LEISUREWORLD SENIOR CARE CORPORATION

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2012

March 25, 2013

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GENERAL MATTERS

Unless otherwise indicated or the context otherwise requires, "**Company**" or "**Leisureworld**" refers to Leisureworld Senior Care Corporation and its direct and indirect subsidiary entities. Unless otherwise indicated, all dollar amounts in this Annual Information Form ("**AIF**") are expressed in Canadian dollars and references to "$" are to Canadian dollars.

Market data and other statistical information used in this AIF are based on independent industry publications, government publications, reports by market research firms, or other published independent sources, including the Ontario Ministry of Health and Long-term Care ("**MOHLTC**"), Care Planning Partners Inc., Statistics Canada, etc. Some data is also based on Leisureworld's good faith estimates that are derived from its review of internal data and information, as well as independent sources, including those listed above. Although Leisureworld believes these sources are reliable, Leisureworld has not independently verified the information and cannot guarantee its accuracy or completeness.

The information contained in this AIF is as of March 25, 2013, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

Certain statements in this AIF may be considered "forward-looking information" as defined under applicable securities laws ("**forward-looking statements**"). All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate" or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements in this AIF include, but are not limited to:

- statements made in the sections of this AIF entitled: "General Development of the Business", "Industry Overview", "Business of Leisureworld", "Risk Factors", "Dividends", "Description of Capital Structure", "Indebtedness", "Interests of Management and Others in Material Transactions",
- demographic trends,
- future government funding levels,
- embarking on capital renewal initiatives,
- the implementation of certain legislative amendments,
- renewal of the Company's licences and contracts,
- economies of scale reducing the likelihood of overspending,
- the closing of certain acquisitions and the ability to growth the business through acquisitions and other measures, including obtaining new home healthcare contracts,
- the impact on the Company's business of current and anticipated economic conditions, and
- the Company's ability to continue to pay dividends to shareholders.

These forward-looking statements reflect the current expectations of the Company's management regarding future events and operating performance, but involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual events could differ materially from those projected herein and depend on a number of factors. These factors include, but are not limited to,

- actual future market conditions being different than anticipated by Leisureworld's management,
- material changes to government and environmental regulations affecting Leisureworld's operations,
- material shifts in demographic trends,
- failure by Leisureworld to maintain good relationships with its unionized employees, and
- the risks described under "Risks Factors" and those risks discussed in the Company's other public filings on SEDAR, accessible at *www.sedar.com*.

Material factors or assumptions that were applied to drawing a conclusion or making an estimate set out in forward-looking statements include:

- the views of management of Leisureworld regarding current and anticipated market conditions,
- expected government priorities and spending,
- absence of material changes to government and environmental regulations affecting the Leisureworld's operations,
- management's views as to demographic trends,
- Leisureworld's ability to maintain good relationships with its unionized employees,
- the successful attainment of certain goals as discussed in this AIF, and
- the financial and operating attributes of Leisureworld as at the date hereof.

Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although forward-looking statements contained in this AIF are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. **Accordingly, readers should not place undue reliance on forward-looking statements.** The forward-looking statements in this AIF speak only as of the date of this AIF. Except as required by applicable securities laws, the Company does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

NON-IFRS MEASURES

Net operating income ("**NOI**"), funds from operations ("**FFO**"), and adjusted funds from operations ("**AFFO**") are not measures recognized under International Financial Reporting Standards ("**IFRS**") and do not have standardized meanings prescribed by IFRS. NOI, FFO and AFFO are supplemental measures of a company's performance and Leisureworld believes that NOI, FFO and AFFO are relevant measures of its ability to pay dividends on the Company's common shares. The IFRS measurement most directly comparable to NOI, FFO and AFFO is net income (loss). See "Business Performance" for a reconciliation of NOI, FFO and AFFO to net income (loss).

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

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

AFFO is defined as FFO plus the principal portion of construction funding received, amounts received from income guarantees and non-cash Deferred Share Unit compensation expense less maintenance capital expenditures. Other adjustments may be made to AFFO as determined by the Company at its discretion. Management believes AFFO is useful in the assessment of Leisureworld's operating performance for valuation purposes, and is also a relevant measure of the ability of Leisureworld to earn cash and pay dividends to shareholders.

