Q2 2014

Leisureworld
SENIOR CARE CORPORATION

Report to Shareholders

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SENIOR CARE CORPORATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Leisureworld Senior Care Corporation ("**LSCC**" or the "**Company**") summarizes the financial results for the three and six month periods ended June 30, 2014. Unless otherwise indicated or the context otherwise requires, reference herein to "Leisureworld" refers to LSCC and its direct and indirect subsidiary entities. All financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted. This discussion and analysis of LSCC's consolidated financial performance, cash flows and financial position for the three and six month periods ended June 30, 2014 should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes contained in this financial report and the audited consolidated financial statements, related notes and the MD&A for the year ended December 31, 2013.

Leisureworld is listed on the Toronto Stock Exchange (the "**TSX**"), under the trading symbol LW. As of August 13, 2014, the following securities of LSCC were outstanding: 36,265,458 common shares and $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

Additional Information

Additional information relating to Leisureworld is available on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com, on Leisureworld's website at www.leisureworld.ca, or by contacting Nitin Jain, Chief Financial Officer, at 905-477-4006 x2006 or nitin.jain@leisureworld.ca.

Review and Approval By the Board of Directors

This MD&A is dated as of August 13, 2014, the date on which this report was approved by the Board of Directors of Leisureworld and reflects all material events up to that date.

Forward-Looking Statements

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

The forward-looking statements contained in this MD&A are based on information currently available and that management currently believes are based on reasonable assumptions. However, neither Leisureworld nor management can ensure actual results will be consistent with these forward-looking statements. These forward-looking statements are as of the date of this MD&A, and Leisureworld and management assume no obligation to update or revise them to reflect new events or circumstances except as required by securities laws. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Non-IFRS Performance Measures

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

NOI is defined as revenue net of 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: 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 issuers.

Key Performance Indicators

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

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

The following table presents the Key Performance Indicators for the periods ended June 30:

Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended 2014	2013	Change	Six Months Ended 2014	2013	Change
OCCUPANCY						
LTC - Average total occupancy	**98.5%**	99.0%	-0.5%	**98.5%**	98.9%	-0.4%
LTC - Average private occupancy	**99.1%**	99.4%	-0.3%	**98.9%**	99.0%	-0.1%
Retirement - Average occupancy	**81.8%**	76.0%	5.8%	**82.3%**	73.3%	9.0%
Retirement - Average occupancy (including respite) (1)	**83.0%**	--	n/a	**83.1%**	--	n/a
Retirement - As at occupancy	**82.6%**	76.3%	6.3%	**82.6%**	76.3%	6.3%
Retirement - As at occupancy (including respite) (1)	**83.0%**	--	n/a	**83.0%**	--	n/a
FINANCIAL						
NOI	**20,175**	15,555	4,620	**39,703**	29,525	10,178
OFFO	**10,892**	6,901	3,991	**20,256**	13,127	7,129
AFFO	**13,047**	8,568	4,479	**24,751**	16,748	8,003
PER SHARE INFORMATION						
OFFO per share, basic	**0.300**	0.236	0.064	**0.559**	0.448	0.111
OFFO per share, diluted (2)	**0.290**	0.229	0.061	**0.540**	0.442	0.098
AFFO per share, basic	**0.360**	0.292	0.068	**0.683**	0.572	0.111
AFFO per share, diluted (2)	**0.345**	0.282	0.063	**0.655**	0.561	0.094
Dividends per share	**0.225**	0.225	--	**0.450**	0.450	--
Payout ratio (basic AFFO)	**62.5%**	77.1%	14.6%	**65.9%**	78.7%	12.8%
FINANCIAL RATIOS						
Debt Service Coverage Ratio (3)	**2.0**	2.4	(0.4)	**1.9**	2.4	(0.5)
Debt to Gross Book Value as at period end	**57.4%**	49.8%	7.6%	**57.4%**	49.8%	7.6%
Weighted Average Cost of Debt as at period end	**3.9%**	4.5%	-0.6%	**4.0%**	4.5%	-0.5%
Leverage Ratio	**8.1**	8.5	(0.4)	**8.5**	8.2	0.3
Interest Coverage Ratio	**3.1**	2.7	0.4	**2.9**	2.7	0.2
Average term to maturity as at period end	**5.2**	3.4	1.8	**5.2**	3.4	1.8
		2014 v. 2013			2014 v. 2013	
SAME PROPERTY PERCENT CHANGE IN NOI						
Long Term Care		1.5%			2.3%	
Retirement		16.2%			14.8%	
Home Care (4)		-8.0%			-3.8%	
Total		3.6%			4.3%	

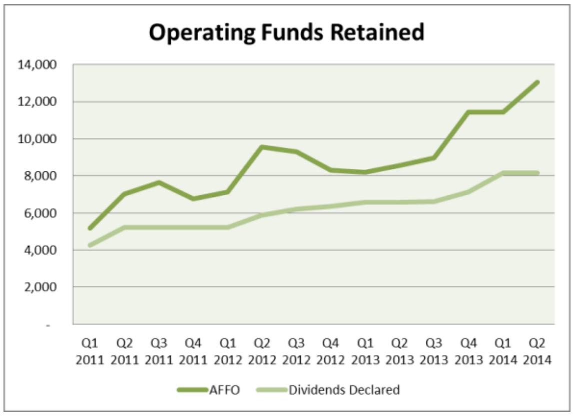
Notes:
1. Respite occupancy data was not captured for 2013.
2. OFFO and AFFO diluted calculations exclude the impact of the subscription receipts. For a reconciliation of the calculation including subscription receipts please refer to the Adjusted Funds from Operations table.
3. The Series B Debentures issued on February 3, 2014 require the funding of a principal reserve fund to fund the eventual repayment of the debenture. For the second quarter of 2014, $1,282 was contributed to the principal reserve fund, for the six months ended $2,139, which contribution is included in the calculation of the debt service coverage ratio.
4. If not for the current period incremental expenses related to people and back office automation the same store NOI would have been favourable at 1.4% or 3.0% compared to the same periods in the prior year respectively.

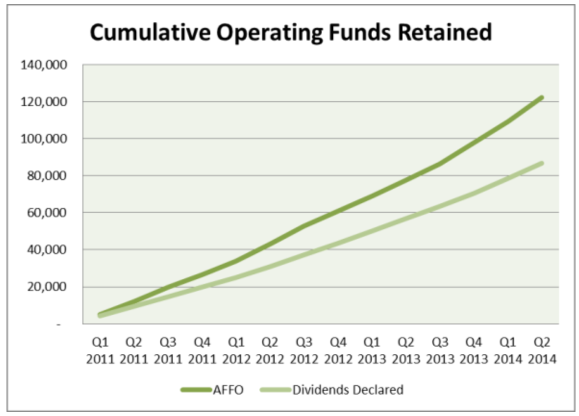
Note on NOI:

Prior year Ministry of Health and Long Term Care ("**MOHLTC**") reconciliation adjustments were recorded in the current quarter that decreased revenue and NOI by $956. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings. The current adjustment relates to the 2007 through 2011 reconciliation years. 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.

Note on OFFO and AFFO:

There was a $153 charge to administrative expenses in the quarter related to the deferred share unit compensation. This was primarily related to the mark to market adjustment attributable to the increase in share prices.





Operating funds retained is equal to AFFO less dividends declared.

Corporate Profile

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

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

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

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

Company Objectives

Please refer to LSCC's Annual MD&A for the year ended December 31, 2013 as well as the Annual Information Form ("**AIF**") available on SEDAR or, www.leisureworld.ca, for an in depth discussion of the Company Objectives.

Industry Overview

Please refer to LSCC's Annual MD&A for the year ended December 31, 2013 as well as the AIF available on SEDAR or, www.leisureworld.ca, for an in depth discussion of the Industry Overview.

Outlook

Leisureworld owns and operates a home care business, retirement residences, a third party management services business and long term care homes and is currently the largest owner and operator of Long Term Care homes in Ontario. Management believes that Leisureworld is well positioned for strong organic and external growth with the rapidly growing senior's population, strong demand for seniors' services outside of hospitals, and high barriers to entry in all four lines of the Leisureworld business.

Long Term Care

In the second quarter, Leisureworld's same property LTC NOI growth continued to have a strong and stable performance. Leisureworld continues to enjoy the benefit of the conversion to the new private accommodation rates with 48% of its' A private beds now at the increased rates of $19.75 or $21.50 per resident per day (19% and 29% respectively).

The MOHLTC recently announced a further increase to the preferred accommodation rates for residents admitted on or after September 1, 2014 in A class homes. The premium that can be charged for a semi-private room will increase from $10.00 to $11.00 per resident day and the premium for private accommodation will increase from $21.50 to $23.25 per resident day. Preferred accommodation rates have experienced increases since 2012 as previously there had been no change to these rates since 1993. Leisureworld continues to experience strong demand for private occupancy at 99.1%.

There is a high demand for LTC beds as there is a provincial wait list in excess of 21,000 seniors waiting for a long term care bed. Management expects Leisureworld to continue to experience high occupancy rates in excess of 97%. In the recent approved Ontario budget, the Government confirmed their commitment to a redevelopment program for B and C class beds in addition to their intention to extend the license term for A class beds to 30 years from the current 25 years. It will likely take some time for a redevelopment program to be announced and management expects to be ready to participate when there is a viable program, which will contribute to Leisureworld's Long Term Care growth strategy.

Retirement

In the Retirement division, Leisureworld experienced an improvement in year over year occupancy and same property NOI growth of 16.2%. Management expects Leisureworld to continue to experience NOI growth throughout 2014 as a result of disciplined expense management and increased occupancy.

Leisureworld achieved stabilization of occupancy at Cedarvale Lodge at 92.3% at the end of the second quarter; however, Astoria, Peninsula, Kingston and Kanata remain in lease-up.

Although Leisureworld has been historically known as a long term care provider, management is focused on establishing its reputation and stature in retirement living in every community where Leisureworld operates. The retirement home team continues to implement the Company's unique platform which focuses on sales and marketing initiatives, lifestyle choices, managing controllable expenses and implementing care and service options to enable residents to stay with Leisureworld longer.

Home Care

While the Home Care division, Preferred Health Care Services, continues to experience growth in personal support worker volumes through Community Care Access Centres, during the second quarter the division experienced additional expenses related to overtime hours to meet the demand for service as well as expenses for an upgrade in communications and information technology which will continue to improve the service delivery and response times in the future.

