**99.8%**	99.4%	0.4%	**99.4%**	99.3%	0.1%
Retirement - Average occupancy (including respite) (1)	**85.9%**	81.8%	4.1%	**84.1%**	78.2%	5.9%
Retirement - As at occupancy (including respite) (1)	**86.8%**	82.9%	3.9%	**86.8%**	82.9%	3.9%
FINANCIAL						
NOI	**20,678**	17,531	3,147	**81,800**	63,309	18,491
OFFO	**10,445**	9,812	633	**41,772**	30,958	10,814
AFFO	**11,204**	11,429	(225)	**48,296**	37,134	11,162
PER SHARE INFORMATION						
OFFO per share, basic	**0.288**	0.311	(0.023)	**1.152**	1.036	0.116
OFFO per share, diluted (2)	**0.286**	0.304	(0.018)	**1.120**	1.016	0.104
AFFO per share, basic	**0.309**	0.362	(0.053)	**1.332**	1.243	0.089
AFFO per share, diluted (2)	**0.305**	0.351	(0.046)	**1.287**	1.211	0.076
Dividends per share	**0.225**	0.225	—	**0.900**	0.900	—
Payout ratio (basic AFFO)	**72.8%**	62.2%	10.6%	**67.6%**	72.4%	-4.8%
FINANCIAL RATIOS						
Debt Service Coverage Ratio (3)	**2.0**	2.4	(0.4)	**2.1**	2.5	(0.4)
Debt to Gross Book Value as at period end	**56.4%**	55.4%	1.0%	**56.4%**	55.4%	1.0%
Weighted Average Cost of Debt as at period end	**3.8%**	4.5%	-0.7%	**3.9%**	4.5%	-0.6%
Leverage Ratio	**7.8**	7.8	—	**8.1**	7.9	0.2
Interest Coverage Ratio	**3.2**	2.8	0.4	**3.1**	2.8	0.3
Average term to maturity as at period end	**5.3**	3.1	2.2	**5.3**	3.1	2.2

	Three Months Ended 2014 v. 2013	Year Ended 2014 v. 2013
SAME PROPERTY PERCENT CHANGE IN NOI		
Long-Term Care	1.5%	1.7%
Retirement	1.5%	6.0%
Home Care (4)	-6.3%	-7.6%
Total	1.1%	2.1%

1. The comparative periods exclude respite occupancy data as it was not captured for periods prior to 2014.
2. Prior year OFFO and AFFO diluted calculations exclude the impact of the subscription receipts, issued in conjunction with the December 2013 Specialty Care Acquisition. For a reconciliation of the calculation including subscription receipts please refer to the Adjusted Funds from Operations table.
3. The Series B Debentures issued on February 3, 2014 require the funding of a principal reserve fund to fund the eventual repayment of the debentures. For Q4 of 2014, $1,320 was contributed to the principal reserve fund, and $4,751 for the year ended December 31, 2014, which contribution is included in the calculation of the Debt Service Coverage Ratio.
4. This year over year decline in performance was the result of margin pressures on the personal support contract volumes and a decline in the private pay activity.

Note on NOI:
For the three months and year ended December 31, 2014, the Company recorded Ministry of Health and Long-Term Care ("**MOHLTC**") reconciliation adjustments that decreased revenue and NOI by $269 and $1,294, respectively. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and the MOHLTC's assessments of those filings, primarily for the reconciliation years 2007 through to 2012 inclusive. These adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts, based on recent information and interpretation of the funding mechanism.





Operating funds retained is equal to AFFO less dividends declared.

Corporate Profile

Leisureworld was incorporated under the *Business Corporations Act* (Ontario) on February 10, 2010, and subsequently 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) and operates one independent living ("**IL**") residence (representing 53 apartments), all of which are located in the Province of Ontario. Leisureworld also owns and operates ten retirement residence ("**RR**") communities, (representing 1,065 suites) in the Provinces of Ontario and British Columbia, which together comprise 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 also operates a management services business that is focused on third party management in both the LTC and RR sectors.

On December 2, 2013, Leisureworld, through the Royal Development LP, completed the acquisition from Specialty Care Inc. and certain other parties (collectively "**Specialty Care**") a portfolio of ten properties in Ontario consisting of seven LTC homes and three RRs (the "**Specialty Care Acquisition**").

		LONG-TERM CARE (Beds)				RETIREMENT (Suites)	TOTAL
ASSET CLASS	**COMMUNITIES**	**Basic and Other**	**Semi-Private**	**Private - $18.00 Premium**	**Private - Up to $23.25 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**

On February 4, 2015, the Company announced its intentions to rebrand itself as Sienna Senior Living. The rebranding follows several years of growth to become a diversified seniors living organization providing retirement living, home care, third party management and long-term care services to local Canadian communities. Management believes that the new identity will go a long way in supporting the Company's brand philosophy aimed at delivering on "the warmth of human connection."

The legal name change to Sienna Senior Living Inc. will be effective on or about May 1, 2015, after approval by the Company's shareholders at the Company's Annual and Special Meeting of shareholders expected to be held on April 21, 2015. In connection with the name change to Sienna Senior Living Inc., the Company expects to trade under the new trading symbol "**SIL**".

Company Objectives

The objectives of Leisureworld are to:

- be a diversified seniors living provider in Canada;
- provide excellence in resident and client care and services;
- provide shareholders with stable monthly dividends derived from operating cash flows generated from income-producing LTC homes, seniors' housing investments and community-based services;
- grow the portfolio through organic growth from all lines of business, from acquisitions that can further the Company's objectives and through redevelopment of LTC homes when economic conditions are feasible; and
- continue to develop high performing, experienced teams in each line of business.

Our Vision

To awaken our communities to the positive possibilities of life's next chapters.

Our Mission

To help you live fully, every day.

Our Values

Respect

We value each other. From our clients and residents to our coworkers, we take the time to appreciate each person's story, understand their perspective, and recognize their contribution.

Passion

This job isn't for everybody. We love working with older people. We feel it's a privilege to have them in our lives, and there's nothing more important to us than their safety and well-being.

Teamwork

To honour someone's voice and advocate for their choice, it's up to every one of us to communicate, collaborate, and support one another. We're in this together - coworkers, volunteers, physicians and healthcare providers, suppliers, communities, families, clients, and residents.

Responsibility

Holding ourselves to the highest standards of safety and quality is only the beginning. If we see a problem or an opportunity, we own it. If we say we'll do something, we do it. "Not my job" is not in our vocabulary.

Growth

We are always pushing ourselves - To learn, to develop, to find a better way and we strive to help our clients, residents and staff grow, encouraging them to stretch and do more than they might have thought possible.

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 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 ("**LHINs**"), and are subject to strict regulation, care standards and inspections.

Resident ability to pay is not a barrier to admission to LTC homes in the Province of Ontario. Residents of LTC homes are directly charged for accommodation costs only 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 deemed social infrastructure assets as they provide essential services. This sector can be distinguished from other seniors' housing sectors 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 licensed homes provide 24-hour a day nursing support, daily assistance with personal care and supervision throughout the day. Access is controlled through Community Care Access Centres ("**CCACs**"**)** and homes are regulated and funded by government. LTC homes provide specialized services to seniors, such as memory care, falls prevention, end of life care and skin and wound management, at a much lower cost than in other settings such as hospitals.

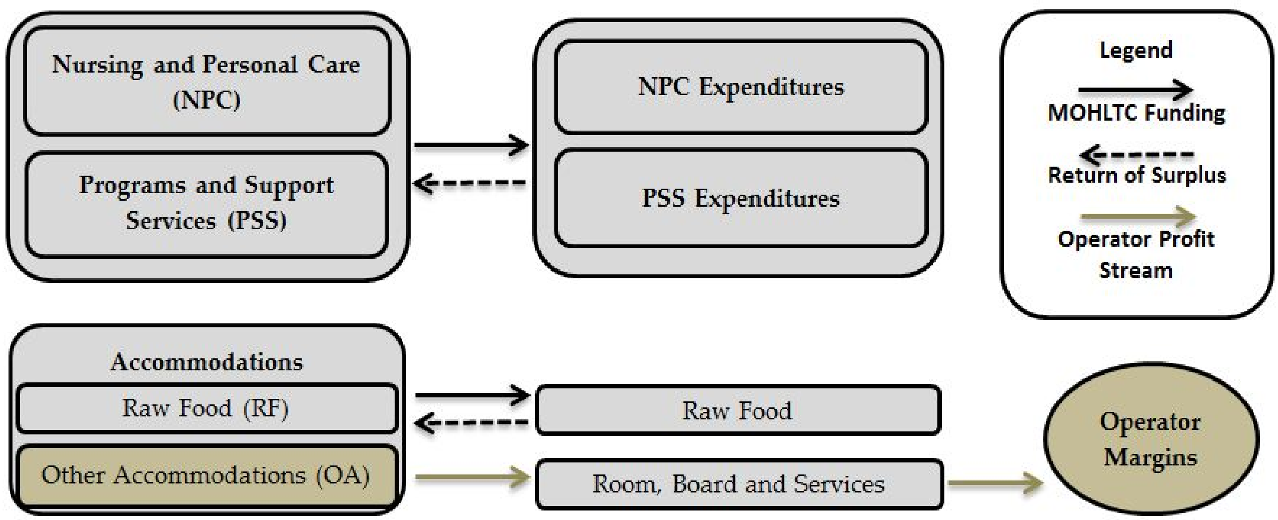
- ***Significant barriers to entry:*** Barriers to entry are both regulatory and operational. The LTC sector is regulated by the MOHLTC, which requires that a home must be licensed in order to operate as an LTC home and to receive government funding. The licensing requirements are extensive. There are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

- ***Sustainable competitive advantage**:* LTC homes have a sustainable competitive advantage over other Ontario seniors' housing classes due to the affordability for seniors (as the 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, according to the MOHLTC, there is excess demand over supply with a wait list of 21,388 as of April 2014 (Source: MOHLTC Long -Term Care System Report, April 2014).

- ***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 licensed 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 $56.93 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 $160.75. 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 service contracts with Ontario's CCACs. 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.

Management Services

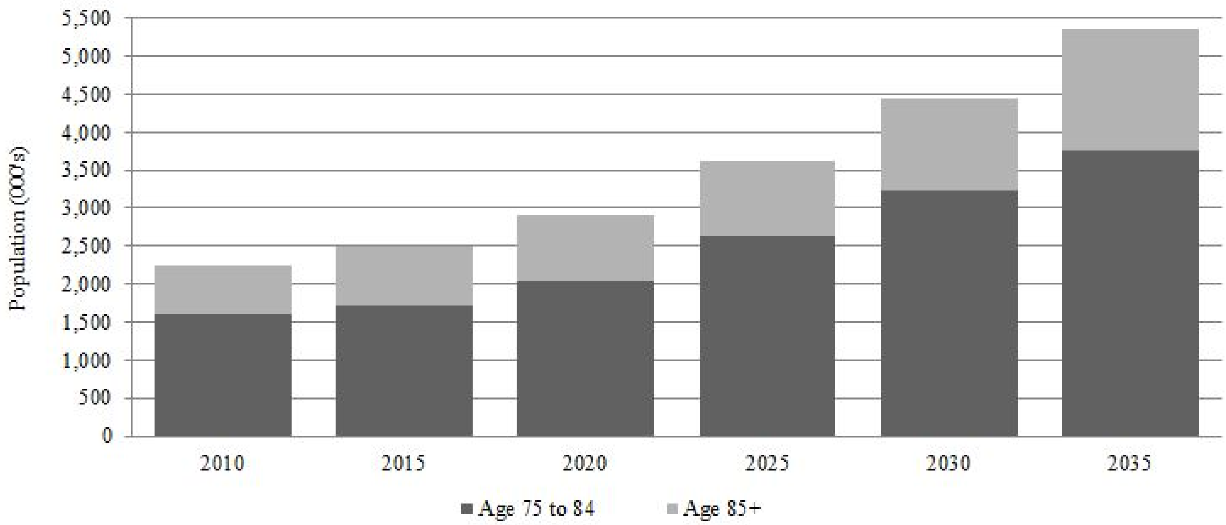
The LTC and retirement sectors are highly regulated and very complex to manage. Management believes that there is good opportunity in the third party management business of LTC homes and RR communities, and that this segment will see growth over time.

Demand for Services

The demand for seniors' housing and programs continues to grow in Canada. Management believes that favourable demographics, increasing life expectancy, increasing seniors' affluence and changing family dynamics have increased, and will continue to increase, demand for LTC, RR and 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 191% between 2015 and 2040. 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 predominantly 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 senior homeowners between the ages of 75 and 84 own their homes mortgage-free (Source: 2012 CMHC report "Housing for Older Canadians, Volume 1").

  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), and increased 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.

- ***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. According to the MOHLTC, there are currently 78,138 LTC beds in Ontario and a wait list of 21,388 individuals (Source: MOHLTC Long -Term Care System Report, April 2014). Approximately 9% 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 $161 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, including: (i) demand for LTC housing is not discretionary but driven by need, which does not fluctuate during economic cycles; (ii) stability of tenure, since seniors are generally unable to move to alternative accommodation once they have taken up residence in a facility; and (iii) the continual increase in the demand for LTC.

Outlook

Management believes that with a diversified portfolio comprised of LTC, RR, Home Care and an emerging third party management services business, Leisureworld is well positioned for both organic and external growth, supported by the favourable demographics of a growing seniors' population, the strong demand for seniors' services outside of hospitals, and the regulatory and operational barriers to entry in all four of the Company's business segments.

Long-Term Care

During Q4 2014, LTC delivered solid results, as reflected by the increase of 1.5% on same property NOI and the full year increase of 1.7% over the prior year comparable period. The Company continued to experience strong demand for all LTC beds, with private average occupancy for Q4 at 99.8%. To date, 53.7% of its Class A private beds have been converted to the increased per resident rates of $19.75, $21.50 or $23.25 per day. Management expects that LTC will continue to provide stable NOI performance.

The specifics of the MOHLTC's Enhanced Long Term Care Renewal Strategy to encourage operators with older LTC facilities to modernize and improve long-term care facilities, including with a view to redeveloping or upgrading to the new Class A structural classification, are expected to be released over the next few months. Management is undertaking detailed planning and anticipates working within the MOHLTC guidelines to establish plans to upgrade, where feasible, its Class C LTC Homes over the next several years.