The Ontario government has reiterated its commitment to an important investment in increasing personal support worker wages. Management believes that the demand for home care will continue to grow, with the goal to keep seniors at home for as long as possible and Preferred Health Care Services should continue to experience organic growth.

Management Services

Management believes that there is significant opportunity in the third party management business and this division will grow over time, given that both the long term care and retirement sectors are highly regulated and very complex to manage. Management is committed to growing Leisureworld's new management services division and aligning its resources and services to the managed homes. Management is refining its internal allocation of expenses to this line of business and this will take some time to perfect.

Leisureworld has an experienced team focused on management services and they are actively marketing this service and bidding on new contracts for third party management.

General and Administrative Expenses

There will continue to be some one time transition costs associated with restructuring, strengthening and modernizing the back office to support the recent and future growth of the Company and all four lines of business. Management is currently focused on establishing and harmonizing Leisureworld's systems and processes such as information technology, financial management and payroll.

Acquisitions

Although Management is currently focused on numerous internal initiatives to support Leisureworld's recent growth and the expansion into retirement living, management will also pursue new strategic acquisition opportunities, focused in Ontario and in British Columbia.

Management is very pleased with Leisureworld's progress on integration, and remains confident of a very exciting future for the organization, its staff, clients and shareholders.

Significant Events

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 $322.0 million of aggregate principal amount of 3.474% Series B Senior Secured Debentures with a maturity date of February 3, 2021 (the "**Series B Debentures**").

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

This refinancing extended the weighted average term to maturity of Leisureworld's long-term debt (including the Convertible Debentures) from 3.1 to 5.5 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 inefficiency.

The Series B Debentures, which bear interest at 3.474% per year payable semi-annually, were issued by LSCLP under a supplement to its existing master trust indenture. The terms of the Series B Debentures include covenants to maintain a principal reserve fund to be used for 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 this debenture refinancing due to the redemption premium payable to retire the Series A Debentures being categorized as an expense for accounting purposes (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.

Further, the redemption premium results in a positive impact for tax purposes due to the tax shelter provided by the payment. This tax impact has a positive result on the net income for the period, 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 which should benefit future earnings and reduce financial risk.

Quarterly Financial Information

Thousands of Dollars, except occupancy and per share data	2014 Q2	2014 Q1	2013 [2] Q4	2013 [2] Q3	2013 [2] Q2	2013 [2] Q1	2012 [2] Q4	2012 [2] Q3
Revenue	**111,674**	**112,340**	99,815	86,575	83,229	83,704	85,516	82,939
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**15,702**	**15,304**	13,512	13,467	11,761	10,801	11,529	12,050
Net income (loss)	**376**	**(18,064)**	(6,348)	(706)	(968)	(1,362)	(1,347)	(139)
Per share and diluted per share	**0.01**	**(0.50)**	(0.20)	(0.02)	(0.03)	(0.05)	(0.05)	(0.00)
OFFO - Basic [2]	**10,892**	**9,364**	9,812	8,019	6,901	6,226	6,882	7,164
Per share	**0.30**	**0.26**	0.31	0.27	0.24	0.21	0.24	0.25
Per share diluted - excluding subscription receipts	**0.29**	**0.25**	0.30	0.26	0.23	0.21	0.24	0.24
Per share diluted - including subscription receipts	**n/a**	**n/a**	0.27	0.22	0.20	n/a	n/a	n/a
AFFO - Basic [2]	**13,047**	**11,704**	11,429	8,957	8,568	8,180	8,289	9,289
Per share	**0.36**	**0.32**	0.36	0.31	0.29	0.28	0.28	0.32
Per share diluted - excluding subscription receipts	**0.35**	**0.31**	0.35	0.29	0.28	0.28	0.28	0.32
Per share diluted - including subscription receipts	**n/a**	**n/a**	0.31	0.25	0.25	n/a	n/a	n/a
Dividends declared	**8,159**	**8,158**	7,116	6,598	6,594	6,587	6,341	6,217
Per share	**0.23**	**0.23**	0.23	0.23	0.23	0.23	0.22	0.21
Occupancy								
LTC - Average total occupancy	**98.5%**	**98.5%**	98.7%	99.0%	99.0%	98.7%	99.1%	99.1%
LTC - Average private occupancy	**99.1%**	**98.7%**	99.4%	99.6%	99.4%	98.7%	99.2%	99.0%
Retirement - Average occupancy	**81.8%**	**82.7%**	81.8%	78.5%	76.0%	76.0%	76.7%	74.8%
Retirement - As at occupancy	**82.6%**	**82.5%**	82.9%	79.4%	76.3%	75.1%	75.5%	75.4%
Total assets	**956,746**	**969,355**	977,024	826,498	844,362	744,868	744,067	762,601
Total debt [1]	**621,915**	**624,837**	598,703	440,880	460,667	425,543	425,225	429,157

Notes:

1. Total debt includes the convertible debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.
2. In Q2 2014 Management has decided 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 or 2012 information presented above.

The quarterly financial results of Leisureworld 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 ended June 30, 2014, the Company recorded MOHLTC reconciliation adjustments in the current quarter that decreased revenue and NOI by $956. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings. The current adjustment relates to the 2007 through 2011 reconciliation years. 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.

During the first quarter of 2014, $322 million of Series B Debentures were issued to provide 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 the first quarter. In December 2013, Leisureworld completed the Specialty Care Acquisition, which contributed approximately $1,783 to NOI for the one month. In the fourth quarter of 2012, Leisureworld paid a one-time redemption premium of $1,095 relating to the partial repurchase and cancellation of Series A Debentures with a face value of $15,674. This premium was included in the financing costs.

A discussion of the results for the three and six months ended June 30, 2014 compared to the same periods in the prior year is provided under the section “Operating Results”.

Business Overview

Please refer to LSCC’s Annual MD&A for 2013 as well as the AIF available on SEDAR or, www.leisureworld.ca, for an in depth discussion of the Business Overview.

Operating Results

The following are the Operating Results for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Revenue	**111,674**	83,229	28,445	**224,014**	166,933	57,081
Expenses						
Operating	**91,499**	67,674	23,825	**184,311**	137,408	46,903
Administrative	**4,473**	3,794	679	**8,697**	6,963	1,734
	95,972	71,468	24,504	**193,008**	144,371	48,637
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**15,702**	11,761	3,941	**31,006**	22,562	8,444
Other expenses						
Depreciation and amortization	**10,215**	6,862	3,353	**20,042**	13,962	6,080
Net finance charges	**5,513**	5,386	127	**34,906**	9,770	25,136
Transaction costs	**109**	748	(639)	**659**	1,747	(1,088)
Total other expenses	**15,837**	12,996	2,841	**55,607**	25,479	30,128
Loss before income taxes	**(135)**	(1,235)	1,100	**(24,601)**	(2,917)	(21,684)
Provision for (recovery of) income taxes						
Current	**(471)**	421	(892)	**(2,178)**	876	(3,054)
Deferred	**(40)**	(688)	648	**(4,735)**	(1,463)	(3,272)
	(511)	(267)	(244)	**(6,913)**	(587)	(6,326)
Net income (loss)	**376**	(968)	1,344	**(17,688)**	(2,330)	(15,358)
Total assets	**956,746**	844,362	112,384	**956,746**	844,362	112,384
Total debt (net of principal reserve fund)	**621,915**	540,883	81,032	**621,915**	540,883	81,032

Revenue Breakdown

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2014	2013	Change	**2014**	2013	Change
Long Term Care						
Same property	**75,974**	72,881	3,093	**151,931**	146,297	5,634
Transactions	**21,833**	-	21,833	**43,533**	-	43,533
Total Long Term Care Revenue (1)	**97,807**	72,881	24,926	**195,464**	146,297	49,167
Retirement						
Same property	**6,991**	6,489	502	**13,837**	13,018	819
Transactions	**3,196**	-	3,196	**6,341**	-	6,341
Total Retirement Revenue	**10,187**	6,489	3,698	**20,178**	13,018	7,160
Home Care						
Same property	**4,297**	4,142	155	**8,688**	8,297	391
Transactions	**-**	242	(242)	**-**	487	(487)
Total Home Care Revenue	**4,297**	4,384	(87)	**8,688**	8,784	(96)
Management Services						
Same property	**-**	-	-	**-**	-	-
Transactions	**591**	-	591	**1,212**	-	1,212
Total Other Revenue	**591**	-	591	**1,212**	-	1,212
Total Revenue						
Same property	**87,262**	83,512	3,750	**174,456**	167,612	6,844
Transactions	**25,620**	242	25,378	**51,086**	487	50,599
MOHLTC reconciliation adjustments (1)	**(956)**	-	(956)	**(956)**	-	(956)
Intersegment eliminations	**(252)**	(525)	273	**(572)**	(1,166)	594
Total Revenue	**111,674**	83,229	28,445	**224,014**	166,933	57,081

"**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 and six month periods ended June 30, 2014, the Company recorded MOHLTC reconciliation adjustments in the current quarter that decreased revenue and NOI by $956. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings. The current adjustment relates to the 2007 through 2011 reconciliation years. 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.

Operating Expense Breakdown

Thousands of Dollars	Three Months Ended 2014	2013	Change	Six Months Ended 2014	2013	Change
Long Term Care						
Same property	**63,730**	60,815	2,915	**128,914**	123,797	5,117
Transactions	**18,278**	-	18,278	**36,672**	-	36,672
Total Long Term Care Expenses	**82,008**	60,815	21,193	**165,586**	123,797	41,789
Retirement						
Same property	**3,838**	3,775	63	**7,604**	7,588	16
Transactions	**1,963**	-	1,963	**3,934**	-	3,934
Total Retirement Expenses	**5,801**	3,775	2,026	**11,538**	7,588	3,950
Home Care						
Same property	**3,684**	3,476	208	**7,384**	6,942	442
Transactions	**-**	133	(133)	**-**	247	(247)
Total Home Care Expenses	**3,684**	3,609	75	**7,384**	7,189	195
Management Services						
Same property	**-**	-	-	**-**	-	-
Transactions	**258**	-	258	**375**	-	375
Total Other Expenses	**258**	-	258	**375**	-	375
Total Operating Expenses						
Same property	**71,252**	68,066	3,186	**143,902**	138,327	5,575
Transactions	**20,499**	133	20,366	**40,981**	247	40,734
Intersegment eliminations	**(252)**	(525)	273	**(572)**	(1,166)	594
Total Expenses	**91,499**	67,674	23,825	**184,311**	137,408	46,903

Net Operating Income Breakdown

Thousands of Dollars	Three Months Ended 2014	2013	Change	Six Months Ended 2014	2013	Change
Long Term Care						
Same property	**12,244**	12,066	178	**23,017**	22,500	517
Transactions	**3,555**	-	3,555	**6,861**	-	6,861
Total Long Term Care NOI	**15,799**	12,066	3,733	**29,878**	22,500	7,378
Retirement						
Same property	**3,153**	2,714	439	**6,233**	5,430	803
Transactions	**1,233**	-	1,233	**2,407**	-	2,407
Total Retirement NOI	**4,386**	2,714	1,672	**8,640**	5,430	3,210
Home Care						
Same property	**613**	666	(53)	**1,304**	1,355	(51)
Transactions	**-**	109	(109)	**-**	240	(240)
Total Home Care NOI	**613**	775	(162)	**1,304**	1,595	(291)
Management Services						
Same property	**-**	-	-	**-**	-	-
Transactions	**333**	-	333	**837**	-	837
Total Other NOI	**333**	-	333	**837**	-	837
Total NOI						
Same property	**16,010**	15,446	564	**30,554**	29,285	1,269
Transactions	**5,121**	109	5,012	**10,105**	240	9,865
MOHLTC reconciliation adjustments	**(956)**	-	(956)	**(956)**	-	(956)
Total NOI	**20,175**	15,555	4,620	**39,703**	29,525	10,178

For the Quarter

Revenue

Revenues for the second quarter of 2014 increased by $28,445, or 34.2%, to $111,674. The increase, principally related to the LTC revenue which increased by $24,926 to $97,807, is due to the following:

- The former Specialty Care LTC homes (acquired in December 2013) contributed revenues for the second quarter of 2014 in the amount of $21,833.
- LTC same property revenues increased $3,093, primarily as a result of funding changes and the timing of revenue recognition related to the flow-through envelopes.
- The Company recorded MOHLTC reconciliation adjustments in the current quarter that decreased revenue by $956. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings. The current adjustment relates to the 2007 through 2011 reconciliation years. 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. These adjustments were excluded from the same store and transaction presentations to isolate it from the current period performance.

The retirement portfolio revenues increased by $3,698 to $10,187 due to the following:

- The former Specialty Care RR homes (acquired in December 2013) contributed revenues of $3,196, during the second quarter of 2014.
- The increase of $502 in the same property retirement revenues is attributable to higher average occupancy and rate increases.

Home Care's revenue increased by $155 to $4,297, on a same property comparison, due to the growth in the provision of personal support contract service volumes. A portion of the professional services that serviced the LTC homes was internally transitioned, along with the related expenses, to LTC for internal management reporting purposes.

Operating Expenses

Operating expenses increased to $91,499 for the quarter compared to $67,674 in the same period last year. Of this $23,825 increase, LTC represented $21,193, which was attributed to:

- The former Specialty Care LTC homes (acquired in December 2013) incurred expenses of $18,278 for the second quarter of 2014.
- Same property expenses increased by approximately $2,915, due primarily to higher flow-through expenses of $2,677, which is consistent with the increased revenues in the flow-through envelopes.
- Other same property expense increases included utility costs of $113.

Retirement operating expenses for the quarter were $5,801, compared to $3,775 last year. The increase of $2,026 was related to:

- The former Specialty Care RR homes (acquired in December 2013) incurred expenses of $1,963 for the second quarter of 2014.

- Same property operating expenses increased marginally to $3,838, primarily related to increased occupancy and enhanced service offerings, partly offset by a reduction in marketing expenditures.

Home Care's operating expenses increased by $208 on a same property basis, which is attributable to the higher volume of personal support contracts, including approximately $32 of over-time and mandatory education requirements. As well, Home Care incurred approximately $30 related to technology and communication related costs in an attempt to better address the increase in demand.

Administrative Expenses

Administrative expenses increased to $4,473, during the second quarter of 2014, compared to $3,794 for the second quarter of 2013. The increase of $679 was primarily the result of:

- Higher people related costs of approximately $852 mainly as a result of the Specialty Care Acquisition which closed in December 2013, 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.
- Incremental costs of $190 associated with integration and back office automation.
- These increases were partly offset by lower public company costs of $344.

Depreciation and Amortization

Depreciation and amortization increased to $10,215 for the quarter, from $6,862 for the same period last year. The increase was principally related to the incremental depreciation and amortization of the acquired assets.

Net Finance Charges

Net finance charges for the three months ended June 30, 2014 were $5,513, compared to $5,386, for the same period last year. The increase of $127 was principally the result of:

- Finance charges related to the homes acquired in December 2013 totaled $1,456.
- The convertible debentures incurred incremental interest of $200, as they were not issued until the mid-second quarter of the prior year.
- There was a gain on the mark to market adjustment of the interest rate swaps where hedge accounting has not been applied, of $48 compared to gain of $945 in the comparable period of 2013.
- Incremental charges were partly offset by lower interest incurred on the Series B Debentures of approximately $1,184 for the quarter compared to the prior year.
- Compared to the same period in the prior year the Company incurred charges of $1,271 related to the dividend equivalent accounting treatment on the subscription receipts that were issued in April 2013 in conjunction with the Specialty Care Acquisition.
- Interest income on construction funding was higher by $289, mainly attributable to the Specialty Care Acquisition which closed in December 2013.

Transaction Costs

For the second quarter of 2014, transaction costs were $109 related to the Specialty Care Acquisition.

Income Taxes

The income tax recovery for the three months ended June 30, 2014 was $511 compared to $267 in the comparable period last year. The current tax recovery of $471 was the result of the book to filing adjustment for 2013 of approximately $452. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. The deferred tax recovery of $40 in the quarter represents an increase of $648 over the comparable period last year primarily as result of timing differences.

NOI

Leisureworld generated NOI of $20,175 for the period ended June 30, 2014. This represented an increase of $4,620 over the comparable quarter of 2013.

LTC NOI increased by $3,733 for the quarter, due primarily to Specialty Care Acquisition which closed in December 2013.

The retirement segment generated NOI of $4,386, an increase of $1,672 over the same period last year due primarily to the Specialty Care Acquisition which closed in December 2013 and a $439, or a 16.2%, improvement in same property performance.

Home Care's NOI of $613 reflects a decrease of $53 over the comparable period for the same property. The year over year negative same store performance on NOI, if not for the current period investments in people related and technology costs, would have been favourable by approximately $9, or 1.4%.

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.

For the Year to Date

Revenue

Revenues for the six months ended June 30, 2014 increased by $57,081, or 34.2%, to $224,014. The increase, principally related to the LTC revenue which increased by $49,167 to $195,464, due to the following:

- The Specialty Care LTC homes (acquired in December 2013) contributed revenues of $43,533.
- LTC same property revenues increased $5,634, primarily as a result of funding changes and the timing of revenue recognition related to the flow-through envelopes.

The retirement portfolio revenues increased by $7,160 to $20,178 due to the following:

- The Specialty Care RR homes (acquired in December 2013) contributed revenues of $6,341, during the first half of 2014.
- The change in the same property retirement revenues of $819 is primarily attributable to higher average occupancy generating incremental revenue.

Home Care's revenue increased $391 to $8,688 on a same store period over period basis. This increase was primarily related to higher support services contract volumes.

Operating Expenses

Operating expenses increased to $184,311 for the six months ended June 30, 2014, compared to $137,408 in the same period last year. Of this $46,903 increase, LTC accounted for $41,789, which was attributed to:

- The former Specialty Care LTC homes (acquired in December 2013) incurred expenses of $36,672 for the first half of 2014.
- Same property expenses increased by approximately $5,117, due primarily to higher flow-through expenses, which is consistent with the increased revenues in the flow-through envelopes.
- Other same property expense increases included utility costs of $297, dietary services of $109 and property maintenance costs of $88. The increases are primarily due to the extreme winter conditions experienced during the first quarter of 2014.

Retirement operating expenses for the year to date period were $11,538, compared to $7,588 last year. The increase of $3,950 was related to:

- The former Specialty Care RR homes (acquired in December 2013) incurred expenses of $3,934 for the six months ended June 30, 2014.
- Same property expenses were consistent with the prior year levels despite increased occupancy.

Home Care's operating expenses on a same property basis increased by $442, which is attributable to the higher volume of personal support contracts associated with the higher revenues and increased cost associated with new technology and communication initiatives.

Administrative Expenses

Administrative expenses increased to $8,697, during the six months ended June 30, 2014, compared to $6,963 for the same period in 2013. The increase of $1,734 was primarily the result of:

- Higher people related costs of approximately $1,734 mainly as a result of the Specialty Care Acquisition which closed in December 2013, 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.
- Incremental costs of $411 associated with integration and back office automation.
- The increases were partly offset by lower public company costs of $280.
- Consulting expenses were also lower in the period by $166.

Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2014 increased to $20,042 from $13,962 for the same period last year. The increase was principally related to the incremental depreciation and amortization of the acquired assets.

Net Finance Charges

Net finance charges for the six months ended June 30, 2014 were $34,906, compared to $9,770, for the same period last year. The increase of $25,136 was principally the result of:

- The redemption of the Series A Debentures resulted in incremental finance charges of approximately $23,353, as discussed in the first quarter results.
- Finance charges related to the homes acquired in December 2013 totaled $2,871.
- The convertible debentures incurred incremental interest of $844.
- There was a loss on the mark to market adjustment of the interest rate swaps where hedge accounting has not been applied, of $512 compared to gain of $1,244 in the comparable period of 2013.
- The incremental charges were partly offset by lower interest incurred on the Series B Debentures of approximately $1,037.
- The prior year included a charge for the dividend equivalent accounting treatment on the subscription receipts of $1,271.
- These increases were partly offset by higher interest income on construction funding of $578.

Transaction Costs

For the six months ended June 30, 2014, transaction costs were $659, and primarily related to restructuring charges associated with the Specialty Care Acquisition.

Income Taxes

The income tax recovery for the six months ended June 30, 2014 was $6,913 compared to $587 in the comparable period last year. The current tax recovery of $2,178 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. 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 $4,735 is an increase of $3,272 over last year primarily as a result of the tax shields discussed in the previous quarter.

NOI

Leisureworld generated NOI of $39,703 for the six months ended June 30, 2014. This represented an increase of $10,178 over the same period of 2013.