Retirement

Management continues to make progress on implementing the Company's unique retirement living service delivery model. Management further expects to continue to slowly increase occupancy in the four lease-up homes (Astoria, Peninsula, Kingston and Kanata) well into 2015.

In an effort to make RR communities better suited to residents' changing needs, management continues to focus on improvements in dining, sales and marketing initiatives, and on implementing assisted living services. Management expects that these measures will attract new residents and enable existing residents to stay longer.

Home Care

Preferred Health Care Services ("**PHCS**"), continues to experience growth in personal support worker volumes through its contractual arrangements with CCACs, which was partly offset by a decline in private pay volume as seniors access the publicly-funded home care services available to them. The CCAC business is experiencing margin compression, related to increased expenses to meet new requirements, and management remains committed to maintaining high quality Home Care services to meet client needs.

While stable performance is expected over time, due to the decline in private pay and margin compression, management anticipates that organic growth may be limited in the Company's Home Care division in the near term.

General and Administrative Expenses

Management is making excellent progress on strengthening the systems and processes supporting all four of its business segments. Management expects to incur some one time costs associated with the transition and implementation of systems and processes, as well as reinforcing and modernizing the head office functions to support the recent and anticipated future growth of the Company.

Growth Strategy

Management is pleased with the progress on the integration measures necessitated by the December 2013 acquisition of ten residences in Ontario, and the assumption of an additional 1,500 employees following the acquisition, and is now focused on the Company's growth strategy, including:

- the redevelopment of Class C LTC homes;
- the acquisition of LTC, RR, and Home Care assets across Canada; and
- achieving stabilized occupancy in RR communities.

As a result of Leisureworld's diversified strategy, management believes that the Company is well positioned to respond to changing preferences in seniors living and changes in government policy over time. In the near term, management expects stable financial performance. In the longer term, management remains confident that the Company and its stakeholders are poised for a very exciting future with tremendous opportunity for stable and predictable returns, a secure dividend and significant future growth.

Significant Events

Dividend reinvestment plan

On September 23, 2014, Leisureworld established a dividend reinvestment plan ("**DRIP**") for eligible holders of the Company's common shares. The DRIP allows participants to reinvest cash dividends paid in respect of their common shares in additional common shares of the Company at a 3% discount. As at December 31, 2014, the DRIP participation rate was approximately 7.5%.

Completed the issuance of Series B Senior Secured Debentures

On February 3, 2014, Leisureworld Senior Care LP ("**LSCLP**"), a wholly-owned subsidiary of LSCC, issued $322 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**"), together with all associated fees and expenses. The Series A Debentures attracted a redemption premium in accordance with their early repayment terms.

This refinancing extended the weighted average term to maturity of the Company's long-term debt (inclusive of the Convertible Debentures) from 3.1 to 5.5 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 negative earnings impact.

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 amended and restated master trust indenture dated as of November 21, 2005. The terms of the Series B Debentures include covenants to maintain a principal reserve fund to be used for debenture 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.

The 2014 financial results were impacted by the debenture refinancing due to the redemption premium payable to retire the Series A Debentures being categorized as an expense for accounting purposes (with no impact to OFFO or AFFO), and the fact that the Series A Debentures and Series B Debentures were both outstanding for a 21-day period in February, 2014, resulting in additional interest expense of $815.

For tax purposes, the Series A Debentures' redemption premium positively impacted net income for the year ended 2014 due to the tax shelter provided by the payment, but has no impact to OFFO or AFFO.

The reduction in the weighted average cost of LSCC's debt and the extension of the weighted average maturity of LSCC's debt are both positive factors expected to benefit future earnings and reduce financial risk.

Quarterly Financial Information

Thousands of Dollars, except occupancy and per share data	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 [2] Q4	2013 [2] Q3	2013 [2] Q2	2013 [2] Q1
Revenue	**117,745**	**115,029**	**111,674**	**112,340**	99,815	86,575	83,229	83,704
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**16,252**	**17,031**	**15,702**	**15,304**	13,512	13,467	11,761	10,801
Net income (loss)	**204**	**1,643**	**376**	**(18,064)**	(6,348)	(706)	(968)	(1,362)
Per share and diluted per share	**0.01**	**0.05**	**0.01**	**(0.50)**	(0.20)	(0.02)	(0.03)	(0.05)
OFFO - Basic [1]	**10,445**	**11,071**	**10,892**	**9,364**	9,812	8,019	6,901	6,226
Per share	**0.29**	**0.31**	**0.30**	**0.26**	0.31	0.27	0.24	0.21
Per share diluted - excluding subscription receipts	**0.29**	**0.29**	**0.29**	**0.25**	0.30	0.26	0.23	0.21
Per share diluted - including subscription receipts	**n/a**	**n/a**	**n/a**	**n/a**	0.27	0.22	0.20	n/a
AFFO - Basic [1]	**11,204**	**12,341**	**13,047**	**11,704**	11,429	8,957	8,568	8,180
Per share	**0.31**	**0.34**	**0.36**	**0.32**	0.36	0.31	0.29	0.28
Per share diluted - excluding subscription receipts	**0.31**	**0.33**	**0.35**	**0.31**	0.35	0.29	0.28	0.28
Per share diluted - including subscription receipts	**n/a**	**n/a**	**n/a**	**n/a**	0.31	0.25	0.25	n/a
Dividends declared	**8,164**	**8,160**	**8,159**	**8,158**	7,116	6,598	6,594	6,587
Per share	**0.23**	**0.23**	**0.23**	**0.23**	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	**98.8%**	**98.9%**	**98.5%**	**98.5%**	98.7%	99.0%	99.0%	98.7%
LTC - Average private occupancy	**99.8%**	**99.9%**	**99.1%**	**98.7%**	99.4%	99.6%	99.4%	98.7%
Retirement - Average occupancy (including respite) [2]	**85.9%**	**84.3%**	**83.0%**	**82.7%**	81.8%	78.5%	76.0%	76.0%
Retirement - As at occupancy (including respite) [2]	**86.8%**	**84.9%**	**83.0%**	**82.5%**	82.9%	79.4%	76.3%	75.1%
Total assets	**946,763**	**953,394**	**956,746**	**969,355**	977,024	826,498	844,362	744,868
Total debt [3]	**616,081**	**618,970**	**621,915**	**624,837**	598,703	440,880	460,667	425,543

Notes:

1. In Q2 2014 Management has elected to add back the impact of the MOHLTC reconciliation adjustments (discussion below) to OFFO and AFFO. Also, due to the immaterial nature of the adjustment in prior years Management has elected not to restate the 2013 information presented above.
2. The comparative periods exclude respite occupancy data as it was not captured for periods prior to 2014.
3. Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

Leisureworld's quarterly financial results are impacted by various factors including, but not limited to, the timing of acquisitions, seasonality of utility expenses, timing of co-payment changes, government funding rate increases and the timing of revenue recognition to match spending within the flow-through envelopes, and capital market and financing activities.

For the three months and year ended December 31, 2014, the Company recorded MOHLTC reconciliation adjustments that decreased revenue and NOI by $269 and $1,294, respectively. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and the MOHLTC's assessments of those filings, primarily for the reconciliation years 2007 through to 2012 inclusive. These adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts, based on recent information and interpretation of the funding mechanism.

During Q1 2014, $322 million of Series B Debentures were issued to generate proceeds to redeem the Series A Debentures in full, resulting in the payment of an $18.4 million redemption premium and associated expenses. The Series A Debentures and Series B Debentures were both outstanding for a 21 day-period during Q1 2014.

In December 2013, Leisureworld completed the Specialty Care Acquisition, which contributed approximately $1,783 to NOI for the one month period in Q4 2013.

A discussion of the results for the three months and year ended December 31, 2014 compared to the same periods in the prior year is provided under the section "Operating Results".

Selected Annual Financial Information

The following table summarizes selected annual financial information for the years ended December 31, 2014, 2013 and 2012:

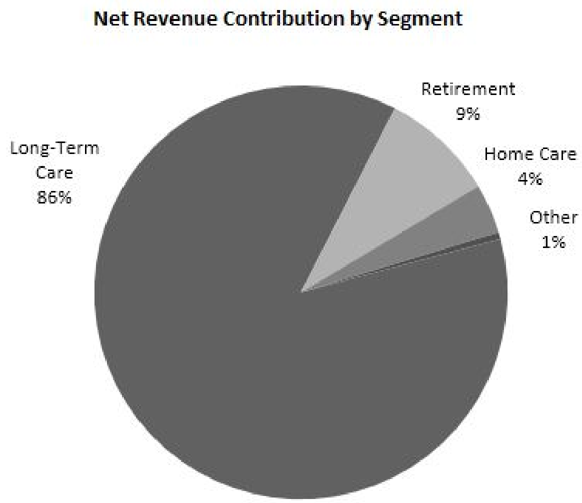
Thousands of Dollars, except per share data	2014	2013	2012
Revenue	456,788	353,323	319,283
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	64,289	49,541	43,791
Net loss	(15,841)	(9,384)	(9,134)
Per share and diluted per share	(0.44)	(0.31)	(0.33)
OFFO - Basic [1]	41,772	30,958	26,256
Per share	1.15	1.04	0.96
Per share diluted - excluding subscription receipts	1.12	1.02	0.96
Per share diluted - including subscription receipts	n/a	0.91	n/a
AFFO - Basic [1]	48,296	37,134	34,282
Per share	1.33	1.24	1.25
Per share diluted - excluding subscription receipts	1.29	1.21	1.25
Per share diluted - including subscription receipts	n/a	1.08	n/a
Dividends declared	32,641	26,895	23,639
Per share	0.90	0.90	0.85
Total assets	946,763	977,024	744,067
Total debt [2]	616,081	598,703	425,225

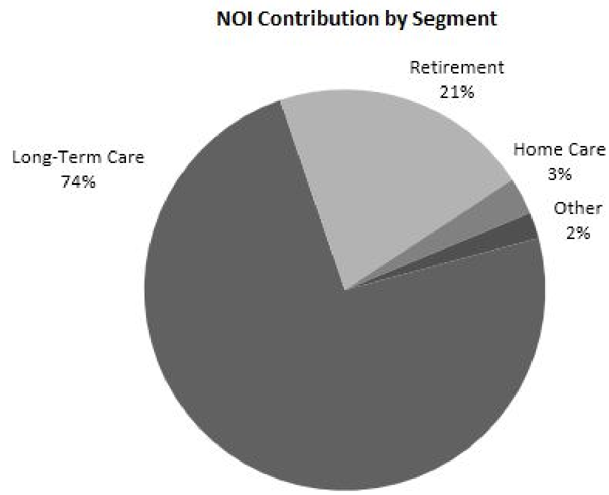
Notes:

1. In Q2 2014 Management has elected to add back the impact of the MOHLTC reconciliation adjustments to OFFO and AFFO. Also, due to the immaterial nature of the adjustment in prior years Management has elected not to restate the 2013 information presented above.
2. Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

Business Overview

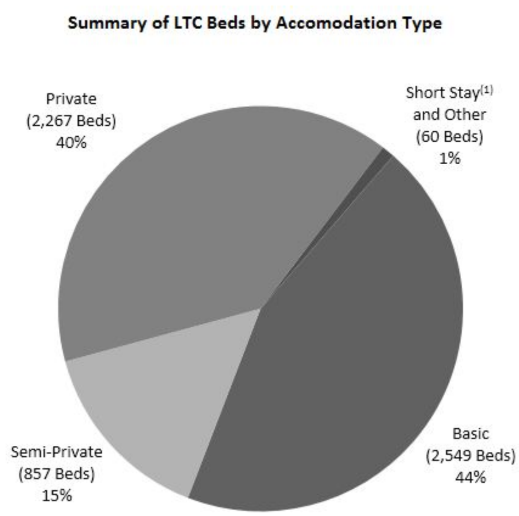
The following is the business segment contribution to revenues and NOI for the year ended December 31, 2014.





Long-Term Care

The Company's LTC portfolio generated approximately 86% of its net revenues and approximately 74% of the NOI. Approximately 55% of Leisureworld's LTC beds are designated as preferred accommodation (private and semi-private rooms). Approximately 4% of the net revenues and 27% of the NOI from the Company's LTC operations are derived from charging residents the regulated premiums for these types of accommodations.



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 designated 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 cash required.

Retirement and Independent Living Residence

Leisureworld's retirement portfolio consists of ten RR communities, three of which are located in British Columbia (the "**BC Homes"**) and seven of which are located in Ontario. Four of the Ontario properties were acquired as part of the Company's Specialty Care Acquisition on December 2, 2013 and the remaining two are The Royale Kingston and The Royale Kanata (the "**Ontario Homes"**). Leisureworld also has one IL community in Ontario. The Company's RR portfolio, while still growing its revenue base, currently generates approximately 9% of its net revenues and approximately 21% of its NOI.

Home Care Services

PHCS operates Leisureworld's Home Care segment. PHCS has been providing professional nursing and personal support services in Ontario since 1987. PHCS offers personal support to seniors in their homes funded through CCACs, private pay home care, education and relief staffing services. The Company's Home Care segment contributes approximately 4% of its net revenues and generates approximately 3% of its NOI.

Currently, PHCS holds three CCAC contracts for personal support worker services.

Management Services

Leisureworld operates a management services business that is focused on the third party management in both the LTC and retirement sectors. The Company's management services segment contributes approximately 1% of its net revenues and generates approximately 2% of its NOI. With both the LTC and RR sectors highly regulated and very complex to manage, this business is expected to see good growth opportunities.