LTC NOI increased by $7,378 for the period, due primarily to the Specialty Care Acquisition which closed in December 2013 and a 2.3% improvement in same property performance.

The retirement segment generated NOI of $8,640, an increase of $3,210 over the same period last year due primarily to the Specialty Care Acquisition which closed in December 2013 and a 14.8% improvement in same property performance.

Home Care's NOI of $1,304 reflects a decrease of $51 over the comparable period. The year over year negative same store performance on NOI, if not for the current year investments in people related and technology costs, would have been approximately $1,397, or a year over year increase of 3.1%.

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.

Business Performance

Adjusted Funds from Operations

The following is a reconciliation of net income (loss) to FFO, OFFO and AFFO for the periods ended June 30.

	Three Months Ended			Six Months Ended		
Thousands of Dollars, except share and per share data	**2014**	2013	Change	**2014**	2013	Change
Net Income (loss)	**376**	(968)	1,344	**(17,688)**	(2,330)	(15,358)
Deferred income tax recovery	**(40)**	(688)	648	**(4,735)**	(1,463)	(3,272)
Depreciation and amortization	**10,215**	6,862	3,353	**20,042**	13,962	6,080
Transaction costs	**109**	748	(639)	**659**	1,747	(1,088)
Loss on interest rate swap settlements	**93**	141	(48)	**186**	361	(175)
Loss (gain) on interest rate swap contracts	**(48)**	(945)	897	**512**	(1,244)	1,756
Funds from operations (FFO)	**10,705**	5,150	5,555	**(1,024)**	11,033	(12,057)
Accretion of fair value increment on long term debt	**(207)**	430	(637)	**3,588**	854	2,734
Amortization of deferred financing charges	**280**	191	89	**1,081**	325	756
Amortization of loss on bond forward contract	**196**	-	196	**318**	-	318
Loss on interest rate swap settlements	**(93)**	(141)	48	**(186)**	(361)	175
Redemption premium on Series A Debentures	**-**	-	-	**18,392**	-	18,392
Tax shield due to redemption premium on Series A Debentures	**(692)**	-	(692)	**(966)**	-	(966)
Tax shield due to the settlement of the bond-lock hedge	**-**	-	-	**(1,650)**	-	(1,650)
Interest income on subscription receipt funds held in escrow	**-**	(158)	158	**-**	(158)	158
MOHLTC reconciliation adjustment (after tax)	**703**	-	703	**703**	-	703
One-time share based compensation	**-**	-	-	**-**	5	(5)
Dividend equivalents on subscription receipts	**-**	1,429	(1,429)	**-**	1,429	(1,429)
Operating funds from operations (OFFO)	**10,892**	6,901	3,991	**20,256**	13,127	7,129
Deferred share unit compensation earned	**265**	347	(82)	**439**	775	(336)
Deferred share unit settlement	**-**	-	-	**(73)**	-	(73)
Income support	**162**	325	(163)	**506**	663	(157)
Construction funding principal	**2,230**	1,533	697	**4,454**	3,060	1,394
Maintenance capex	**(502)**	(538)	36	**(831)**	(877)	46
Adjusted funds from operations (AFFO)	**13,047**	8,568	4,479	**24,751**	16,748	8,003
Adjusted funds from operations (AFFO)	**13,047**	8,568	4,479	**24,751**	16,748	8,003
Dividends declared	**(8,159)**	(6,594)	(1,565)	**(16,317)**	(13,181)	(3,136)
Operating cash flow retained	**4,888**	1,974	2,914	**8,434**	3,567	4,867
Basic FFO per share	**0.295**	0.176	0.119	**(0.028)**	0.377	(0.405)
Basic OFFO per share	**0.300**	0.236	0.064	**0.559**	0.448	0.111
Basic AFFO per share	**0.360**	0.292	0.068	**0.683**	0.572	0.111
Weighted average common shares outstanding - Basic	**36,264,976**	29,298,636		**36,257,968**	29,284,372	
Diluted FFO per share	**0.285**	0.173	0.112	**(0.006)**	0.372	(0.378)
Diluted OFFO per share	**0.290**	0.229	0.061	**0.540**	0.442	0.098
Diluted AFFO per share	**0.345**	0.282	0.063	**0.655**	0.561	0.094
Weighted average common shares outstanding - Diluted[(1)]	**39,011,245**	31,320,614		**39,004,237**	30,307,099	

Reconciliation of diluted FFO, OFFO and AFFO

Thousands of Dollars, except share and per share data	Three Months Ended 2014	2013	Change	Six Months Ended 2014	2013	Change
FFO, Basic	**10,705**	5,150	5,555	**(1,024)**	11,033	(12,057)
Interest expense on convertible debt	**552**	393	159	**1,097**	393	704
Current income tax expense adjustment	**(146)**	(137)	(9)	**(290)**	(137)	(153)
FFO, Diluted	**11,111**	5,406	5,705	**(217)**	11,289	(11,506)
OFFO, Basic	**10,892**	6,901	3,991	**20,256**	13,127	7,129
FFO dilutive adjustment, net	**406**	256	150	**807**	256	551
OFFO, Diluted	**11,298**	7,157	4,141	**21,063**	13,383	7,680
AFFO, Basic	**13,047**	8,568	4,479	**24,751**	16,748	8,003
OFFO dilutive adjustment, net	**406**	256	150	**807**	256	551
AFFO, Diluted	**13,453**	8,824	4,629	**25,558**	17,004	8,554

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 as follows:

	Three Months 2014	2013	Six Months 2014	2013
Weighted average common shares outstanding - Diluted, including subscription receipts	**n/a**	35,998,650	**n/a**	32,659,040
Subscription receipts, dilutive adjustment	**n/a**	(4,678,036)	**n/a**	(2,351,941)
Weighted average common shares outstanding - Diluted, excluding subscription receipts	**n/a**	31,320,614	**n/a**	30,307,099
Diluted FFO per share, including subscription receipts	**n/a**	0.150	**n/a**	0.346
Diluted FFO per share, excluding subscription receipts	**n/a**	0.173	**n/a**	0.372
Diluted OFFO per share, including subscription receipts	**n/a**	0.199	**n/a**	0.410
Diluted OFFO per share, excluding subscription receipts	**n/a**	0.229	**n/a**	0.442
Diluted AFFO per share, including subscription receipts	**n/a**	0.245	**n/a**	0.521
Diluted AFFO per share, excluding subscription receipts	**n/a**	0.282	**n/a**	0.561

For the Quarter

FFO

FFO was $10,705 during the three months ended June 30, 2014, compared to $5,150 in the same quarter of 2013. The change of $5,555 was primarily due to the contributions from transactional activity, tax shield benefits associated with the Series A Debenture redemptions in the first quarter and improved same property NOI performance. These were partly offset by the increase in administrative expenses and the impact of the MOHLTC reconciliation adjustments.

OFFO

OFFO, which reflects the Company's historical presentation of FFO, totaled $10,892, an increase of $3,991 over the same quarter last year. The increase was principally related to the improved FFO partly offset by adjustments to remove the fair value increments on long term debt, the adjustment for the tax shield benefits and the prior year add back for the dividend equivalents on the subscription receipts.

AFFO

AFFO totaled $13,047, an increase of $4,479 over the same quarter 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.

For the Year to Date

FFO

FFO was ($1,024) during the six months ended June 30, 2014, compared to $11,033 in the same period of 2013. The change of $12,057 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 $20,256, an increase of $7,129 over the same six month period last year. The increase was principally related to transactional activity and the improved NOI performance from same property activities, partly offset by the increase in administrative expenses.

AFFO

AFFO totaled $24,751, an increase of $8,003 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.

Liquidity and Capital Resources

Financial Position Analysis

The following is a summary of cash flows for the periods ended June 30.

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Cash flow from operations before non-cash working capital items	**15,936**	11,390	4,546	**30,938**	21,670	9,268
Non-cash changes in working capital	**(6,376)**	(5,769)	(607)	**(4,423)**	2,484	(6,907)
Bond forward settlement, redemption premium, interest paid and other items	**(4,316)**	(8,772)	4,456	**(35,573)**	(10,580)	(24,993)
Cash provided by (used in):						
Operating activities	**5,244**	(3,151)	8,395	**(9,058)**	13,574	(22,632)
Investing activities	**1,302**	(8,647)	9,949	**3,626**	(9,282)	12,908
Financing activities	**(9,885)**	27,869	(37,754)	**4,330**	21,057	(16,727)
Increase (decrease) in cash	**(3,339)**	16,071	(19,410)	**(1,102)**	25,349	(26,451)
Cash	**14,521**	34,592	(20,071)	**14,521**	34,592	(20,071)

For the Quarter

Operating Activities

For the current quarter ended June 30, 2014, operating activities provided $5,244 of cash due to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $15,936.

- This was partly offset by the decrease in accounts payable and accrued liabilities of $6,649, primarily related to the timing trade payables and accruals, and wage and benefit accruals.
- Interest paid on long-term debt of $3,764, which is lower than the prior year due to the timing of the semi-annual payments on the Series B Debentures versus the Series A Debentures.
- Increase in prepaid expenses and deposits of $735 as a result of timing.

For the second quarter of 2013, operating activities used $3,151 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $11,390.
- This was partly offset by interest payments of $8,046.
- Accounts payable and accrued liabilities decreased by $5,231, primarily related to the timing of trade payables and payroll related accruals.
- Increase in prepaid expenses and deposits of $962 related to timing.

Investing Activities

Investing activities for the quarter provided $1,302 of cash. The principal source of cash is related to construction funding in the amount of $3,270. This was partly offset by increase in restricted cash of $1,477, primarily for the funding of the Series B Debentures principal reserve fund in the amount of $1,282, and the purchase of equipment of $502.

For the comparable quarter of 2013, investing activities used cash of $8,647, primarily as a result of an $8,000 deposit associated with the Specialty Care Acquisition, the purchase of the Christie Garden licences for $2,200 and the purchase of equipment of $635. These various uses of cash were partly offset by the receipt of construction funding of $2,284.

Financing Activities

Financing activities in the quarter used $9,885 of cash. This was primarily related to dividends paid in the quarter of $8,159 and repayment of long term debt of $1,712.

For the comparable period last year, financing activities provided $27,869 of cash primarily as a result of:

- Issuance of the convertible debentures for net proceeds of $44,160.
- Proceeds from the issuance long-term debt of $17,974.
- This was partly offset by repayment of long-term debt of $26,328.
- Dividend payments in the amount of $6,591.

For the Year to Date

Operating Activities

For the current six months ended June 30, 2014, operating activities used $9,058 of cash due to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $30,938.

- Cash provided by the movement in net government funding balances of $2,473.
- This was more than offset by the redemption premium on the settlement of the Series A Debentures which used $18,392 of cash.
- Decrease of accounts payable and accrued liabilities of $5,744, primarily related to the timing of trade payables and accruals.
- Interest paid on long-term debt of $9,844.
- Increase in prepaid expenses and deposits of $1,433 as a result of timing.

For the six months ended of the comparable period last year, operating activities provided $13,574 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $21,670.
- Lower accounts receivable and other assets of $1,789.
- Cash provided by the movement in net government funding balances of $2,685.
- This was partly offset by interest payments of $9,224.
- Accounts payable and accrued liabilities decreased by $1,550, primarily related to the timing of trade payables and payroll related accruals.
- Increase in prepaid expenses and deposits of $1,338 related to timing.

Investing Activities

Investing activities for the first six months of 2014 provided $3,626 of cash. The principal source of cash is related to construction funding in the amount of $6,540. This was partly offset by increase in restricted cash of $2,334, primarily for the funding of the Series B Debentures principal reserve fund, and the purchase of equipment of $831.

For the comparable period of 2013, investing activities used cash of $9,282, primarily as a result of a $10,000 deposit associated with the Specialty Care Acquisition, the purchase of the Christie Garden licences for $2,200 and the purchase of equipment of $1,575. This was partly offset by the receipt of construction funding of $4,568.

Financing Activities

Financing activities provided $4,330 of cash for the six months ended June 30, 2014 which comprised of:

- Proceeds of $322,000 from the issuance of the Series B Debentures, which was offset by the repayment of long term debt of $297,743, principally related to the Series A Debentures.
- Dividends paid of $16,315.
- Payment of deferred financing costs of $3,612 related to the issuance of the Series B Debentures.

For the comparable period last year, financing activities provided $21,057 of cash primarily as a result of:

- Issuance of the convertible debentures for net proceeds of $44,160.
- Proceeds from the issuance long-term debt of $17,974.

- This was partly offset by repayment of long-term debt of $26,553.
- Dividend payments in the amount of $13,178.

Capital Resources

Leisureworld's total debt as at June 30, 2014 was $621,915, excluding the Series B Debentures principal reserve fund of $2,139, compared to $598,703 as at December 31, 2013. The increase of $23,212 primarily relates to the issuance of the Series B Debentures. As at June 30, 2014, Leisureworld had committed and undrawn facilities of $26,000.

As of June 30, 2014, Leisureworld had a working capital deficiency of $114,183 primarily arising from the current portion of long term debt of $106,690 relating to $73,000 of credit facilities on Astoria and the Ontario retirement homes maturing within a twelve-month period and the maturing debt assumed in connection with the Specialty Care Acquisition maturing in the fourth quarter of the current year. 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 extend certain maturities and is anticipating settling part of the short term debt in cash provided by operations and refinancing the remaining components. To support Leisureworld's working capital deficiency, Leisureworld will use its operating cash flows and, if necessary, undrawn credit facilities.

Liquidity and Capital Commitments

Liquidity

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

Capital Commitments

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

Debt Strategy

Management's objectives are to access and maintain the lowest cost of debt with the most flexible terms available. Leisureworld's debt strategy involves the use of five types of debt: secured debentures, conventional property-specific secured mortgages, bank credit facilities, construction loans and convertible debentures.

Commencing in 2014, management will start building a debt maturity schedule (for fixed term debt) spread evenly over a 10-year period as a means to manage interest rate risks, and to be able to finance acquisition opportunities as they arise. This is a multi-year strategy which will take considerable time to execute. Management believes that in 2015 and beyond, Leisureworld will 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 of this single large debenture maturing. Part of this debt strategy involves maximizing the financing on certain individual property assets (maximizing loan to value) and to build a pool of unencumbered assets.

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

Leisureworld has also adopted leverage guidelines which are measures intended to manage the risk associated with the use of leverage.

Interest Coverage Ratio

Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations. In general, higher ratios indicate a lower risk of default. The interest coverage ratio is calculated as follows for the periods ending June 30:

	Three Months Ended		Six Months Ended	
Thousands of Dollars, except ratio	**2014**	2013	**2014**	2013
Net finance charges	**5,513**	5,386	**34,906**	9,770
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**207**	(430)	**(3,588)**	(854)
Amortization of deferred financing charges	**(280)**	(191)	**(1,081)**	(325)
Amortization of loss on bond forward contracts	**(196)**	-	**(318)**	-
Redemption premium on Series A Debentures	**-**	-	**(18,392)**	-
Dividend equivalents on subscription receipts	**-**	(1,429)	**-**	(1,429)
Interest income on construction funding receivable	**1,040**	751	**2,086**	1,508
Interest income on subscription receipts funds held in escrow	**-**	158	**-**	158
Other interest income	**11**	65	**251**	86
Gain (loss) on interest rate swap contracts	**48**	945	**(512)**	1,244
Net finance charges, adjusted	**6,343**	5,255	**13,352**	10,158
EBITDA	**19,928**	14,045	**38,502**	27,130
Interest coverage ratio	**3.1**	2.7	**2.9**	2.7

The following is the reconciliation of Net income (loss) to EBITDA for the periods ending June 30:

	Three Months Ended		Six Months Ended	
Thousands of Dollars	**2014**	2013	**2014**	2013
Net income (loss)	**376**	(968)	**(17,688)**	(2,330)
Net finance charges	**5,513**	5,386	**34,906**	9,770
Recovery of income taxes	**(511)**	(267)	**(6,913)**	(587)
Depreciation and amortization	**10,215**	6,862	**20,042**	13,962
Transaction costs	**109**	748	**659**	1,747
MOHLTC reconciliation adjustments	**956**	-	**956**	-
Proceeds from construction funding	**3,270**	2,284	**6,540**	4,568
EBITDA	**19,928**	14,045	**38,502**	27,130

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 per defined terms in certain covenant calculations. The following is the calculation for the periods ended June 30:

	Three Months Ended		Six Months Ended	
Thousands of Dollars, except ratio	**2014**	2013	**2014**	2013
Net finance charges	**5,513**	5,386	**34,906**	9,770
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**207**	(430)	**(3,588)**	(854)
Amortization of deferred financing charges	**(280)**	(191)	**(1,081)**	(325)
Amortization of loss on bond forward contracts	**(196)**	-	**(318)**	-
Redemption premium on Series A Debentures	**-**	-	**(18,392)**	-
Dividend equivalents on subscription receipts	**-**	(1,429)	**-**	(1,429)
Interest income on construction funding receivable	**1,040**	751	**2,086**	1,508
Interest income on subscription receipts funds held in escrow	**-**	158	**-**	158
Other interest income	**11**	65	**251**	86
Gain (loss) on interest rate swap contracts	**48**	945	**(512)**	1,244
Net finance charges, adjusted	**6,343**	5,255	**13,352**	10,158
Principal repayments	**1,712**	228	**3,417**	453
Principal reserve fund	**1,282**	-	**2,139**	-
Total debt service	**9,337**	5,483	**18,908**	10,611
EBITDA	**19,928**	14,045	**38,502**	27,130
Add (deduct):				
Maintenance capex	**(502)**	(538)	**(831)**	(877)
Cash income taxes	**(459)**	(545)	**(917)**	(995)
EBITDA, adjusted	**18,967**	12,962	**36,754**	25,258
Debt service coverage ratio	**2.0**	2.4	**1.9**	2.4

Leverage Ratio

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

	Three Months Ended		Six Months Ended	
Thousands of Dollars, except ratio	**2014**	2013	**2014**	2013
Weighted average debt				
Series A Senior Secured Debentures	**-**	294,326	**89,436**	294,326
Series B Senior Secured Debentures	**322,000**	-	**263,293**	-
Series B Senior Secured Debentures - Principal Reserve Fund	**(1,282)**	-	**(2,139)**	-
Credit facilities	**73,000**	86,914	**73,000**	92,476
Mortgages	**173,812**	46,169	**173,812**	42,339
Construction loan	**13,351**	-	**13,351**	-
Convertible debentures	**46,000**	34,374	**46,000**	17,282
	626,881	461,783	**656,753**	446,423
EBITDA (Six Months Ended Annualized)	**77,004**	54,260	**77,004**	54,260
Debt to EBITDA	**8.1**	8.5	**8.5**	8.2

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				Six Months Ended			
	2014	**Rate (%)**	2013	Rate (%)	**2014**	**Rate (%)**	2013	Rate (%)
Fixed Rate								
Debenture	**322,000**	**3.47%**	294,326	4.81%	**352,729**	**3.81%**	294,326	4.81%
Mortgage	**173,812**	**4.67%**	46,169	4.83%	**173,812**	**4.67%**	42,339	4.99%
Convertible Debenture	**46,000**	**4.65%**	34,374	4.65%	**46,000**	**4.65%**	17,282	4.65%
Total Fixed	**541,812**	**3.96%**	374,869	4.80%	**572,541**	**3.96%**	353,947	4.83%
Floating Rate								
Credit Facility	**73,000**	**3.03%**	86,914	3.03%	**73,000**	**3.03%**	92,476	3.03%
Construction Loan	**13,351**	**4.25%**	-	-%	**13,351**	**4.25%**	-	-%
Total Floating	**86,351**	**3.22%**	86,914	3.03%	**86,351**	**3.22%**	92,476	3.03%
Total Debt	**628,163**	**3.86%**	461,783	4.47%	**658,892**	**4.02%**	446,423	4.45%

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.

	As at June 30,	
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	**(2,139)**	-
Credit facilities	**73,000**	73,000
Mortgages	**173,812**	56,440
Construction loan	**13,351**	-
Convertible debentures	**46,000**	46,000
	626,024	469,766
Total assets	**956,746**	844,362
Accumulated depreciation on property and equipment	**81,717**	58,897
Accumulated amortization on intangible assets	**51,300**	39,195
Gross book value	**1,089,763**	942,454
Debt to Gross Book Value	**57.4%**	49.8%

Capital Disclosure

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

Leisureworld's objectives when managing capital are to:

(i) maintain a capital structure that provides options to Leisureworld for access to capital, on commercially reasonable terms, without exceeding its debt capacity, pursuant to limitations in the credit facilities, or taking on undue risks;

(ii) maintain financial flexibility in order to meet financial obligations, including debt servicing payments and reliable dividend payments; and
(iii) deploy capital to provide an appropriate investment return to its shareholders.