Operating Results

The following are the operating results for the years ended December 31, 2014 and 2013:

	Three Months Ended			Year Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Revenue	**117,745**	99,815	17,930	**456,788**	353,323	103,465
Expenses						
Operating	**97,067**	82,284	14,783	**374,988**	290,014	84,974
Administrative	**4,426**	4,019	407	**17,511**	13,768	3,743
	101,493	86,303	15,190	**392,499**	303,782	88,717
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**16,252**	13,512	2,740	**64,289**	49,541	14,748
Other expenses						
Depreciation and amortization	**9,818**	7,802	2,016	**39,511**	28,845	10,666
Net finance charges	**5,400**	6,078	(678)	**45,686**	22,097	23,589
Transaction costs	**447**	6,577	(6,130)	**1,163**	8,840	(7,677)
Total other expenses	**15,665**	20,457	(4,792)	**86,360**	59,782	26,578
Income (loss) before the provision for (recovery of) income taxes	**587**	(6,945)	7,532	**(22,071)**	(10,241)	(11,830)
Provision for (recovery of) income taxes						
Current	**252**	(1,160)	1,412	**(1,686)**	613	(2,299)
Deferred	**131**	563	(432)	**(4,544)**	(1,470)	(3,074)
	383	(597)	980	**(6,230)**	(857)	(5,373)
Net income (loss)	**204**	(6,348)	6,552	**(15,841)**	(9,384)	(6,457)
Total assets	**946,763**	977,024	(30,261)	**946,763**	977,024	(30,261)
Total debt (net of principal reserve fund)	**616,081**	598,703	17,378	**616,081**	598,703	17,378

Revenue Breakdown

The following is the revenue breakdown for the three months and years ended December 31, 2014 and 2013:

	Three Months Ended			Year Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Long-Term Care						
Same property	**79,751**	80,149	(398)	**309,475**	302,352	7,123
Transactions	**22,979**	7,523	15,456	**88,603**	7,523	81,080
Total Long-Term Care Revenue (1)	**102,730**	87,672	15,058	**398,078**	309,875	88,203
Retirement						
Same property	**7,024**	6,917	107	**27,763**	26,766	997
Transactions	**3,421**	1,057	2,364	**13,052**	1,057	11,995
Total Retirement Revenue	**10,445**	7,974	2,471	**40,815**	27,823	12,992
Home Care						
Same property	**4,476**	4,283	193	**17,849**	16,692	1,157
Transactions	—	242	(242)	—	971	(971)
Total Home Care Revenue	**4,476**	4,525	(49)	**17,849**	17,663	186
Management Services						
Same property	—	—	—	—	—	—
Transactions	**609**	211	398	**2,426**	211	2,215
Total Management Services Revenue	**609**	211	398	**2,426**	211	2,215
Total Revenue						
Same property	**91,251**	91,349	(98)	**355,087**	345,810	9,277
Transactions	**27,009**	9,033	17,976	**104,081**	9,762	94,319
MOHLTC reconciliation adjustments (1)	**(269)**	—	(269)	**(1,294)**	—	(1,294)
Intersegment eliminations	**(246)**	(567)	321	**(1,086)**	(2,249)	1,163
Total Revenue	**117,745**	99,815	17,930	**456,788**	353,323	103,465

"Transactions" refers to acquired assets, disposed assets, change of use in assets or other such changes that would not be consistent with the comparable period. The related revenue (above), expenses and NOI (following) have been isolated to provide the reader with a more accurate overview of the business on a comparable basis. "**Intersegment eliminations**" refers to activities that took place between the separate lines of business. The activities are eliminated on consolidation and should still be reflected as part of the operating line of business results. The activities relate to educational services provided by the Home Care segment to the LTC segment. The operation and management of a portion of these services has been transferred to the LTC Segment in the current year for internal management and synergies.

Note

1. For the three months and year ended December 31, 2014, the Company recorded MOHLTC reconciliation adjustments that decreased revenue and NOI by $269 and $1,294, respectively. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and the MOHLTC'S assessments of those filings, primarily for the reconciliation years 2007 through to 2012 inclusive. These adjustments are based on current period confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts, based on recent information and interpretation of the funding mechanism.

Operating Expense Breakdown

The following operating expense breakdown is for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Long-Term Care						
Same property	**67,685**	68,260	(575)	**262,010**	255,668	6,342
Transactions	**19,637**	6,336	13,301	**74,637**	6,336	68,301
Total Long-Term Care Expenses	**87,322**	74,596	12,726	**336,647**	262,004	74,643
Retirement						
Same property	**3,908**	3,846	62	**15,373**	15,075	298
Transactions	**2,108**	672	1,436	**8,026**	672	7,354
Total Retirement Expenses	**6,016**	4,518	1,498	**23,399**	15,747	7,652
Home Care						
Same property	**3,840**	3,604	236	**15,362**	13,999	1,363
Transactions	**—**	133	(133)	**—**	513	(513)
Total Home Care Expenses	**3,840**	3,737	103	**15,362**	14,512	850
Management Services						
Same property	**—**	—	—	**—**	—	—
Transactions	**135**	—	135	**666**	—	666
Total Management Services Expenses	**135**	—	135	**666**	—	666
Total Operating Expenses						
Same property	**75,433**	75,710	(277)	**292,745**	284,742	8,003
Transactions	**21,880**	7,141	14,739	**83,329**	7,521	75,808
Intersegment eliminations	**(246)**	(567)	321	**(1,086)**	(2,249)	1,163
Total Operating Expenses	**97,067**	82,284	14,783	**374,988**	290,014	84,974

Net Operating Income Breakdown

The following net operating income breakdown is for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Long-Term Care						
Same property	**12,066**	11,889	177	**47,465**	46,684	781
Transactions	**3,342**	1,187	2,155	**13,966**	1,187	12,779
Total Long-Term Care NOI	**15,408**	13,076	2,332	**61,431**	47,871	13,560
Retirement						
Same property	**3,116**	3,071	45	**12,390**	11,691	699
Transactions	**1,313**	385	928	**5,026**	385	4,641
Total Retirement NOI	**4,429**	3,456	973	**17,416**	12,076	5,340
Home Care						
Same property	**636**	679	(43)	**2,487**	2,693	(206)
Transactions	**—**	109	(109)	**—**	458	(458)
Total Home Care NOI	**636**	788	(152)	**2,487**	3,151	(664)
Management Services						
Same property	**—**	—	—	**—**	—	—
Transactions	**474**	211	263	**1,760**	211	1,549
Total Management Services NOI	**474**	211	263	**1,760**	211	1,549
Total NOI						
Same property	**15,818**	15,639	179	**62,342**	61,068	1,274
Transactions	**5,129**	1,892	3,237	**20,752**	2,241	18,511
MOHLTC reconciliation adjustments	**(269)**	—	(269)	**(1,294)**	—	(1,294)
Total NOI	**20,678**	17,531	3,147	**81,800**	63,309	18,491

For the Quarter

The former Specialty Care LTC homes and RR were acquired in December 2013. Consequently, all Q4 2013 comparative period revenues and expenses for the Company have one month of operations from these homes, compared to three months in Q4 2014.

Revenue

Revenues for Q4 2014 increased by $17,930, to $117,745, compared to Q4 2013. The increase, principally related to LTC revenue which increased by $15,058 to $102,730, is primarily attributable to the following:

- The former Specialty Care LTC homes contributed incremental revenues of $15,456 for Q4 2014 over the comparative prior year period.
- The decrease of $398 in the LTC same property revenues, primarily attributable to the timing of revenue recognition related to the flow-through envelopes.

The Company also recorded MOHLTC reconciliation adjustments in Q4 2014 that decreased revenues by $269.

The RR revenues for Q4 2014 increased by $2,471 to $10,445, compared to Q4 2013, primarily attributable to the following:

- The former Specialty Care RR contributed incremental revenues of $2,364 during Q4 2014 over the comparative prior year period.
- The increase of $107 in the RR same property revenues, primarily attributable to improvements in occupancy.

Home Care revenues for Q4 2014 decreased by $49 to $4,476, compared to Q4 2013. On a same property comparison, revenues increased by $193 to $4,476, primarily attributable to the higher personal support contract service volumes. The decline in transactions revenues relates to the internal transition of certain professional services that serviced the LTC homes, together with associated expenses, to LTC for internal management reporting purposes.

Operating Expenses

Operating expenses for Q4 2014 increased by $14,783 to $97,067, compared to Q4 2013. Of this increase, LTC represented $12,726, which was attributed to:

- The former Specialty Care LTC homes (acquired in December 2013) incurred incremental expenses of $13,301 for Q4 2014 over the comparative prior year period.
- Same property LTC homes expenses decreased by $575, consistent with the decreased revenues in the flow-through envelopes.

RR operating expenses for Q4 2014 were $6,016, compared to $4,518 for Q4 2013. The increase of $1,498 was primarily attributable to:

- The former Specialty Care RR which incurred increased expenses of $1,436 for Q4 2014.

Home Care operating expenses increased by $103 to $3,840. On a same property basis, expenses increased by $236, which is primarily attributable to the higher personal support contract volumes, inclusive of recent changes in government policy which increased the wage rate for personal support workers working in the funded home care sector by $1.50 per hour effective April 1, 2014. The transactions expenses relating to the professional services that serviced the LTC homes was internally transitioned, along with the associated revenues, to LTC for internal management reporting purposes.

NOI

Leisureworld generated NOI of $20,678 for the quarter ended December 31, 2014. This represented an increase of $3,147 over the comparable quarter of 2013.

LTC NOI increased by $2,332 for the quarter, due primarily to the Specialty Care Acquisition which closed in December 2013.

The retirement segment generated NOI of $4,429, an increase of $973 over the same period last year due primarily to the Specialty Care Acquisition which closed in December 2013.

Home Care's NOI of $636 reflects a decrease of $152 over the comparable period. On a same property basis, NOI decreased $43 over the comparative period, as a result of margin pressures on the personal support contract volumes and a decline in the private pay activity.

Due to the seasonality of certain operating expenses and occupancy activities, trends which may appear in operating margins are merely coincidental, and readers should not rely upon net operating margin calculations herein.

Administrative Expenses

Administrative expenses increased to $4,426 for Q4 2014, compared to $4,019 for Q4 2013. The increase of $407 was primarily attributable to:

- Higher people-related costs of approximately $472 primarily as a result of the Specialty Care Acquisition in December 2013. The cost increase was due to the increase in staffing of the head office team to support the significant growth of the Company and to strengthen the retirement home management expertise.

Depreciation and Amortization

Depreciation and amortization increased to $9,818 for Q4 2014, compared to $7,802 for Q4 2013. The increase of $2,016 was primarily attributable to the incremental depreciation and amortization of the acquired assets.

Net Finance Charges

Net finance charges for Q4 2014 were $5,400, compared to $6,078 for Q4 2013. The decrease of $678 was principally the result of:

- Lower finance charges related to the Series B Debentures of approximately $1,196 for Q4 2014 compared to the comparative prior year period.
- In Q4 2013 the Company incurred charges of $818 related to the dividend equivalent accounting treatment on the subscription receipts that were issued in April 2013 in conjunction with the Specialty Care Acquisition.

Partly offset by increased expenses from:

- Finance charges related to the former Specialty Care homes increased by $901 for Q4 2014.
- A loss of $38 in Q4 2014 on the mark-to-market adjustment of the interest rate swaps where hedge accounting has not been applied, compared to a gain of $210 in the comparative prior year period, for a change of $248.
- Q4 2014 interest income on construction funding was higher by $162 compared to Q4 2013, mainly attributable to the Specialty Care Acquisition which closed in December 2013.

Transaction Costs

For the three months ended December 31, 2014, transaction costs were $447, compared to $6,577 for Q4 2013. For both periods, costs were primarily related to the Specialty Care Acquisition. Prior year expenses included approximately $4,081 related to a cost sharing arrangement with respect to vendor debt not assumed, and fees for the administration of debt assumed.

Income Taxes

Income tax expense for Q4 2014 was $383, compared to an income tax recovery of $597 in Q4 2013. The current income tax expense was $252 compared to an income tax recovery of $1,160 in Q4 of 2013. The comparative prior period loss before income taxes included transaction costs related to the Specialty Care Acquisition, contributing to the income tax recovery. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. The deferred tax expense of $131 in Q4 2014 represents a decrease of $432 over the comparable period last year primarily as a result of timing differences.

For the Year

The former Specialty Care LTC homes and RR were acquired in December 2013. Consequently, all 2013 comparative period revenues and expenses have one month of operations from these homes, compared to twelve months in 2014.

Revenue

Revenues for the year ended December 31, 2014 increased by $103,465, to $456,788. The increase, principally related to the LTC revenue which increased by $88,203 to $398,078, was due to the following:

- The former Specialty Care LTC homes (acquired in December 2013) contributed incremental revenues of $81,080 in 2014.
- LTC same property revenues increased by $7,123, primarily as a result of funding rate increases.

The retirement portfolio revenues increased by $12,992 to $40,815 due to the following:

- The former Specialty Care RRs contributed incremental revenues of $11,995 during the twelve months of 2014, compared to just one month in 2013.
- The change in the same property retirement revenues of $997 was primarily attributable to higher average occupancy.

Home Care's revenue increased by $186 to $17,849. On a same property year over year basis, revenue increased by $1,157. This increase was primarily related to higher support services contract volumes, partly offset by the decline in private pay services. The transactions revenues related to the professional services that serviced the LTC homes which were internally transitioned, along with the related expenses, to LTC for internal management reporting purposes.

Operating Expenses

Operating expenses increased to $374,988 for the year ended December 31, 2014, compared to $290,014 in the prior year. Of this $84,974 increase, LTC accounted for $74,643, which was attributed to:

- The former Specialty Care LTC homes incurred an incremental increase in expenses of $68,301.
- Same property expenses increased by $6,342, due primarily to higher flow-through expenses, which is consistent with the increased revenues in the flow-through envelopes.

Retirement operating expenses for the year were $23,399, compared to $15,747 in the prior year. The increase of $7,652 was related to:

- The former Specialty Care RR incurred an incremental increase in expenses of $7,354.

Home Care's expenses of $15,362 increased by $850 over the prior year. On a same property basis, expenses increased by $1,363, which was attributable to the higher volume of personal support contracts associated with the higher revenues, as well as the associated increase in the personal support worker pay rate as described in the quarter. The transaction expenses related to the professional services that serviced the LTC homes which were internally transitioned, along with the related revenues, to LTC for internal management reporting purposes.

NOI

Leisureworld generated NOI of $81,800 for the year ended December 31, 2014. This represented an increase of $18,491 over the prior year.

LTC NOI increased by $13,560 for the period, due primarily to the Specialty Care Acquisition which closed in December 2013 and improvements in same property performance.

The retirement segment generated NOI of $17,416, an increase of $5,340 over the prior year primarily due to the Specialty Care Acquisition and a 6.0% improvement in same property performance.

Home Care's NOI of $2,487 reflects a decrease of $664 over the comparable period. Same property NOI declined by $206. The year over year same property performance was primarily due to the decrease in NOI attributable to the lower private pay services, and the increases in administrative expenses partly offset by the increased volumes for the personal support contracts.