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

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

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

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

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

Contractual Obligations and Other Commitments

Long-Term Debt

Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Construction Loans	Amortizing Debt: Regular Principal Payments	Amortizing Debt: Principal Due at Maturity	Total	% of Total	Weighted Average Interest on Maturing Debt
2014	-	-	-	13,351	3,429	13,243	30,023	4.8%	4.6%
2015	-	73,000	-	-	6,444	-	79,444	12.6%	3.0%
2016	-	-	-	-	6,745	10,020	16,765	2.7%	4.2%
2017	-	-	-	-	5,595	32,506	38,101	6.1%	4.8%
2018	-	-	46,000	-	5,109	22,217	73,326	11.7%	5.0%
2019	-	-	-	-	3,938	37,860	41,798	6.7%	4.3%
2020	-	-	-	-	1,181	-	1,181	0.2%	-%
2021	322,000	-	-	-	1,232	-	323,232	51.5%	3.5%
2022	-	-	-	-	1,284	-	1,284	0.2%	-%
2023	-	-	-	-	953	12,407	13,360	2.1%	3.0%
Thereafter	-	-	-	-	4,172	5,477	9,649	1.5%	5.2%
	322,000	73,000	46,000	13,351	40,082	133,730	628,163	100.0%	
Mark-to-market adjustment arising from acquisition							2,251		
Less: Deferred financing costs							(4,423)		
Less: Deferred financing costs convertible debentures							(1,422)		
Less: Equity component of convertible debentures							(515)		
							624,054		

Convertible Debentures

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

Operating Leases

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

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 three months ended June 30, 2014 was $465 (2013 - $500) and six months ended June 30, 2014 was $938 (2013 - $988). Included in accounts receivable is $59 owing from Spencer House Inc. at June 30, 2014 (December 31, 2013 - $94). These transactions are in the normal course of operations and have been valued in these interim 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 June 30, 2014, Leisureworld has amounts outstanding from certain key executives of $294 (December 31, 2013 - $178) 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 (the "**CEO**") $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as at June 30, 2014 was $479 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

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 in the "Industry Overview" section of the 2013 Management's Discussion and Analysis dated February 26, 2014 and posted on SEDAR. Approximately 60% of LTC revenue is received from the MOHLTC. Leisureworld also receives capital cost funding of $10.35 per bed, per day from the MOHLTC for Class A homes, as well as co-payments from residents for both basic and preferred accommodation. Leisureworld also receives structural compliance premiums from the MOHLTC of $2.50 and $1.00, on a per resident per day basis, for Class B and C homes, respectively. Additionally, the MOHLTC provides funding to LTC homes that have been accredited and reimburses up to 85% of property tax costs.

Occupancy levels enhance cash flow

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

Under current MOHLTC policy, a LTC home that provides basic accommodation for at least 40% of residents in Class A homes may offer the remaining residents private or semi-private accommodation at a regulated premium. The LTC home operator retains the premiums collected from residents for such accommodation. Effective for September 1, 2014, the MOHLTC will increase 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 48% 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 167 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.

Significant Judgments and Estimates

The critical accounting estimates used by management in applying LSCC's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2013 which are available on SEDAR or the Company's website. Please refer to those statements for further detail.

Financial Instruments

Financial instruments consist of cash and cash equivalents, subscription receipt funds held in escrow, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, annuity, restricted cash, accounts payable and accrued liabilities, long-term debt, convertible debentures, Subscription Receipts, and interest rate swap contracts. For a further discussion on the components of financial instruments and the nature and extent of risks arising from financial instruments, please refer to Leisureworld's AIF dated March 25, 2014 and the Management's Discussion and Analysis filed for the year ended December 31, 2013 on SEDAR or the Company's website.

Critical Accounting Estimates and Accounting Policies

The critical accounting estimates used by management in applying LSCC's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2013. Please refer to those statements for further detail.

In preparing the interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2013 which are available on SEDAR or the Company's website.

Changes in Accounting Policies

Leisureworld has adopted the following new and revised standards effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

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 financial statements.

IFRS Interpretation Committee ("IFRIC") 21, Levies

This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, contingent liabilities and contingent assets. 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

IFRS 9, Financial Instruments

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

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

Risk and Uncertainties and Risk Relating to a Public Company and Common Shares

Leisureworld's AIF dated March 25, 2014 and the Management's Discussion and Analysis filed for the year ended December 31, 2013 are available on SEDAR or the Company's website and contain detailed discussions of risks and uncertainties that could affect Leisureworld and holders of its securities.

Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to Leisureworld and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management is also 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 reports for external purposes in accordance with IFRS.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is necessarily required to use judgment in evaluating controls and procedures.

There were no changes in LSCC's disclosure controls and procedures and internal controls over financial reporting since year end that have a material effect, or are reasonably likely to have a material effect on LSCC's control environment.

Q2 2014

Leisureworld
SENIOR CARE CORPORATION

Consolidated Financial Statements

(in thousands of Canadian Dollars)

Condensed Interim Consolidated Financial Statements

Unaudited Condensed Interim Consolidated Statements of Financial Position 1

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity 2

Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss) 3

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Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
Thousands of dollars

	Notes	**June 30, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**14,521**	15,623
Accounts receivable and other assets	14	**5,918**	5,670
Bond forward contracts		**-**	1,885
Income support		**794**	1,300
Prepaid expenses and deposits		**4,787**	3,546
Government funding receivable		**6,353**	6,113
Construction funding receivable		**9,161**	8,975
Income taxes receivable		**4,355**	1,260
		45,889	44,372
Government funding receivable		**118**	614
Interest rate swap contract		**218**	-
Restricted cash	5	**3,247**	913
Construction funding receivable		**89,233**	93,873
Property and equipment		**586,905**	598,489
Intangible assets		**132,332**	139,959
Goodwill		**98,804**	98,804
Total assets		**956,746**	977,024
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11	**51,173**	53,818
Government funding payable		**2,097**	1,605
Current portion of long-term debt	6	**106,690**	34,079
Interest rate swap contract		**112**	43
		160,072	89,545
Long-term debt	6	**473,301**	520,796
Convertible debentures	7	**44,063**	43,828
Deferred income taxes	9	**58,390**	65,190
Government funding payable		**4,792**	3,067
Share-based compensation liability	12	**2,048**	1,677
Interest rate swap contract		**1,096**	435
Total liabilities		**743,762**	724,538
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**212,984**	252,486
Total liabilities and shareholders' equity		**956,746**	977,024

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

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	**12**	**185**	**-**	**-**	**-**	**-**	**185**
Net loss		**-**	**-**	**-**	**(17,688)**	**-**	**(17,688)**
Other comprehensive loss		**-**	**-**	**-**	**-**	**(5,736)**	**(5,736)**
Long-term incentive plan	**12**	**12**	**-**	**32**	**-**	**-**	**44**
Share purchase loan	**14**	**10**	**-**	**-**	**-**	**-**	**10**
Dividends	**11**	**-**	**-**	**-**	**(16,317)**	**-**	**(16,317)**
Balance, June 30, 2014		**371,996**	**515**	**59**	**(155,236)**	**(4,350)**	**212,984**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2013		289,098	-	10	(84,952)	-	204,156
Issuance of convertible debentures	7	-	515	-	-	-	515
Net loss		-	-	-	(2,330)	-	(2,330)
Long-term incentive plan	12	9	-	17	-	-	26
Share purchase loan	14	1	-	-	-	-	1
Share-based compensation	12	5	-	-	-	-	5
Dividends	11	-	-	-	(13,181)	-	(13,181)
Balance, June 30, 2013		289,113	515	27	(100,463)	-	189,192

See accompanying notes.

Thousands of dollars, except share and per share data

Consolidated Statements of Operations

	Notes	Three months ended June 30		Six months ended June 30	
		2014	2013	**2014**	2013
Revenue	14, 15	**111,674**	83,229	**224,014**	166,933
Expenses					
Operating		**91,499**	67,674	**184,311**	137,408
Administrative		**4,473**	3,794	**8,697**	6,963
	16	**95,972**	71,468	**193,008**	144,371
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes		**15,702**	11,761	**31,006**	22,562
Depreciation and amortization		**10,215**	6,862	**20,042**	13,962
Net finance charges	8	**5,513**	5,386	**34,906**	9,770
Transaction costs		**109**	748	**659**	1,747
Total other expenses		**15,837**	12,996	**55,607**	25,479
Loss before income taxes		**(135)**	(1,235)	**(24,601)**	(2,917)
Provision for (recovery of) income taxes					
Current		**(471)**	421	**(2,178)**	876
Deferred		**(40)**	(688)	**(4,735)**	(1,463)
	9	**(511)**	(267)	**(6,913)**	(587)
Net income (loss)		**376**	(968)	**(17,688)**	(2,330)
Income (loss) per share - Basic and Diluted		**$0.01**	($0.03)	**($0.49)**	($0.08)
Weighted average number of common shares outstanding - Basic		**36,264,976**	29,298,636	**36,257,968**	29,284,372
Weighted average number of common shares outstanding - Diluted		**39,011,245**	35,998,650	**39,004,237**	32,659,040

Consolidated Statements of Comprehensive Income (Loss)

	Notes	Three months ended June 30		Six months ended June 30	
		2014	2013	**2014**	2013
Net income (loss)		**376**	(968)	**(17,688)**	(2,330)
Items that may be subsequently reclassified to statement of operations:					
Realized gain (loss) on bond forward contracts, net of tax	6	**112**	-	**(5,736)**	-
Total comprehensive income (loss)		**488**	(968)	**(23,424)**	(2,330)

See accompanying notes.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Thousands of dollars

	Notes	Three months ended June 30		Six months ended June 30	
		2014	2013	**2014**	2013
OPERATING ACTIVITIES					
Net income (loss)		**376**	(968)	**(17,688)**	(2,330)
Add (deduct) items not affecting cash					
Depreciation of property and equipment		**6,208**	5,012	**12,415**	10,030
Amortization of intangible assets		**4,007**	1,850	**7,627**	3,932
Current income taxes		**(471)**	421	**(2,178)**	876
Deferred income taxes		**(40)**	(688)	**(4,735)**	(1,463)
Share-based compensation	12	**343**	377	**591**	855
Net finance charges	8	**5,513**	5,386	**34,906**	9,770
		15,936	11,390	**30,938**	21,670
Non-cash changes in working capital					
Accounts receivable and other assets		**370**	237	**(225)**	1,789
Prepaid expenses and deposits		**(735)**	(962)	**(1,433)**	(1,338)
Accounts payable and accrued liabilities		**(6,649)**	(5,231)	**(5,744)**	(1,550)
Income support		**162**	443	**506**	898
Government funding, net		**476**	(256)	**2,473**	2,685
		(6,376)	(5,769)	**(4,423)**	2,484
Net settlement payment on bond forward contracts		**-**	-	**(6,234)**	-
Redemption premium paid on long-term debt		**-**	-	**(18,392)**	-
Interest paid on long-term debt		**(3,764)**	(8,046)	**(9,844)**	(9,224)
Net settlement payment on interest rate swap contracts		**(93)**	(181)	**(186)**	(361)
Income taxes paid		**(459)**	(545)	**(917)**	(995)
Cash provided by (used in) operating activities		**5,244**	(3,151)	**(9,058)**	13,574
INVESTING ACTIVITIES					
Purchase of property and equipment		**(502)**	(635)	**(831)**	(1,575)
Purchase of intangible assets		**-**	(2,200)	**-**	(2,200)
Amounts received from construction funding		**3,270**	2,284	**6,540**	4,568
Interest received from cash		**11**	65	**251**	86
Acquisition related deposit		**-**	(8,000)	**-**	(10,000)
Change in restricted cash		**(1,477)**	(161)	**(2,334)**	(161)
Cash provided by (used in) investing activities		**1,302**	(8,647)	**3,626**	(9,282)
FINANCING ACTIVITIES					
Net proceeds from issuance of subscription receipts		**-**	77,211	**-**	77,211
Subscription receipts issuance costs		**-**	(464)	**-**	(464)
Subscription receipts funds held in escrow		**-**	(77,211)	**-**	(77,211)
Net proceeds from issuance of convertible debentures		**-**	44,160	**-**	44,160
Repayment of long-term debt		**(1,712)**	(26,328)	**(297,743)**	(26,553)
Proceeds from issuance of long-term debt		**-**	17,974	**322,000**	17,974
Deferred financing costs		**(14)**	(882)	**(3,612)**	(882)
Dividends paid	11	**(8,159)**	(6,591)	**(16,315)**	(13,178)
Cash provided by (used in) financing activities		**(9,885)**	27,869	**4,330**	21,057
Increase (decrease) in cash during the period		**(3,339)**	16,071	**(1,102)**	25,349
Cash, beginning of period		**17,860**	18,521	**15,623**	9,243
Cash, end of period		**14,521**	34,592	**14,521**	34,592

See accompanying notes.

1 Organization

General information and nature of operations

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

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

Leisureworld and its predecessors have been operating since 1972. Through its subsidiaries, Leisureworld owns and operates 35 long-term care ("LTC") homes (representing an aggregate of 5,733 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates 10 retirement residences ("RR") (representing 1,065 suites) in the Provinces of Ontario and British Columbia, which combined constitute its retirement segment. An ancillary business of Leisureworld is Preferred Health Care Services ("Home Care" or "PHCS"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes. Leisureworld 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 June 30, 2014, the following securities of Leisureworld were outstanding: 36,265,458 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 7).

2 Basis of preparation

The unaudited condensed interim consolidated financial statements ("interim consolidated financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The interim consolidated financial statements should be read in conjunction with Leisureworld's annual audited consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim consolidated financial statements were approved by the Board of Directors for issue on August 13, 2014.

3 Summary of significant accounting policies, judgments and estimation uncertainty

In preparing these interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2013, except as described below.

Changes in accounting policies

Leisureworld has adopted the following new and revised standards effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

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 financial statements except for additional disclosures related to offsetting (see Note 6).

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.

Significant judgments and estimates

The significant judgments made by management in applying Leisureworld's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2013.

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

4 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 June 30, 2014 and December 31, 2013:

	As at June 30, 2014			
		Fair Value		
	Carrying Value	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Construction funding receivable	**98,394**	**-**	**-**	**102,986**
Interest rate swap contract	**218**	**-**	**218**	**-**
Financial Liabilities:				
Long-term debt	**579,991**	**-**	**596,441**	**-**
Convertible debentures	**44,063**	**47,150**	**-**	**-**
Interest rate swap contract	**1,208**	**-**	**1,208**	**-**

	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	-

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. Leisureworld was in compliance with all covenants on its borrowings as at June 30, 2014. A failure by Leisureworld to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at June 30, 2014, Leisureworld has negative working capital of $114,183 (December 31, 2013 - $45,173) resulting from certain mortgages, credit facilities and a construction loan becoming due within the next twelve months. Management has entered into discussions with lenders to extend certain maturities and is anticipating settling part of the short term debt in cash provided by operations and refinancing the remaining components of mortgages totaling $13,573, credit facilities totaling $73,000 and a construction loan totaling $13,351. There can be no assurances that the amounts or terms of any refinancing would be favourable to Leisureworld. To support Leisureworld's working capital deficiency, Leisureworld will use its operating cash flows and, if necessary, undrawn credit facilities.

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

5 Restricted cash

Restricted cash is comprised of a capital maintenance reserve fund required for certain mortgages and the Series B Senior Secured Debentures ("Series B Debentures") principal reserve fund. Further details about the principal reserve fund are disclosed in Note 6.

	June 30, 2014	December 31, 2013
Capital Maintenance Reserve	**1,108**	913
Series B Debenture Principal Reserve Fund	**2,139**	-
Restricted cash	**3,247**	913

6 Long-term debt

	Interest rate	**Maturity date**	**June 30, 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	**73,000**	73,000
Mortgages at fixed rates	3.02% - 7.11%	2014 - 2023	**158,880**	162,083
Mortgage at variable rate	Floating	April 16, 2029	**14,932**	15,146
Construction loan	Prime + 1.25%	December 31, 2014	**13,351**	13,351
			582,163	557,906
Mark-to-market adjustments on acquisition			**2,251**	(1,337)
Financing costs			**(4,423)**	(1,694)
Total debt			**579,991**	554,875
Less: current portion			**106,690**	34,079
			473,301	520,796

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. 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 June 30, 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 3 and August 3 of each year.

The Series B Debentures may be redeemed in whole or in part at the option of Leisureworld at any time, upon 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%.

Contributions to the principal reserve fund are as follows:

2014	2,570
2015	5,560
2016	6,170
2017	6,490
2018	6,800
Thereafter	17,910
	45,500

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement 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 statement 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 June 30, 2014 (December 31, 2013 - N/A), and shows in the ‘Net amount’ column what the net impact would be on Leisureworld’s statement of financial position if the set-off rights were exercised in the circumstance described above. As at June 30, 2014, no recognized financial instruments are offset on the statement of financial position.

	As at June 30, 2014		
	Gross amount presented in the statement of financial position	Related accounts not set-off in the statement of financial position	Net amount
Financial Liabilities:			
Series B Senior Secured Debentures	322,000	(2,139)	319,861

Credit facilities

On April 27, 2011, Leisureworld entered into a two-year credit facility (“Bridge Loan”) for $55,000 to finance the acquisition of the Kingston and Kanata retirement residences (“Ontario Portfolio”), which bears interest at 187.5 basis points (“bps”) per annum over the floating 30-day BA rate. On June 29, 2012, the Bridge Loan was converted to a $61,500 revolving credit facility (“Revolving Credit Facility”) that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of Leisureworld’s subsidiary, The Royale LP, guaranteed by Leisureworld and is subject to certain customary financial and non-financial covenants. On September 24, 2013, Leisureworld extended the maturity date on the $61,500 revolving credit facility to April 26, 2015. As at June 30, 2014, Leisureworld has drawn $47,000 under this credit facility (December 31, 2013 - $47,000). Leisureworld, in conjunction with the $55,000 credit facility, entered into an interest rate swap contract to effectively fix the interest rate at 4.045%. The interest rate swap contract matured on April 26, 2013.

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

Mortgages at fixed rates

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

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 acquisition of the Specialty Care Inc. business ("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.

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.

Construction loan

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

7 Convertible debentures

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

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

Upon the occurrence of a change of control, whereby more than 66.67% of the common shares are acquired by any person, or group of persons acting jointly, each holder of the Convertible Debentures may require Leisureworld to purchase their debentures at 101% of the principal amount plus accrued and unpaid interest. If 90% or more of the Convertible Debenture holders do so, Leisureworld has the right to redeem all of the remaining Convertible Debentures.

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

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

8 Net finance charges

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Finance costs				
Interest expense on long-term debt	**5,665**	4,673	**12,017**	9,298
Interest expense on convertible debentures	**552**	393	**1,097**	393
Interest expense and fees on revolving credit facility	**33**	48	**52**	106
Net accretion of the fair value adjustments on long-term debt	**(207)**	430	**3,588**	854
Amortization of deferred financing charges	**280**	191	**1,081**	325
Amortization of loss on bond forward contract	**196**	-	**318**	-
Redemption premium on Series A Debentures (Note 6)	**-**	-	**18,392**	-
Net settlement payment on interest rate swap contracts	**93**	141	**186**	361
Dividend equivalent on subscription receipts	**-**	1,429	**-**	1,429
Loss (gain) on interest rate swap contract	**(48)**	(945)	**512**	(1,244)
	6,564	6,360	**37,243**	11,522
Finance income				
Interest income on construction funding receivable	**1,040**	751	**2,086**	1,508
Interest income on subscription receipts funds held in escrow	**-**	158	**-**	158
Other interest income	**11**	65	**251**	86
	1,051	974	**2,337**	1,752
Net finance charges	**5,513**	5,386	**34,906**	9,770

9 Income taxes

Total income tax recovery for the three months ended can be reconciled to the condensed interim consolidated statements of operations and comprehensive loss as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Loss before income taxes	**(135)**	(1,235)	**(24,601)**	(2,917)
Canadian combined income tax rate	**26.47%**	26.47%	**26.47%**	26.47%
Income tax recovery	**(35)**	(327)	**(6,511)**	(772)
Adjustments to income tax provision:				
Non-deductible items	**53**	282	**81**	407
Book to filing adjustment	**(452)**	-	**(452)**	-
Other items	**(77)**	(222)	**(31)**	(222)
Income tax recovery	**(511)**	(267)	**(6,913)**	(587)

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

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 December 31, 2013	(65,824)	(8,746)	2,414	7,762	(796)	(65,190)
Credit (charge) to net loss	870	1,416	(635)	(552)	3,636	4,735
Book to filing adjustment	952	-	-	(952)	(84)	(84)
Credit to other comprehensive loss	-	-	-	-	2,149	2,149
As at June 30, 2014	**(64,002)**	**(7,330)**	**1,779**	**6,258**	**4,905**	**(58,390)**

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

	June 30, 2014	December 31, 2013
Within one year	**965**	(3,409)
One to four years	**(7,874)**	(6,829)
After four years	**(51,481)**	(54,952)
Total	**(58,390)**	(65,190)

10 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	9,435	14
Share-based compensation	-	5
Issued common shares	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	10,396	12
Share-based compensation	-	10
Issued common shares	15,409	185
Balance, June 30, 2014	**36,265,458**	**371,996**

11 Dividends

Leisureworld paid dividends at \$0.075 per month per common share totaling \$8,159 for the three months ended and \$16,315 for the six months ended June 30, 2014, respectively (2013 - \$6,591 and \$13,178, respectively). Dividends of \$2,720 are included in accounts payable and accrued liabilities as at June 30, 2014 (December 31, 2013 - \$2,718). Subsequent to June 30, 2014, the Board of Directors declared dividends of $0.075 per common share for July 2014 totaling $2,720. These dividends have not been recorded in these condensed interim consolidated financial statements.