Due to the seasonality of certain operating expenses and occupancy activities, trends which may appear in operating margins are merely coincidental, and readers should not rely upon net operating margin calculations herein.

Administrative Expenses

Administrative expenses increased to $17,511 during the year ended December 31, 2014, compared to $13,768 in the prior year. The increase of $3,743 was primarily the result of:

- Higher people related costs of approximately $3,182, mainly as a result of the Specialty Care Acquisition requiring the increase in staffing to support the significant growth of the Company.
- Incremental costs of $751 associated with integration and back office automation.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2014 increased to $39,511 from $28,845 for the prior year. The increase was principally related to the incremental depreciation and amortization of the acquired assets.

Net Finance Charges

Net finance charges for the year ended December 31, 2014 were $45,686, compared to $22,097 in the prior year. The increase of $23,589 was principally the result of:

- The redemption of the Series A Debentures resulted in incremental finance charges of approximately $23,353, as discussed below:
  - Redemption premium of $18,392.
  - Duplicate interest on the Series A Debentures and Series B Debentures, due to the notice period required on the redemption of the Series A Debentures, of approximately $815.
  - Write-off of the remaining portion of the fair value increment on the Series A Debenture (recorded at the time of the initial public offering) of approximately $3,835.
  - Amortization of the remaining deferred financing charges of $537 related to the Series A Debentures
  - This was partly offset by approximately $226 of interest earned on the Series B Debenture proceeds which were held in escrow until final settlement of the Series A Debentures.
- Finance charges related to the former Specialty Care homes acquired in December 2013 was higher than the prior year comparative period by $5,163.
- There was a loss on the mark-to-market adjustment on the interest rate swaps where hedge accounting has not been applied of $581, compared to a gain of $1,649 in the prior year, which represents an overall decrease of $2,230 over the prior year.

This was partly offset by:

- Lower interest incurred on the Series B Debentures of approximately $3,429.
- The prior year included a charge for the dividend equivalent accounting treatment on the subscription receipts of $3,303.
- Higher interest income on construction funding of $1,054.

Transaction Costs

For the year ended December 31, 2014, transaction costs were $1,163, compared to $8,840 in the prior year. For both years, the expenses were primarily related to the Specialty Care Acquisition. The main component of the prior year acquisition costs includes approximately $4,081 paid pursuant to a cost sharing arrangement with respect to vendor debt not assumed and fees for the administration of debt assumed.

Income Taxes

The income tax recovery for the year ended December 31, 2014 was $6,230 compared to $857 in the prior year. The current tax recovery of $1,686 was primarily the result of the tax shield created by the redemption premium paid on the Series A Debentures and the settlement of a bond-lock hedge recorded in the first quarter of 2014. In addition, there was a book to filing adjustment of approximately $452 recorded in the second quarter. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. The deferred tax recovery of $4,544 was an increase of $3,074 over last year primarily as a result of the tax shields discussed in above.

Business Performance

Adjusted Funds from Operations

The following is a reconciliation of net income (loss) to FFO, OFFO and AFFO for the periods ended December 31.

	Three Months Ended			Year Ended		
Thousands of Dollars, except share and per share data	**2014**	2013	Change	**2014**	2013	Change
Net income (loss)	**204**	(6,348)	6,552	**(15,841)**	(9,384)	(6,457)
Deferred income tax provision (recovery)	**131**	563	(432)	**(4,544)**	(1,470)	(3,074)
Depreciation and amortization	**9,818**	7,802	2,016	**39,511**	28,845	10,666
Transaction costs	**447**	6,577	(6,130)	**1,163**	8,840	(7,677)
Net settlement payment on interest rate swap contracts	**83**	94	(11)	**358**	550	(192)
Loss (gain) on interest rate swap contracts	**38**	(210)	248	**581**	(1,649)	2,230
Funds from operations (FFO)	**10,721**	8,478	2,243	**21,228**	25,732	(4,504)
Net accretion of fair value increment on long-term debt	**(202)**	390	(592)	**3,181**	1,679	1,502
Amortization of deferred financing charges	**286**	220	66	**1,651**	789	862
Amortization of loss on bond forward contract	**202**	—	202	**720**	—	720
Net settlement payment on interest rate swap contracts	**(83)**	(94)	11	**(358)**	(550)	192
Redemption premium on long-term debt	**23**	—	23	**18,415**	—	18,415
Tax shield due to redemption premium on Series A Debentures	**(700)**	—	(700)	**(2,366)**	—	(2,366)
Tax shield due to the settlement of the bond-lock hedge	**—**	—	—	**(1,650)**	—	(1,650)
Interest income on subscription receipt funds held in escrow	**—**	(135)	135	**—**	(509)	509
MOHLTC reconciliation adjustment (after tax)	**198**	—	198	**951**	—	951
One-time share based compensation	**—**	—	—	**—**	5	(5)
Dividend equivalents on subscription receipts	**—**	953	(953)	**—**	3,812	(3,812)
Operating funds from operations (OFFO)	**10,445**	9,812	633	**41,772**	30,958	10,814
Deferred share unit compensation earned	**239**	353	(114)	**856**	1,050	(194)
Deferred share unit settlement	**—**	—	—	**(73)**	—	(73)
Income support	**62**	—	62	**644**	694	(50)
Construction funding principal	**2,264**	1,762	502	**8,930**	6,362	2,568
Maintenance capex	**(1,806)**	(498)	(1,308)	**(3,833)**	(1,930)	(1,903)
Adjusted funds from operations (AFFO)	**11,204**	11,429	(225)	**48,296**	37,134	11,162
Adjusted funds from operations (AFFO)	**11,204**	11,429	(225)	**48,296**	37,134	11,162
Dividends declared	**(8,164)**	(7,116)	(1,048)	**(32,641)**	(26,895)	(5,746)
Operating cash flow retained	**3,040**	4,313	(1,273)	**15,655**	10,239	5,416
Basic FFO per share	**0.296**	0.268	0.028	**0.585**	0.861	(0.276)
Basic OFFO per share	**0.288**	0.311	(0.023)	**1.152**	1.036	0.116
Basic AFFO per share	**0.309**	0.362	(0.053)	**1.332**	1.243	0.089
Weighted average common shares outstanding - Basic	**36,277,018**	31,577,343		**36,264,658**	29,871,656	
Diluted FFO per share	**0.293**	0.265	0.028	**0.593**	0.852	(0.259)
Diluted OFFO per share	**0.286**	0.304	(0.018)	**1.120**	1.016	0.104
Diluted AFFO per share	**0.305**	0.351	(0.046)	**1.287**	1.211	0.076
Weighted average common shares outstanding - Diluted[1]	**39,023,287**	34,323,612		**39,010,927**	31,761,351	

Note 1: For the prior year presentation, the weighted average number of shares outstanding excludes the Subscription Receipts that were issued in conjunction with the Specialty Care Acquisition. The reconciliation of the diluted weighted average shares outstanding and the impact on the FFO, OFFO and AFFO are presented in the table below:

Reconciliation of diluted FFO, OFFO and AFFO

	Three Months Ended			Year Ended		
Thousands of Dollars, except share and per share data	**2014**	2013	Change	**2014**	2013	Change
FFO, Basic	**10,721**	8,478	2,243	**21,228**	25,732	(4,504)
Net financing charges on convertible debt	**960**	826	134	**2,614**	1,788	826
Current income tax expense adjustment	**(254)**	(219)	(35)	**(692)**	(473)	(219)
FFO, Diluted	**11,427**	9,085	2,342	**23,150**	27,047	(3,897)
OFFO, Basic	**10,445**	9,812	633	**41,772**	30,958	10,814
FFO dilutive adjustment, net	**706**	607	99	**1,922**	1,315	607
OFFO, Diluted	**11,151**	10,419	732	**43,694**	32,273	11,421
AFFO, Basic	**11,204**	11,429	(225)	**48,296**	37,134	11,162
OFFO dilutive adjustment, net	**706**	607	99	**1,922**	1,315	607
AFFO, Diluted	**11,910**	12,036	(126)	**50,218**	38,449	11,769
Weighted average common shares outstanding - Diluted, including subscription receipts	**n/a**	38,605,487		**n/a**	35,608,416	
Subscription receipts, dilutive adjustment	**n/a**	(4,281,875)		**n/a**	(3,847,065)	
Weighted average common shares outstanding - Diluted, excluding subscription receipts	**n/a**	34,323,612		**n/a**	31,761,351	
Diluted FFO per share, including subscription receipts	**n/a**	0.235		**n/a**	0.760	
Diluted FFO per share, excluding subscription receipts	**n/a**	0.265		**n/a**	0.852	
Diluted OFFO per share, including subscription receipts	**n/a**	0.270		**n/a**	0.906	
Diluted OFFO per share, excluding subscription receipts	**n/a**	0.304		**n/a**	1.016	
Diluted AFFO per share, including subscription receipts	**n/a**	0.312		**n/a**	1.080	
Diluted AFFO per share, excluding subscription receipts	**n/a**	0.351		**n/a**	1.211	

For the Quarter

FFO

FFO was $10,721 during the three months ended December 31, 2014, compared to $8,478 in the same quarter of 2013. The increase of $2,243 was primarily due to the contributions from transactional activity and lower net finance costs, partially offset by tax benefits of the Specialty Care Acquisition recognized in the prior year income tax provision and an increase in administrative expenses.

OFFO

OFFO, which reflects the Company's historical presentation of FFO, totaled $10,445, an increase of $633 over the same quarter last year. The increase was principally related to the improvement in FFO as noted above, adjusted for the tax shield on the redemption premium on the Series A Debentures, and the dividend equivalents on subscription receipts recognized in 2013.

AFFO

AFFO totaled $11,204, a decrease of $225 over the same quarter of 2013. The decrease was principally related to the higher maintenance capex incurred in the quarter, offset by the improved OFFO performance noted above and the incremental construction funding received as a result of the Specialty Care Acquisition.

For the Year

FFO

FFO was $21,228 during the year ended December 31, 2014, compared to $25,732 in the same period of 2013. The change of $4,504 was primarily due to the costs incurred for the redemption of the Series A Debentures (the impacts of which are not adjusted as per the REALpac FFO definition), increased administrative expenses and the impact of the MOHLTC reconciliation adjustments. This was partly offset by contributions from transactional activity and the improved NOI contributions from the same property activities.

OFFO

OFFO, which reflects the Company's historical presentation of FFO, totaled $41,772, an increase of $10,814 over the prior year. The increase was principally related to contributions from transactional activity and the improved NOI contributions from the same property activities, partially offset by increased administrative expenses.

AFFO

AFFO totaled $48,296, an increase of $11,162 over the same period of 2013. The increase was principally related to the improved OFFO performance noted above in addition to the incremental construction funding received as a result of the Specialty Care Acquisition which closed in December 2013, partially offset by the increase in maintenance capital expenditure.

Reconciliation of Cash from Operations to Adjusted Funds from Operations

The following table is a reconciliation of cash provided by (used in) operations to AFFO for the periods ended December 31.

	Three Months Ended			Year Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Cash provided by (used in) operating activities	**15,075**	(2,327)	17,402	**24,447**	26,233	(1,786)
Redemption premium on long-term debts	**23**	—	23	**18,415**	—	18,415
Net settlement payment on bond forward contracts	**—**	—	—	**6,234**	—	6,234
Construction funding principal	**2,264**	1,762	502	**8,930**	6,362	2,568
Transaction costs	**447**	6,577	(6,130)	**1,163**	8,840	(7,677)
MOHLTC reconciliation adjustment (after tax)	**198**	—	198	**951**	—	951
Maintenance capex	**(1,806)**	(498)	(1,308)	**(3,833)**	(1,930)	(1,903)
Other Changes in Non-cash operating items	**(4,224)**	5,956	(10,180)	**(3,634)**	(2,236)	(1,398)
Tax shield due to redemption premium on Series A Debentures	**(700)**	—	(700)	**(2,366)**	—	(2,366)
Tax shield due to the settlement of the bond-lock hedge	**—**	—	—	**(1,650)**	—	(1,650)
Restricted share units and long-term incentive plan expense	**(73)**	(41)	(32)	**(288)**	(135)	(153)
Deferred share unit settlement	**—**	—	—	**(73)**	—	(73)
Adjusted funds from operations (AFFO)	**11,204**	11,429	(225)	**48,296**	37,134	11,162
Adjusted funds from operations (AFFO)	**11,204**	11,429	(225)	**48,296**	37,134	11,162
Dividends declared	**(8,164)**	(7,116)	(1,048)	**(32,641)**	(26,895)	(5,746)
Operating cash flow retained	**3,040**	**4,313**	**(1,273)**	**15,655**	**10,239**	**5,416**
Dividend reinvestment	**442**	—	442	**442**	—	442
Cash Retained after dividend reinvestment	**3,482**	4,313	(831)	**16,097**	10,239	5,858

The board of directors determine the appropriate dividend levels based on their assessment of cash provided by operations normalized for unusual items, expected working capital requirements and actual and projected capital expenditures. For the year ended December 31, 2014, the operating cash flow included the one time redemption premium for the Series A Debentures and net settlement payment on bond forward contracts.

Liquidity and Capital Resources

Financial Position Analysis

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

	Three Months Ended			Year Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Cash flow from operations before non-cash working capital items	**16,117**	7,329	8,788	**64,270**	41,887	22,383
Non-cash changes in working capital	**2,773**	885	1,888	**5,619**	7,112	(1,493)
Bond forward settlement, redemption premium, interest paid and other items	**(3,815)**	(10,541)	6,726	**(45,442)**	(22,766)	(22,676)
Cash provided by (used in):						
Operating activities	**15,075**	(2,327)	17,402	**24,447**	26,233	(1,786)
Investing activities	**(347)**	(154,685)	154,338	**4,023**	(162,158)	166,181
Financing activities	**(9,482)**	148,330	(157,812)	**(15,060)**	142,305	(157,365)
Increase (decrease) in cash	**5,246**	(8,682)	13,928	**13,410**	6,380	7,030
Cash	**29,033**	15,623	13,410	**29,033**	15,623	13,410

For the Quarter

Operating Activities

For the current quarter ended December 31, 2014, operating activities provided $15,075 of cash due to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $16,117.
- Prepaid expenses and deposits decreased by $2,944 due to timing of payments.
- Accounts payable and accrued liabilities increased by $723, primarily related to the timing of wage and benefit accruals and increased trade payables.
- This was partly offset by interest paid on long-term debt of $3,709.

For the fourth quarter of 2013, operating activities used $2,327 of cash primarily as a result of:

- Cash from operating activities before the 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.
- Less cash from interest payments of $9,988.
- Reduction in the net balances of government funding of $5,677 due to timing of receipts.

Investing Activities

Investing activities for the quarter used $347 of cash. The principal use of cash is related to:

- Construction funding received in the amount of $3,270, offset by the following:
- Purchase of equipment of $1,842.
- Increase in restricted cash of $1,365, primarily for the funding of the Series B Debentures principal reserve fund in the amount of $1,320.

For the comparable quarter of 2013, investing activities used $154,685 of cash, primarily as a result of:

- Net cash of $156,866 used for the Specialty Care Acquisition.
- Offset by construction funding of $2,606.

Financing Activities

Financing activities in the quarter used $9,482 of cash. This was primarily related to:

- Dividends paid in the quarter of $7,719.
- Repayment of long-term debt of $35,307, including $1,891 in principal payments, $26,416 in mortgages which came due and the reduction of operating credit facility by $7,000.
- Offset by refinancing with a 10 year 4.196% $34,000 mortgage.

For the comparable period last year, financing activities provided $148,330 of cash primarily as a result of:

- Proceeds from issuance of long-term debt of $83,540 related to the Specialty Care Acquisition.
- Net proceeds from issuance of common shares of $71,823, related to the exchange of the Subscription Receipts for common shares.
- Offset by the dividend payments in the amount of $6,597.

For the Year

Operating Activities

For the current year ended December 31, 2014, operating activities provided $24,447 of cash due to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $64,270.
- Increase of accounts payable and accrued liabilities of $2,136, primarily related to the timing of wage and benefit accruals partly offset by a decrease in trade payables and accruals.
- The change in income taxes balances for the period of $1,367 mainly related to the receipt of the prior year tax refund.
- Income support received of $1,072.
- This was partly offset by the redemption premium on the settlement of the Series A Debentures and property level mortgages, which used $18,415 of cash.
- Interest paid on long-term debt of $21,802.

For the year ended December 31, 2013, operating activities provided $26,233 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $41,887.
- Lower accounts receivable and other assets of $1,508 as a result of timing of receipts.
- Accounts payable and accrued liabilities increased by $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.
- This was partly offset by interest payments of $20,304.
- Cash used by the movement in net government funding balances of $2,566.
- Income taxes paid for the year of $1,912, mainly related to installment payments.

Investing Activities

Investing activities for the year ended December 31, 2014 provided $4,023 of cash. The principal source of cash is related to:

- Receipt of construction funding in the amount of $13,080.
- This was partly offset by an increase in restricted cash of $5,036, primarily for the funding of the Series B Debentures principal reserve fund.
- Additions to property and equipment of $3,880.

For the comparable period of 2013, investing activities used cash of $162,158, primarily as a result of:

- Net cash of $166,866 used for the Specialty Care Acquisition.
- Purchase of the Christie Garden licences for $2,200.
- Purchase of equipment of $2,628.
- This was partly offset by the receipt of construction funding of $9,458.

Financing Activities

Financing activities used $15,060 of cash for the year ended December 31, 2014 which comprised of:

- Proceeds of $322,000 from the issuance of the Series B Debentures in the first quarter of 2014 and refinancing of $34,000 in the fourth quarter of 2014, offset by the repayment of long-term debt of $334,770, related to the Series A Debentures, mortgage refinancing and reduction of the credit facility.
- Dividends paid of $32,194.
- Payment of deferred financing costs of $4,004 related to the issuance of the Series B Debentures and property level mortgages.

For the comparable period last year, financing activities provided $142,305 of cash primarily as a result of:

- Proceeds from the issuance of long-term debt of $101,514.
- Net proceeds from the issuance of common shares of $71,823.
- Issuance of the Convertible Debentures for net proceeds of $44,160. Repayment of long-term debt of $47,550 and dividend payments in the amount of $26,373.

Capital Resources

Leisureworld's total debt as at December 31, 2014 was $616,081, net of the Series B Debentures principal reserve fund of $4,751, compared to $598,703 as at December 31, 2013. The increase of $17,378 primarily relates to the issuance of the Series B Debentures, offset by the reduction of the credit facilities. As at December 31, 2014, Leisureworld had committed and undrawn facilities of $26,500.

As of December 31, 2014, Leisureworld had a working capital deficiency of $84,564 arising from the current portion of long-term debt of $74,039, primarily relating to the $66,000 of credit facilities on Astoria and the Ontario retirement homes maturing within a twelve-month period. In the Company's efforts to build a 10-year debt maturity ladder of amortizing debt, certain portions will be maturing in a 12-month period, and, as such, reflected as a current liability. This is considered the normal course of business. Management has entered into discussions with lenders to renew the maturing credit facilities and is anticipating refinancing the debt in accordance with Company's debt strategy. 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 2015, 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 involves the use of five types of debt: secured debentures, conventional property-specific secured mortgages, bank credit facilities and Convertible Debentures.

Commencing in 2014, management has started to build a debt maturity schedule (for fixed term debt) spread evenly over a 10-year period in order to manage interest rate and financial risks. This is a multi-year strategy which will take considerable time to execute. In 2015 and beyond, Leisureworld plans to capitalize on external growth opportunities and management intends to build the 10-year debt maturity ladder around the Series B Debentures so as to reduce risk when this single large debenture matures. Part of this debt strategy involves maximizing the financing on certain individual property assets (maximizing loan to value) and building a pool of unencumbered assets to be able to finance acquisition opportunities as they arise.

During Q4 of 2014, a construction loan of $13,351 at prime plus 1.25% came due, along with mortgages with outstanding principals balances of $3,146 bearing interest at 3.02%, and $10,119, bearing interest at 5.57%. In accordance with the Company's debt strategy, Leisureworld refinanced this debt with a $34,000, 10 year 4.196% mortgage and reduced its operating credit facilities by $7,000 to $66,000.

Leisureworld has adopted interest coverage guidelines which are consistent with the coverage covenants contained in its bank credit facility agreements. 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.

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. The interest coverage ratio is calculated as follows for the periods ending December 31:

	Three Months Ended		Year Ended	
Thousands of Dollars, except ratio	**2014**	2013	**2014**	2013
Net finance charges	**5,400**	6,078	**45,686**	22,097
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**202**	(390)	**(3,181)**	(1,679)
Amortization of deferred financing charges	**(286)**	(220)	**(1,651)**	(789)
Amortization of loss on bond forward contracts	**(202)**	—	**(720)**	—
Redemption premium on long-term debt	**(23)**	—	**(18,415)**	—
Dividend equivalents on subscription receipts	**—**	(953)	**—**	(3,812)
Interest income on construction funding receivable	**1,006**	844	**4,150**	3,096
Interest income on subscription receipts funds held in escrow	**—**	135	**—**	509
Other interest income	**34**	82	**307**	243
Gain (loss) on interest rate swap contracts	**(38)**	210	**(581)**	1,649
Net finance charges, adjusted	**6,093**	5,786	**25,595**	21,314
EBITDA	**19,791**	16,118	**78,663**	58,999
Interest coverage ratio	**3.2**	2.8	**3.1**	2.8

The following is the reconciliation of net income (loss) to EBITDA for the periods ending December 31:

	Three Months Ended		Year Ended	
Thousands of Dollars	**2014**	2013	**2014**	2013
Net income (loss)	**204**	(6,348)	**(15,841)**	(9,384)
Net finance charges	**5,400**	6,078	**45,686**	22,097
Provision for (recovery of) income taxes	**383**	(597)	**(6,230)**	(857)
Depreciation and amortization	**9,818**	7,802	**39,511**	28,845
Transaction costs	**447**	6,577	**1,163**	8,840
MOHLTC reconciliation adjustments	**269**	—	**1,294**	—
Proceeds from construction funding	**3,270**	2,606	**13,080**	9,458
EBITDA	**19,791**	16,118	**78,663**	58,999

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, maintaining the debt service coverage ratio forms part of Leisureworld's debt covenant requirements. In general, higher ratios indicate a lower risk of default. The following calculation takes into consideration the payments into the Series B Debentures principal reserve fund as part of the debt service costs. EBITDA adjusted, as referenced below, is presented in accordance with defined terms in certain covenant calculations. The following is the calculation for the periods ended December 31:

Thousands of Dollars, except ratio	Three Months Ended 2014	2013	Year Ended 2014	2013
Net finance charges	**5,400**	6,078	**45,686**	22,097
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**202**	(390)	**(3,181)**	(1,679)
Amortization of deferred financing charges	**(286)**	(220)	**(1,651)**	(789)
Amortization of loss on bond forward contracts	**(202)**	—	**(720)**	—
Redemption premium on long-term debt	**(23)**	—	**(18,415)**	—
Dividend equivalents on subscription receipts	**—**	(953)	**—**	(3,812)
Interest income on construction funding receivable	**1,006**	844	**4,150**	3,096
Interest income on subscription receipts funds held in escrow	**—**	135	**—**	509
Other interest income	**34**	82	**307**	243
Gain (loss) on interest rate swap contracts	**(38)**	210	**(581)**	1,649
Net finance charges, adjusted	**6,093**	5,786	**25,595**	21,314
Principal repayments	**1,567**	645	**6,704**	1,450
Principal reserve fund	**1,320**	—	**4,751**	—
Total debt service	**8,980**	6,431	**37,050**	22,764
EBITDA	**19,791**	16,118	**78,663**	58,999
Add (deduct):				
Maintenance capex	**(1,806)**	(498)	**(3,833)**	(1,930)
Cash income taxes	**—**	(459)	**1,367**	(613)
EBITDA, adjusted	**17,985**	15,161	**76,197**	56,456
Debt service coverage ratio	**2.0**	2.4	**2.1**	2.5

Leverage Ratio

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

Thousands of Dollars, except ratio	Three Months Ended 2014	2013	Year Ended 2014	2013
Weighted average debt				
Series A Senior Secured Debentures	**—**	294,326	**44,350**	294,326
Series B Senior Secured Debentures	**322,000**	—	**292,888**	—
Series B Senior Secured Debentures - Principal Reserve Fund	**(4,268)**	—	**(2,344)**	—
Credit facilities	**71,283**	59,761	**72,710**	78,921
Mortgages	**175,627**	95,354	**174,116**	58,822
Construction loan	**10,449**	4,351	**12,693**	1,097
Convertible debentures	**46,000**	46,000	**46,000**	31,759
	621,091	499,792	**640,413**	464,925
EBITDA (quarterly annualized)	**79,164**	64,472	**78,663**	58,999
Debt to EBITDA	**7.8**	7.8	**8.1**	7.9

Debt Profile

The debt profile is presented to depict the weighted average interest rates based on the nature of the underlying debt instrument classification between fixed and floating rate.

	Weighted Average Debt							
	Three Months Ended				Year Ended			
	2014	**Rate (%)**	2013	Rate (%)	**2014**	**Rate (%)**	2013	Rate (%)
Fixed Rate								
Debenture	**322,000**	**3.47%**	294,326	4.81%	**337,238**	**3.65%**	294,326	4.81%
Mortgage	**175,627**	**4.39%**	95,354	4.60%	**174,116**	**4.34%**	58,822	4.72%
Convertible Debenture	**46,000**	**4.65%**	46,000	4.65%	**46,000**	**4.65%**	31,759	4.65%
Total Fixed	**543,627**	**3.87%**	435,680	4.75%	**557,354**	**3.94%**	384,907	4.79%
Floating Rate								
Credit Facility	**71,283**	**3.04%**	59,761	3.03%	**72,710**	**3.03%**	78,921	3.03%
Construction Loan	**10,449**	**4.25%**	4,351	4.25%	**12,693**	**4.25%**	1,097	4.25%
Total Floating	**81,732**	**3.19%**	64,112	3.11%	**85,403**	**3.03%**	80,018	3.05%
Total Debt	**625,359**	**3.78%**	499,792	4.54%	**642,757**	**3.85%**	464,925	4.48%

Debt to Gross Book Value

Debt to gross book value indicates the leverage applied against the total gross book value (original costs) of the entity.

	December 31	
Thousands of Dollars, except ratio	**2014**	2013
Total indebtedness		
Series A Senior Secured Debentures	**—**	294,326
Series B Senior Secured Debentures	**322,000**	—
Series B Senior Secured Debentures - Principal reserve fund	**(4,751)**	—
Credit facilities	**66,000**	73,000
Mortgages	**191,136**	177,229
Construction loan	**—**	13,351
Convertible debentures	**46,000**	46,000
	620,385	603,906
Total assets	**946,763**	977,024
Accumulated depreciation on property and equipment	**94,132**	69,302
Accumulated amortization on intangible assets	**58,354**	43,673
Gross book value	**1,099,249**	1,089,999
Debt to Gross Book Value	**56.4%**	55.4%

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 accessing capital, on commercially reasonable terms, without exceeding its debt capacity, pursuant to limitations in its credit facilities, or taking on undue risks;
(ii) maintain financial flexibility in order to meet financial obligations, including debt service payments and regular 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. A $1,500 revolving operating loan is collateralized by assets of Royal Developments LP.

The debt incurred as part of the acquisition of the former Specialty Care properties, Kanata, Kingston and the Astoria property are secured by each of the properties' assets, guaranteed by LSCC and 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

Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Amortizing Debt: Regular Principal Payments	Amortizing Debt: Principal Due at Maturity	**Total**	% of Total	Weighted Average Interest on Maturing Debt
2015	—	66,000	—	7,558	—	**73,558**	11.8%	3.0%
2016	—	—	—	7,906	10,020	**17,926**	2.9%	4.2%
2017	—	—	—	6,801	32,506	**39,307**	6.3%	4.8%
2018	—	—	46,000	6,370	22,217	**74,587**	11.9%	5.0%
2019	—	—	—	5,253	37,860	**43,113**	6.9%	4.3%
2020	—	—	—	2,552	—	**2,552**	0.4%	—%
2021	322,000	—	—	2,661	—	**324,661**	51.9%	3.5%
2022	—	—	—	2,773	—	**2,773**	0.4%	—%
2023	—	—	—	2,505	12,407	**14,912**	2.4%	3.0%
2024	—	—	—	2,205	20,617	**22,822**	3.7%	4.2%
Thereafter	—	—	—	3,448	5,477	**8,925**	1.4%	5.2%
	322,000	**66,000**	**46,000**	**50,032**	**141,104**	625,136	100.0%	
Mark-to-market adjustment arising from acquisition						**1,848**		
Less: Deferred financing costs						**(4,455)**		
Less: Deferred financing costs convertible debentures						**(1,182)**		
Less: Equity component of convertible debentures						**(515)**		
						620,832		

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. Upon the 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.