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

12 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 into the LTIP and bearing interest at the prime rate per annum, fixed at the time of the loan. The loan and interest are due and payable 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 six months ended June 30, 2014, Leisureworld recorded an increase of $12 in share capital (2013 - $9) and $32 in contributed surplus (2013 - $17). Included as a reduction to shareholders' equity is an outstanding loan balance of $294 (December 31, 2013 - $178). Total expense related to the LTIP for the three and six months ended June 30, 2014 were $nil and $32, respectively (2013 - $nil and $17, respectively).

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 annually 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 Participant in the form of additional RSUs equal to the dividend amount divided by the Average Closing Price as of the day such dividend was declared. The

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RSUs vest equally at the end of year one, two and three from the grant date and the related compensation expense is recognized on a graded basis over the vesting periods. Upon vesting of the RSUs, the 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 six months ended June 30, 2014, 23,730 RSUs were granted to certain Employees under this plan. Total expenses related to the RSU plan for the three and six months ended June 30, 2014 were $78 and $208, respectively (2013 - $30 and $58, respectively), of which $78 and $120, respectively (2013 - $30 and $58, respectively), were recognized in administrative expenses and $nil and $88, respectively (2013 - $nil and $nil, respectively), were recognized in transaction costs relating to termination benefits. During the six months ended June 30, 2014, 16,853 RSUs vested and were settled in cash and shares, resulting in a decrease of $203 to share-based compensation liability. The total liability recorded as a part of the share-based compensation liability as at June 30, 2014 was $126 (December 31, 2013 - $121).

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

	Number of RSUs
Outstanding, January 1, 2013	11,489
Granted	20,190
Divdends reinvested	1,207
Settled in cash	(6,859)
Outstanding, December 31, 2013	26,027
Granted	23,730
Dividends reinvested	1,120
Settled in cash	(1,444)
Settled in shares	(15,409)
Outstanding, June 30, 2014	**34,024**

DSU

Eligible members of the Board of Directors ("Members") can elect on an annual basis to receive their annual retainer fees up to 100% as DSUs, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using the Average Closing Price on the grant date. Leisureworld will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the DSUs, as long as the Member continues to serve on the Board of Directors, as additional notional units under DSU plan. The compensation, nominating and governance committee reserves the right to amend the eligible participants and compensation structure under this plan. The value of each DSU is measured at each reporting date and is equivalent to the fair market value of a common share of Leisureworld at the reporting date. Total expense related to this plan for the three and six months ended June 30, 2014 were $265 and $439, respectively (2013 - $347 and $775, respectively), which was recognized in administrative expenses. The total liability recorded as a part of the share-based compensation liability as at June 30, 2014 was $1,922 (December 31, 2013 - $1,556).

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

13 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.

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Salaries and short-term employee benefits	**598**	256	**1,286**	383
Termination benefits	-	-	**232**	-
Share-based compensation	**337**	377	**580**	855
	935	633	**2,098**	1,238

Termination benefits have been included under the transaction costs line item on the condensed interim consolidated statement of operations.

14 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 three months ended June 30, 2014 was $465 (2013 - $500) and six months ended June 30, 2014 was $938 (2013 - $988). Included in accounts receivable is $59 owing from Spencer House Inc. at June 30, 2014 (December 31, 2013 - $94). These transactions are in the normal course of operations and have been valued in these interim 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 June 30, 2014, Leisureworld has amounts outstanding from certain key executives of $294 (December 31, 2013 - $178) (Note 12) 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 June 30, 2014 was $479 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

15 Economic dependence

Leisureworld holds licences related to each of its LTC homes and receives funding from the MOHLTC related to these licences. Funding is received on or about the 22nd of each month. During the three and six months ended June 30, 2014, Leisureworld received approximately $70,347 and $141,649, respectively (2013 - $52,386 and $107,210, respectively) in respect of these licences for operating revenues and other MOHLTC funded initiatives.

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

16 Expenses by nature

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Salaries, benefits and people costs	**72,504**	54,924	**144,218**	110,380
Food	**4,527**	3,444	**8,835**	6,663
Property taxes	**3,278**	2,532	**6,729**	5,173
Utilities	**2,731**	1,888	**6,614**	4,593
Purchased services and non-medical supplies	**3,895**	3,403	**7,771**	6,463
Other	**9,037**	5,277	**18,841**	11,099
Total expenses	**95,972**	71,468	**193,008**	144,371

17 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 allocatable to the segments.

The significant accounting policies of the reportable operating segments are the same as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2013.

	Three months ended June 30, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**98,210**	**10,187**	**4,297**	**591**	**8,160**	**121,445**
Less: Internal revenue	**1,359**	**-**	**-**	**-**	**8,412**	**9,771**
Net revenue	**96,851**	**10,187**	**4,297**	**591**	**(252)**	**111,674**
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**14,843**	**4,386**	**613**	**333**	**(4,473)**	**15,702**
Transaction costs	**-**	**-**	**-**	**-**	**109**	**109**
Depreciation of property and equipment	**4,464**	**1,743**	**1**	**-**	**-**	**6,208**
Amortization of intangible assets	**552**	**2,599**	**1**	**855**	**-**	**4,007**
Finance costs	**4,496**	**1,416**	**-**	**-**	**652**	**6,564**
Finance income	**(1,044)**	**-**	**(1)**	**-**	**(6)**	**(1,051)**
Income tax recovery	**-**	**-**	**-**	**-**	**(511)**	**(511)**
Net income (loss)	**6,375**	**(1,372)**	**612**	**(522)**	**(4,717)**	**376**
Purchase of property and equipment	**374**	**128**	**-**	**-**	**-**	**502**
Purchase of intangible assets	**-**	**-**	**-**	**-**	**-**	**-**

	Three months ended June 30, 2013					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	74,333	6,489	4,384	-	6,594	91,800
Less: Internal revenue	1,452	-	-	-	7,119	8,571
Net revenue	72,881	6,489	4,384	-	(525)	83,229
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	12,066	2,714	775	-	(3,794)	11,761
Transaction costs	-	-	-	-	748	748
Depreciation of property and equipment	3,735	1,277	-	-	-	5,012
Amortization of intangible assets	68	1,780	2	-	-	1,850
Finance costs	3,368	1,110	-	-	1,882	6,360
Finance income	(816)	-	-	-	(158)	(974)
Income tax recovery	-	-	-	-	(267)	(267)
Net income (loss)	5,711	(1,453)	773	-	(5,999)	(968)
Purchase of property and equipment	561	12	-	-	62	635
Purchase of intangible assets	2,200	-	-	-	-	2,200

	Six months ended June 30, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**197,175**	**20,178**	**8,688**	**1,212**	**16,317**	**243,570**
Less: Internal revenue	**2,667**	**-**	**-**	**-**	**16,889**	**19,556**
Net revenue	**194,508**	**20,178**	**8,688**	**1,212**	**(572)**	**224,014**
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**28,922**	**8,640**	**1,304**	**837**	**(8,697)**	**31,006**
Transaction costs	**-**	**-**	**-**	**-**	**659**	**659**
Depreciation of property and equipment	**8,926**	**3,488**	**1**	**-**	**-**	**12,415**
Amortization of intangible assets	**1,102**	**5,493**	**3**	**1,029**	**-**	**7,627**
Finance costs	**33,151**	**2,796**	**-**	**-**	**1,296**	**37,243**
Finance income	**(2,323)**	**-**	**(1)**	**-**	**(13)**	**(2,337)**
Income tax recovery	**-**	**-**	**-**	**-**	**(6,913)**	**(6,913)**
Net income (loss)	**(11,934)**	**(3,137)**	**1,301**	**(192)**	**(3,726)**	**(17,688)**
Purchase of property and equipment	**637**	**194**	**-**	**-**	**-**	**831**
Purchase of intangible assets	**-**	**-**	**-**	**-**	**-**	**-**

	Six months ended June 30, 2013					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	149,194	13,018	8,784	-	13,181	184,177
Less: Internal revenue	2,897	-	-	-	14,347	17,244
Net revenue	146,297	13,018	8,784	-	(1,166)	166,933
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	22,500	5,430	1,595	-	(6,963)	22,562
Transaction costs	-	-	-	-	1,747	1,747
Depreciation of property and equipment	7,474	2,555	1	-	-	10,030
Amortization of intangible assets	136	3,561	235	-	-	3,932
Finance costs	7,384	2,256	-	-	1,882	11,522
Finance income	(1,594)	-	-	-	(158)	(1,752)
Income tax recovery	-	-	-	-	(587)	(587)
Net income (loss)	9,100	(2,942)	1,359	-	(9,847)	(2,330)
Purchase of property and equipment	1,489	20	-	-	66	1,575
Purchase of intangible assets	2,200	-	-	-	-	2,200

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	As at June 30, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Total assets	**688,851**	**251,711**	**8,199**	**7,107**	**878**	**956,746**
Goodwill	**89,322**	**2,511**	**6,521**	**450**	**-**	**98,804**
Intangible assets	**110,978**	**15,757**	**3**	**5,594**	**-**	**132,332**

	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

18 Comparative figures

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

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