Operating Leases

Leisureworld has a 10-year operating lease with respect to its Markham corporate office, which expires on December 31, 2015. This lease was amended, effective November 1, 2014, to include additional space at the same location to accommodate all head office employees. The amendment includes the assignment of the Specialty Care office lease in Vaughan which expires in August, 2019. The amendment is for a duration of 10 years and expires October 31, 2024. As well, there are various operating leases for office and other equipment that expire over the next five years and thereafter.

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

2015	654
2016	577
2017	490
2018	436
2019	399
Thereafter	1,891
	4,447

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, 2014 was $1,892 (2013 - $1,992). Included in accounts receivable is $102 owing from Spencer House Inc. as at December 31, 2014 (December 31, 2013 - $94). 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, 2014, Leisureworld has amounts outstanding from certain key executives of $287 (December 31, 2013 - $178) 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 (the "**CEO"**) $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as at December 31, 2014 was $469 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at the 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.

Key Performance Drivers

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

Government funding

The Government funding model in LTC and funding for Home Care through Community Care Access Centers is described above in the "Industry Overview" section. Approximately 70% of LTC revenue is received from the MOHLTC which primarily relates to the flow-through envelopes. 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 for September 1, 2014, the MOHLTC increased the private room premium to $23.25 per day and $11.00 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 its beds designated as private accommodation and has converted approximately 54% of the resident base from the previous daily rates to the new prescribed rates in the Class A homes.

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

Disciplined cost management

Given its size, Leisureworld is able to realize economies of scale in administration, operations, purchasing and cost controls. The average size of a Leisureworld LTC home (at 164 beds) is greater than the Ontario provincial average of 125 beds, which also enhances the Company's ability to achieve efficiencies and economies of scale. As a very experienced operator, Leisureworld prudently manages its costs in all divisions while providing quality accommodation and services to seniors.

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.

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 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 managed LTC and retirement homes, including 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. Operational funding, received monthly, is comprised of 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 in the current year 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% (2013 - 60%) of revenue from Leisureworld LTC homes is received from the MOHLTC which primarily relates to flow-through envelopes. 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. Beginning in 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 on consolidation.

Management services revenue

Leisureworld earns a management fee based on a percentage of gross revenues of the operations for managing LTC and retirement homes for third parties. Revenue is recognized when the services are rendered.

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	10 to 55 years straight-line
Furniture and fixtures	3 to 10 years straight-line
Automobiles	5 years straight-line
Computer hardware	3 to 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.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("**CGU**"s), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

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 licence 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 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, 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	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 payable	Other financial liabilities
Long-term debt	Other financial liabilities
Convertible debentures	Other financial liabilities
Interest rate swap contracts	Fair value through profit and loss

Cash

Cash includes deposits held with Canadian chartered banks. Cash is classified as loans and receivables and is 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 as well as a principal reserve fund required for certain debentures. 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 statements 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.

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 on 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, shares and acquisitions, 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 statements 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 are recorded as a reduction to shareholders' equity. Fair value of the shares is measured at the grant date using the Cox-Ross-Rubinstein binomial tree model. The fair value of restricted share units and deferred share units are measured based on the closing price of Leisureworld's shares at each reporting date.

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 group retirement savings 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 statements of operations and comprehensive loss except to the extent 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 statements of financial position dates 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 28 of the consolidated financial statements.

Changes in Accounting Policies

The following standards have been adopted by Leisureworld on January 1, 2014:

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. Leisureworld assessed the amendments and determined that the adoption of IAS 32 and IFRS 7 did not have a material impact on the consolidated financial statements except for additional disclosures related to offsetting .

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. The interpretation requires the recognition of a liability when the event, identified by the legislation as triggering the obligation to pay the levy occurs. The adoption of IFRIC 21 did not require any adjustments in the way Leisureworld accounts for paying a levy.

Accounting Standards Issued But Not Yet Applied

Recent accounting pronouncements:

IAS 1, Presentation of Financial Statements

In December 2014, the IASB amended IAS 1, Presentation of Financial Statements to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective January 1, 2016 with early adoption permitted. Leisureworld has not yet adopted this standard and management has not yet determined the impact of this standard.

IFRS 7, Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures, clarifies that the additional disclosure required by the amendments to IFRS 7, Disclosure – offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34. The amendment is effective January 1, 2016 with early adoption permitted. Leisureworld has not yet adopted this standard and management has not yet determined the impact of this standard.

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 July 2014, IFRS 9 was amended to establish a mandatory effective date of January 1, 2018 with early adoption permitted. Leisureworld has not adopted this standard and management has not yet determined the impact of this standard.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued the new revenue standard that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The effective date for the new standard is for annual periods beginning on January 1, 2017 with early adoption permitted. Leisureworld has not yet 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 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 under the LTCHA. The LTCHA provides license 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 21,000 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.

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 licence 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 licences. 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. 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.

Risk 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

The Board has established a dividend policy authorizing the declaration and payment of an annual dividend of $0.90 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, 2014, 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, 2014.

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, 2014. Based on that assessment they determined that Leisureworld's internal controls over financial reporting were appropriately designed and were operating effectively. This evaluation was performed using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"), which as of December 15, 2014 supersedes the COSO 1992 framework.

No changes were made in Leisureworld's design of internal controls over financial reporting during the year ended December 31, 2014 which 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.

2014

Leisureworld
SENIOR CARE CORPORATION

Consolidated Financial Statements
(in thousands of Canadian Dollars)

Consolidated Financial Statements

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 consolidated financial statements.

The external auditor, PricewaterhouseCoopers LLP, has 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 auditor has direct and full access to the Audit Committee and meets with the Audit Committee both with and without management present on a quarterly basis. The Board of Directors, directly and through its Audit Committee, oversees management's responsibilities and is responsible for reviewing and approving the consolidated financial statements.

"Lois Cormack"

Lois Cormack
President and Chief Executive Officer

"Nitin Jain"

Nitin Jain
Executive Vice President and Chief Financial Officer

Markham, Canada
February 25, 2015

February 25, 2015

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, 2014 and December 31, 2013 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

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, 2014 and December 31, 2013 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, License Public Accountants

Consolidated Statements of Financial Position
Thousands of dollars

	Notes	**December 31, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash		**29,033**	15,623
Accounts receivable and other assets	5, 24	**5,163**	5,670
Bond forward contracts		**—**	1,885
Income support	4	**228**	1,300
Prepaid expenses and deposits		**1,428**	3,546
Government funding receivable		**5,061**	6,113
Construction funding receivable	22	**9,355**	8,975
Income taxes receivable		**1,580**	1,260
		51,848	44,372
Government funding receivable		**1,630**	614
Interest rate swap contract	5	**704**	—
Restricted cash	7	**5,949**	913
Construction funding receivable	22	**84,563**	93,873
Property and equipment	8	**577,539**	598,489
Intangible assets	9	**125,726**	139,959
Goodwill	10	**98,804**	98,804
Total assets		**946,763**	977,024
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	17	**59,153**	53,818
Government funding payable		**3,051**	1,605
Current portion of long-term debt	11	**74,039**	34,079
Interest rate swap contract	5	**169**	43
		136,412	89,545
Long-term debt	11	**502,490**	520,796
Convertible debentures	12	**44,303**	43,828
Deferred income taxes	15	**58,688**	65,190
Government funding payable		**1,523**	3,067
Share-based compensation liability	18	**2,574**	1,677
Interest rate swap contract	5	**1,594**	435
Total liabilities		**747,584**	724,538
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**199,179**	252,486
Total liabilities and shareholders' equity		**946,763**	977,024
Commitments and contingencies	21		

See accompanying notes.

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

"Dino Chiesa"	*"Janet Graham"*
Dino Chiesa Chairman and Director	Janet Graham Director

Thousands of dollars

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2014		**371,789**	**515**	**27**	**(121,231)**	**1,386**	**252,486**
Issuance of shares	**16**	**545**	**—**	**—**	**—**	**—**	**545**
Net loss		**—**	**—**	**—**	**(15,841)**	**—**	**(15,841)**
Other comprehensive loss		**—**	**—**	**—**	**—**	**(5,441)**	**(5,441)**
Long-term incentive plan	**18**	**19**	**—**	**32**	**—**	**—**	**51**
Share purchase loan	**24**	**20**	**—**	**—**	**—**	**—**	**20**
Dividends	**17**	**—**	**—**	**—**	**(32,641)**	**—**	**(32,641)**
Balance, December 31, 2014		**372,373**	**515**	**59**	**(169,713)**	**(4,055)**	**199,179**

	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	12	—	515	—	—	—	515
Issuance of shares	16	82,660	—	—	—	—	82,660
Net loss		—	—	—	(9,384)	—	(9,384)
Other comprehensive income		—	—	—	—	1,386	1,386
Long-term incentive plan	18	14	—	17	—	—	31
Share purchase loan	24	12	—	—	—	—	12
Share-based compensation	18	5	—	—	—	—	5
Dividends	17	—	—	—	(26,895)	—	(26,895)
Balance, December 31, 2013		371,789	515	27	(121,231)	1,386	252,486

See accompanying notes.

Thousands of dollars, except share and per share data

Consolidated Statements of Operations

	Notes	Year ended December 31, 2014	2013
Revenue	24, 25	**456,788**	353,323
Expenses			
Operating		**374,988**	290,014
Administrative		**17,511**	13,768
	26	**392,499**	303,782
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes		**64,289**	49,541
Depreciation and amortization		**39,511**	28,845
Net finance charges	13	**45,686**	22,097
Transaction costs		**1,163**	8,840
Total other expenses		**86,360**	59,782
Loss before provision for (recovery of) income taxes		**(22,071)**	(10,241)
Provision for (recovery of) income taxes			
Current		**(1,686)**	613
Deferred		**(4,544)**	(1,470)
	15	**(6,230)**	(857)
Net loss		**(15,841)**	(9,384)
Basic and Diluted loss per share		**($0.44)**	($0.31)
Weighted average number of common shares outstanding - Basic	16	**36,264,658**	29,871,656
Weighted average number of common shares outstanding - Diluted	16	**39,010,927**	35,608,416

Consolidated Statements of Comprehensive Loss

	Notes	Year ended December 31, 2014	2013
Net loss		**(15,841)**	(9,384)
Items that may be subsequently reclassified to statement of operations:			
Realized loss on bond forward contracts (net of tax in 2014 - $1,460; 2013 - $nil)	11	**(5,441)**	—
Unrealized gain on bond forward contracts (net of tax in 2014 - $nil; 2013 - ($499)	11	—	1,386
Total comprehensive loss		**(21,282)**	(7,998)

See accompanying notes.

Consolidated Statements of Cash Flows

Thousands of dollars

	Notes	Year ended December 31, 2014	2013
OPERATING ACTIVITIES			
Net loss		**(15,841)**	(9,384)
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**24,830**	20,435
Amortization of intangible assets		**14,681**	8,410
Current income taxes		**(1,686)**	613
Deferred income taxes		**(4,544)**	(1,470)
Share-based compensation	18	**1,144**	1,186
Net finance charges	13	**45,686**	22,097
		64,270	41,887
Non-cash changes in working capital			
Accounts receivable and other assets		**547**	1,508
Prepaid expenses and deposits		**1,926**	(69)
Accounts payable and accrued liabilities		**2,136**	7,294
Income support		**1,072**	945
Government funding, net		**(62)**	(2,566)
		5,619	7,112
Net settlement payment on bond forward contracts		**(6,234)**	—
Redemption premium paid on long-term debt		**(18,415)**	—
Interest paid on long-term debt		**(21,802)**	(20,304)
Net settlement payment on interest rate swap contracts		**(358)**	(550)
Income taxes refunded (paid)		**1,367**	(1,912)
Cash provided by operating activities		**24,447**	26,233
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(3,880)**	(2,628)
Purchase of intangible assets	9	**(448)**	(2,204)
Amounts received from construction funding	22	**13,080**	9,458
Interest received from cash		**307**	243
Acquisition of the Specialty Care Portfolio, net of cash acquired	4	—	(166,866)
Change in restricted cash		**(5,036)**	(161)
Cash provided by (used in) investing activities		**4,023**	(162,158)
FINANCING ACTIVITIES			
Net proceeds from issuance of common shares		—	71,823
Share issuance costs		**(92)**	(425)
Interest received from subscription receipts funds held in escrow	13	—	509
Net proceeds from issuance of convertible debentures	12	—	44,160
Repayment of long-term debt		**(334,770)**	(47,550)
Proceeds from issuance of long-term debt		**356,000**	101,514
Deferred financing costs		**(4,004)**	(1,353)
Dividends paid	17	**(32,194)**	(26,373)
Cash provided by (used in) financing activities		**(15,060)**	142,305
Increase in cash during the year		**13,410**	6,380
Cash, beginning of year		**15,623**	9,243
Cash, end of year		**29,033**	15,623

See accompanying notes.

1 Organization

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) and operates one independent living ("IL") residence (representing 53 apartments), 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 also operates a management services business that is focused on the third party management in both the LTC and retirement sectors.

Leisureworld is listed on the Toronto Stock Exchange (the "TSX") under the trading symbol LW. As of December 31, 2014, the following securities of Leisureworld were outstanding: 36,299,038 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 12).

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors for issue on February 25, 2015.

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 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 managed LTC and retirement homes, including 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 comprised of 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 in the current year 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% (2013 - 60%) of revenue from Leisureworld LTC homes is received from the MOHLTC, which primarily relates to flow-through envelopes. 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. Beginning in 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 on consolidation.

Management services revenue

Leisureworld earns a management fee based on a percentage of gross revenues of the operations for managing LTC and retirement homes for third parties. Revenue is recognized when the services are rendered.

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	10 to 55 years straight-line
Furniture and fixtures	3 to 10 years straight-line
Automobiles	5 years straight-line
Computer hardware	3 to 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.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

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 licence 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 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, 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	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 payable	Other financial liabilities
Long-term debt	Other financial liabilities
Convertible debentures	Other financial liabilities
Interest rate swap contracts	Fair value through profit and loss

Cash

Cash includes deposits held with Canadian chartered banks. Cash is classified as loans and receivables and is 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 as well as a principal reserve fund required for certain debentures. 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 statements 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 12).

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 on 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, shares and acquisitions, 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 statements 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 is 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.

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 group retirement savings 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 statements of operations and comprehensive loss except to the extent 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 statements of financial position dates 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 28.

New accounting policies adopted in 2014

The following standards have been adopted by Leisureworld on January 1, 2014:

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. Leisureworld assessed the amendments and determined that the adoption of IAS 32 and IFRS 7 did not have a material impact on the consolidated financial statements except for additional disclosures related to offsetting (see Note 11).

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. The interpretation requires the recognition of a liability when the event, identified by the legislation as triggering the obligation to pay the levy occurs. The adoption of IFRIC 21 did not require any adjustments in the way Leisureworld accounts for paying a levy.

Recent accounting pronouncements

IAS 1, Presentation of Financial Statements

In December 2014, the IASB amended IAS 1, Presentation of Financial Statements to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective January 1, 2016 with early adoption permitted. Leisureworld has not yet adopted this standard and management has not yet determined the impact of this standard.

IFRS 7, Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures, clarifies that the additional disclosure required by the amendments to IFRS 7, Disclosure – offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34. The amendment is effective January 1, 2016 with early adoption permitted. Leisureworld has not yet adopted this standard and management has not yet determined the impact of this standard.

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 July 2014, IFRS 9 was amended to establish a mandatory effective date of January 1, 2018 with early adoption permitted. Leisureworld has not adopted this standard and management has not yet determined the impact of this standard.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued the new revenue standard that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The effective date for the new standard is for annual periods beginning on January 1, 2017 with early adoption permitted. Leisureworld has not yet 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 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 21,000 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.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

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") comprised 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 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 16)			6,503
Due to vendor			1,476
Total consideration			**173,563**

As part of the total purchase consideration for the Specialty Care Portfolio, Leisureworld negotiated $1,300 income support agreement with the vendor, which was held in escrow as an income guarantee to supplement cash flow during the lease-up period for certain retirement residences acquired. As at December 31, 2014, Leisureworld has drawn down $644 (December 31, 2013 - $nil) and recorded $428 in the consolidated statements of operations and comprehensive loss as transaction costs.

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

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

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.

5 Financial instruments

Fair value of financial instruments

Leisureworld's use of unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3) in the valuation of financial instruments are as follows:

	As at December 31, 2014			
		Fair value		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Construction funding receivable	**93,918**	**—**	**—**	**100,727**
Interest rate swap contract	**704**	**—**	**704**	**—**
Financial Liabilities:				
Long-term debt	**576,529**	**—**	**596,796**	**—**
Convertible debentures	**44,303**	**46,506**	**—**	**—**
Interest rate swap contract	**1,763**	**—**	**1,763**	**—**

	As at December 31, 2013			
		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Financial Assets:				
Bond forward contracts	1,885	—	1,885	—
Construction funding receivable	102,848	—	—	106,127
Financial Liabilities:				
Long-term debt	554,875	—	578,980	—
Convertible debentures	43,828	45,770	—	—
Interest rate swap contracts	478	—	478	—

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. As at December 31, 2014, the construction funding receivable was discounted using rates between 2.05% (December 31, 2013 - 2.79%) and 3.55% (December 31, 2013 - 4.98%).

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. As at December 31, 2014, the fixed-rate debt was discounted using rates between 3.31% (December 31, 2013 - 1.97%) and 4.18% (December 31, 2013 - 4.73%).

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

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

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 13.

Maturities of financial instruments

For the years ending December 31, 2015 through 2019, 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 statements of financial position date:

	As at December 31, 2014					
	2015	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Government funding receivable/payable						
Cash inflows	5,061	1,630	—	—	—	—
Cash outflows	(3,051)	(575)	(948)	—	—	—
	2,010	1,055	(948)	—	—	—
Interest rate swap contracts						
Cash inflows	549	690	835	989	1,149	3,131
Cash outflows	(681)	(787)	(894)	(1,008)	(1,127)	(3,904)
Net cash (outflows) inflows	(132)	(97)	(59)	(19)	22	(773)
Construction funding receivable						
Cash inflows	13,079	13,114	13,079	13,079	12,732	47,988
Long-term debt						
Cash outflows	(93,601)	(36,911)	(56,267)	(44,812)	(57,957)	(356,688)
Convertible debentures						
Cash outflows	(2,139)	(2,139)	(2,139)	(47,070)	—	—
Net cash outflows	**(80,783)**	**(24,978)**	**(46,334)**	**(78,822)**	**(45,203)**	**(309,473)**

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 Kingston and Kanata retirement residences ("Ontario Portfolio"), Astoria retirement residence and Madonna long-term care home. The floating interest rate on the Madonna debt is offset by interest rate swap contract. Leisureworld has not adopted hedge accounting for this interest rate swap contract. Interest rates, maturities and security affecting the interest rate and credit risk of Leisureworld's financial liabilities have been disclosed in Note 11, 12 and 14.

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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, accounts receivable and other assets, restricted cash, 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 statements of operations and comprehensive loss.

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

Balance, January 1, 2013	561
Provision for receivables during the year	437
Receivables written off during the year	(748)
Balance, December 31, 2013	250
Provision for receivables during the year	353
Receivables written off during the year	(168)
Balance, December 31, 2014	**435**

Leisureworld has $2,013 in trade and other receivables (December 31, 2013 - $2,866) 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:

	2014	2013
0 - 30 days	**1,253**	1,846
31 - 60 days	**471**	585
61 - 90 days	**98**	163
Over 90 days	**191**	272
	2,013	2,866

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. During the year ended December 31, 2014, Leisureworld wrote off $1,294 (2013 - $nil) for amounts receivable from the MOHLTC primarily relating to 2007 through 2012 reconciliation years. Management has assessed the credit risks associated with the interest rate swap contracts, bond forward contracts, restricted cash and cash balances as low given the counterparties are major Canadian financial institutions that have been accorded investment grade ratings by a primary rating agency.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

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.

Management has entered into discussions with lenders to renew the maturities on its credit facilities totaling $66,000. There can be no assurances that the amounts or terms of any refinancing would be favourable to Leisureworld. To support Leisureworld's working capital deficiency, Leisureworld will use its operating cash flows and, if necessary, undrawn credit facilities.

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 statements of operations and comprehensive loss as at December 31, 2014 assuming that a reasonably possible change in the relevant risk variable has occurred as at December 31, 2014. 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, 2014 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives as at December 31, 2014 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	5,949	(6)	32
Interest rate swap contract	704	(997)	997
Financial Liabilities:			
Debt at variable rates subject to interest rate risk	66,000	724	(724)
Interest rate swap contract	1,763	(1,511)	1,511

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 contract.

6 Capital management

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

Leisureworld's objectives when managing capital are to: (i) maintain a capital structure that provides financing options to Leisureworld for accessing capital, on commercially reasonable terms, without exceeding its debt capacity, pursuant to limitations in its credit facilities, or taking on undue risks; (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 B Senior Secured Debentures ("Series B Debentures") and $10,000 revolving credit facility (Note 14) 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 new debt entered into to refinance the acquisition of the BC Portfolio are 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, 2014. 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.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

7 Restricted cash

Restricted cash is comprised of a capital maintenance reserve fund required for certain mortgages and the Series B Debentures principal reserve fund. Further details about the principal reserve fund are disclosed in Note 11.

	December 31, 2014	December 31, 2013
Capital maintenance reserve	**1,198**	913
Series B Debentures principal reserve fund	**4,751**	—
Restricted cash	**5,949**	913

8 Property and equipment

	Land	**Buildings**	**Furniture and fixtures**	**Automobiles**	**Computer hardware**	**Circulating equipment**	**Total**
Cost							
At January 1, 2013	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
Additions	—	2,882	891	—	55	52	3,880
At December 31, 2014	**77,218**	**573,943**	**18,378**	**309**	**783**	**1,040**	**671,671**
Accumulated depreciation							
At January 1, 2013	—	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
Charges for the year	—	23,099	1,568	63	100	—	24,830
At December 31, 2014	**—**	**83,965**	**9,531**	**122**	**514**	**—**	**94,132**
Net book value							
At December 31, 2013	77,218	510,195	9,524	250	314	988	598,489
At December 31, 2014	**77,218**	**489,978**	**8,847**	**187**	**269**	**1,040**	**577,539**

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

9 Intangible assets

	Licences	Resident relationships	Service contracts	Computer software	Total
Cost					
At January 1, 2013	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
Additions	—	—	—	448	448
At December 31, 2014	**106,020**	**66,259**	**10,968**	**833**	**184,080**
Accumulated amortization					
At January 1, 2013	—	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
Charges for the year	—	12,249	2,383	49	14,681
At December 31, 2014	**—**	**52,339**	**5,638**	**377**	**58,354**
Net book value					
At December 31, 2013	106,020	26,169	7,713	57	139,959
At December 31, 2014	**106,020**	**13,920**	**5,330**	**456**	**125,726**

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

10 Goodwill

Cost and carrying value, at January 1, 2013	91,466
Specialty Care Acquisition	7,338
Cost and carrying value, at December 31, 2014 and 2013	98,804

The recoverable amount 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 covering a five-year period are derived from the most recent financial budget, adjusted where appropriate to reflect market participant assumptions. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. For the 2014 goodwill impairment analysis, Leisureworld used an average post-tax discount rate of approximately 8.65% (2013 - 7.07%) across the CGUs and an average growth rate of 2.10% (2013 - 2.01%) before considering expansion projects. Leisureworld has not recognized any goodwill impairment losses.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

11 Long-term debt

	Interest rate	Maturity date	**December 31, 2014**	December 31, 2013
Series A Senior Secured Debentures	4.814%	November 24, 2015	**—**	294,326
Series B Senior Secured Debentures	3.474%	February 3, 2021	**322,000**	—
Credit facilities	Floating	April/May 2015	**66,000**	73,000
Mortgages at fixed rates	3.04% - 7.11%	2016 - 2024	**176,422**	162,083
Mortgage at variable rate	Floating	April 16, 2029	**14,714**	15,146
Construction loan	Prime + 1.25%	December 31, 2014	**—**	13,351
			579,136	557,906
Mark-to-market adjustments on acquisition			**1,848**	(1,337)
Financing costs			**(4,455)**	(1,694)
Total debt			**576,529**	554,875
Less: current portion			**74,039**	34,079
			502,490	520,796

Principal repayments on long-term debt are as follows:

2015	73,558
2016	17,921
2017	39,297
2018	28,594
2019	43,108
Thereafter	376,658
	579,136

Series A and B Senior Secured Debentures

On February 3, 2014, Leisureworld Senior Care LP ("LSCLP") issued $322,000 of aggregate principal amount of 3.474% Series B Debentures due February 3, 2021. The net proceeds of $313,657, after financing costs of $2,109 and the settlement of the bond forward contract that resulted in a payment of $6,234 were used on February 24, 2014 to repurchase $294,326 principal amount of its Series A Senior Secured Debentures ("Series A Debentures") for a cash consideration of $312,718, which includes a redemption premium of $18,392. The settlement of the bond forward contract created a tax shield of $1,650. Accrued interest of $3,571 on the Series A Debentures and financing costs of $1,489 on the Series B Debentures were also paid in the first quarter of 2014.

The Series B Debentures have a face value of $322,000 as at December 31, 2014 (December 31, 2013 - $nil) and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Interest on the Series B Debentures is payable semi-annually in arrears on February 3rd and August 3rd of each year.

The Series B Debentures may be redeemed in whole or in part at the option of Leisureworld at any time, on not less than 15 days and not more than 30 days notice to the holders of the Series B Debentures. The redemption price is the greater of: (i) the face amount of the Series B Debentures to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such Series B 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 0.375%.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

Series B Debentures - Principal Reserve Fund

As part of the issuance of the Series B Debentures, a principal reserve fund was established by Leisureworld and is controlled by an external third party trustee for the benefit and security of the holders of the Series B Debentures. Leisureworld is required to fund the principal reserve fund in accordance with a defined schedule over the term of the Series B Debentures. Leisureworld can only use the fund to redeem, purchase or repay principal of the Series B Debentures. Leisureworld, in conjunction with the issuance of the Series B Debentures, entered into an interest rate swap contract, to effectively fix the interest rate earned on the principal reserve fund at 2.82%.

Required contributions to the principal reserve fund are as follows:

2015	5,908
2016	6,319
2017	6,618
2018	6,920
2019	7,112
Thereafter	7,893
	40,770

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where Leisureworld currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The principal reserve fund arrangement described above does not meet the criteria for offsetting in the consolidated statements of financial position but still allows for the related amounts to be set-off in certain circumstances, such as the repurchase of the Series B Debentures.

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset as at December 31, 2014 (December 31, 2013 - n/a), and shows in the 'Net amount' column what the net impact would be on Leisureworld's consolidated statements of financial position if the set-off rights were exercised in the circumstance described above. As at December 31, 2014, no recognized financial instruments are offset in the consolidated statements of financial position.

	As at December 31, 2014		
	Gross amount presented in the statements of financial position	Related accounts not set-off in the statements of financial position	Net amount
Financial Liabilities:			
Series B Senior Secured Debentures	322,000	(4,751)	317,249

Credit facilities

The Ontario Portfolio has 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. The revolving credit facility is due April 26, 2015. On December 3, 2014, Leisureworld decreased the amount available to be borrowed by $4,500 to $57,000. As at December 31, 2014, Leisureworld has drawn $42,000 under this credit facility (December 31, 2013 - $47,000).

The Astoria retirement residence has a $26,000 credit facility ("Credit Facility") that bears a floating interest rate equal to the BA rate plus 187.5 bps. The credit facility is secured by Astoria's assets and guaranteed by Leisureworld and is subject to certain customary financial and non-financial covenants. The credit facility is due May 23, 2015. On December 3, 2014, Leisureworld decreased the amount available to be borrowed by $2,000 to $24,000. As at December 31, 2014, Leisureworld has drawn $24,000 under this credit facility (December 31, 2013 - $26,000).

Mortgages at fixed rates

On April 19, 2013, Leisureworld entered into a $17,974 Canada 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 secured by a first collateral mortgage on the Pacifica property and a general security agreement providing a first charge on all assets and undertakings on the Pacifica property, 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.

On December 2, 2013, Leisureworld completed the Specialty Care Acquisition. As part of the Specialty Care Acquisition, Leisureworld assumed mortgages in the amount of $59,229 with a fair value of $61,299. The assumed mortgages bear fixed interest rates ranging from 3.02% to 7.11% with maturity dates ranging from 2014 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 ranging from 2018 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.

On December 12, 2014, Leisureworld entered into a mortgage totaling $34,000 that bears an interest rate of 4.196% and matures on December 12, 2024. Leisureworld repaid $26,720 of expiring long-term debt from the net proceeds of the new mortgage and retained the excess cash.

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 1.50% 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 3.70%. The swap is collateralized by a second mortgage of the property.

12 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 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.

On 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.

On 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. As at December 31, 2014, $1,411 of financing costs remain to be amortized and $286 of fair value adjustment remains to be accreted.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

13 Net finance charges

	2014	2013
Finance costs		
Interest expense on long-term debt	**22,882**	19,062
Interest expense on convertible debentures	**2,212**	1,513
Fees on revolving credit facility	**143**	189
Net accretion of the fair value adjustments on long-term debt	**3,181**	1,679
Amortization of deferred financing charges	**1,651**	789
Amortization of loss on bond forward contract	**720**	—
Redemption premium on long-term debt	**18,415**	—
Net settlement payment on interest rate swap contracts	**358**	550
Dividend equivalent on subscription receipts	**—**	3,812
Loss (gain) on interest rate swap contracts	**581**	(1,649)
	50,143	25,945
Finance income		
Interest income on construction funding receivable	**4,150**	3,096
Interest income on subscription receipts funds held in escrow	**—**	509
Other interest income	**307**	243
	4,457	3,848
Net finance charges	**45,686**	22,097

14 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, 2014, Leisureworld had no amounts drawn on this facility (December 31, 2013 - $nil) and no letters of credit were outstanding (December 31, 2013 - $nil). During the year ended December 31, 2014, charges related to standby fees totaled $37 (2013 - $37).

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, a subsidiary of Leisureworld. It bears interest at the prime rate plus 0.50% per annum. As at December 31, 2014, Leisureworld had no amounts drawn on this loan (December 31, 2013 - $nil).

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

15 Income taxes

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

	2014	2013
Loss before recovery of income taxes	**(22,071)**	(10,241)
Canadian combined income tax rate	**26.47%**	26.47%
Income tax recovery	**(5,842)**	(2,711)
Adjustments to income tax provision:		
Non-deductible items	**415**	2,088
Book to filing adjustment	**(452)**	—
Other items	**(351)**	(234)
Income tax recovery	**(6,230)**	(857)

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

	Accelerated tax depreciation	**Intangible assets**	**Share issuance**	**Construction funding interest**	**Other**	**Total**
As at January 1, 2013	(62,926)	(7,395)	2,736	4,748	(2,845)	(65,682)
Due to acquisition of the 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)
Credit (charge) to net loss	1,645	2,674	(1,274)	(1,098)	2,137	4,084
Book to filing adjustment	1,121	—	—	(952)	76	245
Credit to other comprehensive loss	—	—	24	—	2,149	2,173
As at December 31, 2014	**(63,058)**	**(6,072)**	**1,164**	**5,712**	**3,566**	**(58,688)**

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

	December 31, 2014	December 31, 2013
Within one year	**908**	(3,409)
One to four years	**(7,238)**	(6,829)
After four years	**(52,358)**	(54,952)
Total	**(58,688)**	(65,190)

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

16 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, 2013	29,272,889	289,098
Long-term incentive plan, net of loans receivable (Note 18)	9,435	14
Share-based compensation (Note 18)	—	5
Issued common shares (Note 24)	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
Long-term incentive plan, net of loans receivable (Note 18)	10,396	19
Share-based compensation (Note 18)	—	20
Dividend reinvestment plan	32,892	350
Issued common shares (Note 18)	16,097	195
Balance, December 31, 2014	**36,299,038**	**372,373**

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. On 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.

Dividend reinvestment plan

Leisureworld has established a dividend reinvestment plan for eligible holders of Leisureworld's common shares, which allows participants to reinvest their cash dividends paid in respect of their common shares in additional common shares at a 3% discount. For the year ended December 31, 2014, issuance costs of $92 were netted against the increase in share capital of $442.

Earnings per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by assuming all convertible securities have been converted at the time of issuance. Any charges or returns on the convertible securities, on an after-tax basis, are removed from loss from operations.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

The following table reconciles the numerator and denominator of the basic and diluted loss per share calculation.

	2014	2013
Numerator for Basic and Diluted loss per share		
Net loss for basic loss per share	**(15,841)**	(9,384)
Net finance charges on convertible debentures	**2,614**	1,788
Current income tax adjustment	**(692)**	(473)
Net loss used to determine diluted loss per share	**(13,919)**	(8,069)
Denominator for Basic and Diluted loss per share		
Weighted average number of shares for basic loss per share	**36,264,658**	29,871,656
Shares issued if all convertible debentures were converted	**2,746,269**	1,889,695
Subscription receipts	**—**	3,847,065
Total for diluted loss per share	**39,010,927**	35,608,416

17 Dividends

Leisureworld paid dividends at $0.075 per month per common share totaling $32,194 for the year ended December 31, 2014 (2013 - $26,373). Dividends of $2,723 are included in accounts payable and accrued liabilities as at December 31, 2014 (December 31, 2013 - $2,718). Subsequent to December 31, 2014, the Board of Directors declared dividends of $0.075 per common share for January and February 2015 totaling $5,444. These dividends have not been recorded in these consolidated financial statements.

18 Share-based compensation

Leisureworld has share-based compensation plans described as follows:

LTIP

Certain senior executives ("Participants") and past executives 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 in 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 10 years (formerly 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 25, 2014 incentive amounts entitling Participants to acquire 10,396 shares were awarded under this plan. On the grant date, the Participants paid $6, which represents 5% of their aggregate incentive amounts. This payment was recorded as an increase in share capital. Related to the LTIP in the year ended December 31, 2014, Leisureworld recorded an increase of $19 in share capital (2013 - $14) and $32 in contributed surplus (2013 - $17). Included as a reduction to shareholders' equity is an outstanding loan balance of $287 (December 31, 2013 - $178). Total expense related to the LTIP for the year ended December 31, 2014 was $32 (2013 - $17).

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

The fair value of LTIP awards granted 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 25, 2014	February 21, 2013
Fair value at grant date	$12.30	$12.72
Volatility	16.46%	15.67%
Monthly discrete dividend	$0.075	$0.075
Risk-free rate	2.83%	1.79%
Annual interest rate on participant's loan - prime rate	3.00%	3.00%
Forfeiture rate	0.00%	0.00%

RSU

Certain employees ("Employees") may be awarded RSUs based on performance targets being achieved. Employees 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. Employees participating in the RSU plan are entitled to receive notional distributions equal to the amount of dividend per common share. Such distributions will be granted to the Employee 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 years one, two and three from the grant date and the related compensation expense is recognized on a graded basis over the vesting periods. On vesting of the RSUs, the Employees 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.

During the year ended December 31, 2014, 23,730 RSUs (2013 - 9,435) were granted to certain Employees under this plan. Total expenses related to the RSU plan for the year ended December 31, 2014 was $344 (2013 - $114), of which $256 (2013 - $114), was recognized in administrative expenses and $88 (2013 - $nil), was recognized in transaction costs relating to termination benefits. During the year ended December 31, 2014, one of the Employees resigned and 3,664 RSUs were forfeited causing a decrease of $11 to the share-based compensation liability. During the same period, 18,888 RSUs vested and were settled in cash and shares, resulting in a decrease of $219 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at December 31, 2014 was $235 (December 31, 2013 - $121).

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

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

	Number of RSUs
Outstanding, January 1, 2013	11,489
Granted	20,190
Dividends reinvested	1,207
Settled in cash	(6,859)
Outstanding, December 31, 2013	26,027
Granted	23,730
Forfeited	(3,664)
Dividends reinvested	2,126
Settled in cash	(2,791)
Settled in shares	(16,097)
Outstanding, December 31, 2014	**29,331**

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 the DSU plan. The Compensation, Nominating and Governance Committee reserves the right to amend the eligible Members 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 expenses related to this plan for the year ended December 31, 2014 was $856 (2013 - $1,050), which was recognized in administrative expenses. During the year ended December 31, 2014, a former Member redeemed 5,942 shares, resulting in a pay out of $73. The total liability recorded as a part of the share-based compensation liability as at December 31, 2014 was $2,339 (December 31, 2013 - $1,556).

19 Employee salaries and benefits

Payroll costs for all employees including key management consist of:

	2014	2013
Salaries and short-term employee benefits	**277,004**	215,631
Group retirement savings plan	**6,820**	5,193
Termination benefits	**1,047**	646
Share-based compensation	**1,144**	1,186
	286,015	222,656

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

20 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.

	2014	2013
Salaries and short-term employee benefits	**2,339**	1,334
Termination benefits	**232**	—
Share-based compensation	**1,130**	1,180
	3,701	2,514

21 Commitments and contingencies

Leisureworld has a ten-year operating lease with respect to its corporate office located in Markham; the lease expires on October 31, 2024. 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:

2015	654
2016	577
2017	490
2018	436
2019	399
Thereafter	1,891
	4,447

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 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.

22 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 at December 31, 2014, the condition for the funding has been met.

As at December 31, 2014, Leisureworld will receive gross funding from the Ontario government of approximately $113,069 (December 31, 2013 - $126,149) 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 15 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 $4,150 for the year ended December 31, 2014 (2013 - $3,096).

23 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, 2014 was $1,717 (December 31, 2013 - $1,116).

24 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, 2014 was $1,892 (2013 - $1,992). Included in accounts receivable is $102 owing from Spencer House Inc. as at December 31, 2014 (December 31, 2013 - $94). 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, 2014, Leisureworld has amounts outstanding from certain key executives of $287 (December 31, 2013 - $178) (Note 18) 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 at December 31, 2014 was $469 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at the 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.

25 Economic dependence

Leisureworld holds licences related to each of its LTC homes and receives funding from the MOHLTC related to those licences. Funding is received on or about the 22nd of each month. During the year ended December 31, 2014, Leisureworld received approximately $285,087 (2013 - $221,773) in respect of these licences for flow-through envelope revenues and other MOHLTC funded initiatives.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

26 Expenses by nature

	2014	2013
Salaries, benefits and people costs	**291,742**	230,143
Food	**18,964**	14,215
Property taxes	**13,317**	10,534
Utilities	**12,562**	9,072
Purchased services and non-medical supplies	**16,305**	13,428
Other	**39,609**	26,390
Total expenses	**392,499**	303,782

27 Subsidiaries

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

		Percentage of equity interest	
Name	**Country of incorporation**	**December 31, 2014**	December 31, 2013
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%	100%

28 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 and assets 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;
- Management Services - Management Services is a new division that is focused on the third party management business in both the LTC and retirement sectors; and
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments.

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

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

	Year ended December 31, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**402,163**	**40,815**	**17,849**	**2,426**	**32,641**	**495,894**
Less: Internal revenue	**5,379**	**—**	**—**	**—**	**33,727**	**39,106**
Net revenue	**396,784**	**40,815**	**17,849**	**2,426**	**(1,086)**	**456,788**
Income before depreciation and amortization, net finance charges, transaction costs and the recovery of income taxes	**60,137**	**17,416**	**2,487**	**1,760**	**(17,511)**	**64,289**
Transaction costs	**—**	**—**	**—**	**—**	**1,163**	**1,163**
Depreciation of property and equipment	**17,849**	**6,980**	**1**	**—**	**—**	**24,830**
Amortization of intangible assets	**2,186**	**10,486**	**6**	**2,003**	**—**	**14,681**
Finance costs	**42,021**	**5,503**	**—**	**5**	**2,614**	**50,143**
Finance income	**(4,425)**	**—**	**(4)**	**—**	**(28)**	**(4,457)**
Income tax recovery	**—**	**—**	**—**	**—**	**(6,230)**	**(6,230)**
Net income (loss)	**2,506**	**(5,553)**	**2,484**	**(248)**	**(15,030)**	**(15,841)**
Purchase of property and equipment	**2,785**	**1,048**	**—**	**—**	**47**	**3,880**
Purchase of intangible assets	**2**	**—**	**—**	**—**	**446**	**448**

	Year ended December 31, 2013					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	315,768	27,823	17,663	211	26,895	388,360
Less: Internal revenue	5,893	—	—	—	29,144	35,037
Net revenue	309,875	27,823	17,663	211	(2,249)	353,323
Income before depreciation and amortization, net finance charges, transaction costs and the recovery of income taxes	47,871	12,076	3,151	211	(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	400	7,597	239	174	—	8,410
Finance costs	15,920	4,421	—	—	5,604	25,945
Finance income	(3,217)	(18)	—	—	(613)	(3,848)
Income tax recovery	—	—	—	—	(857)	(857)
Net income (loss)	19,701	(5,291)	2,911	37	(26,742)	(9,384)
Purchase of property and equipment	2,179	372	—	—	77	2,628
Purchase of intangible assets	2,204	—	—	—	—	2,204

All amounts are in thousands of dollars except share and per share data, or unless otherwise noted

	As at December 31, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Total assets	**687,135**	**243,682**	**8,645**	**6,815**	**486**	**946,763**
Goodwill	**89,322**	**2,511**	**6,521**	**450**	**—**	**98,804**
Intangible assets	**109,896**	**10,764**	**—**	**4,620**	**446**	**125,726**

	As at December 31, 2013					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Total assets	700,142	260,291	8,161	7,673	757	977,024
Goodwill	89,322	2,511	6,521	450	—	98,804
Intangible assets	112,080	21,250	6	6,623	—	139,959

29 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:

- In the segmented information note, total assets previously reported are now adjusted to exclude intercompany balances.
- In the expenses by nature note, a new line item has been created for purchased services and non-medical supplies, which was previously included in other.

These reclassifications had no impact on the reported net loss.