NOI, FFO and AFFO 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 NOI, FFO and AFFO may differ from other issuers' methods and accordingly, these measures may not be comparable to measures presented by other issuers.**

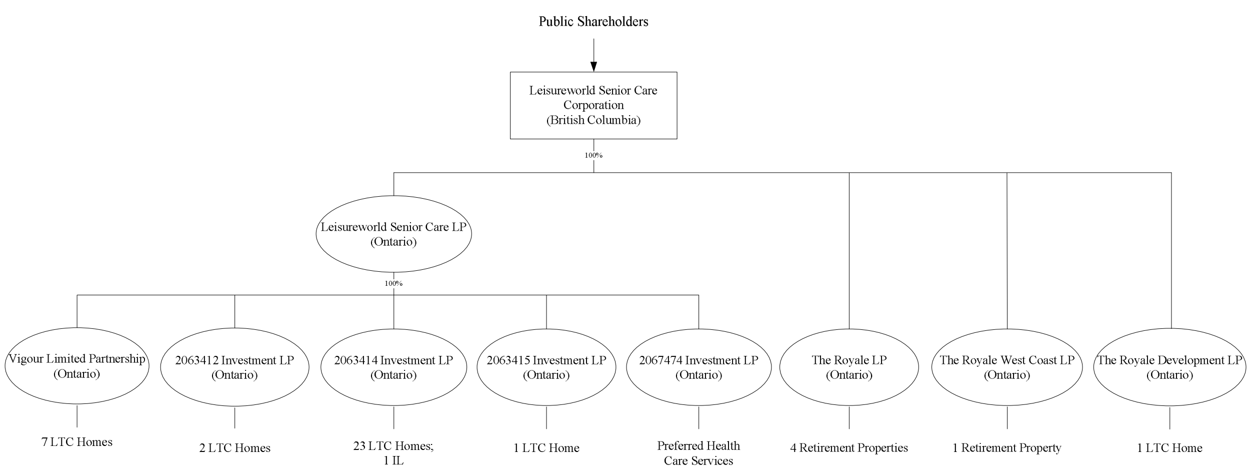
CORPORATE STRUCTURE

Leisureworld Senior Care Corporation was incorporated under the *Business Corporations Act* (Ontario) on February 10, 2010 and was continued under the *Business Corporations Act* (British Columbia) (the "**BCBCA**") on March 18, 2010. The Company closed the initial public offering of its Common Shares (the "**IPO**") on March 23, 2010

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

Intercorporate Relationships

Leisureworld's business is carried on through a number of wholly-owned limited partnerships formed under the laws of the Province of Ontario. The following chart illustrates, in simplified form, the structure of the Company as at March 25, 2013 (including jurisdiction of establishment/incorporation of various entities).



NOTES:
(1) In some cases, LTC licences are held separately from other assets. One LTC home is managed, with the licence for such home held by Spencer House Inc., a non-profit organization.

GENERAL DEVELOPMENT OF THE BUSINESS

Leisureworld owns and operates 27 LTC homes (representing an aggregate of 4,474 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates five retirement residences ("**RR**") (representing

686 suites) and one independent living residence ("**IL**") (representing 53 apartments) in the Provinces of Ontario and British Columbia. An ancillary business of the Company is Preferred Health Care Services ("**Home Care**" or "**PHCS**"), an accredited provider with Exemplary Standing, of professional nursing and personal support services for both community-based home healthcare and LTC homes.

IPO and Acquisition of LSCLP

In connection with the IPO completed on March 23, 2010, the Company issued 19,020,000 Common Shares to the public at a price of $10.00 per Common Share for aggregate gross proceeds of approximately $190,200,000. The Company used the net proceeds of the IPO to (i) pay the costs relating to the IPO and related transactions, (ii) to repay $60 million of indebtedness and approximately $2 million to terminate a related hedging arrangement, and (iii) to indirectly fund the acquisition of all of the ownership interests in Leisureworld's operating assets through the acquisition of the limited partnership interests in Leisureworld Senior Care LP ("**LSCLP**") and the sole outstanding common share of its general partner (the "**IPO Acquisition**"), from Macquarie Long Term Care LP ("**MLTCLP**"). The total purchase price for the IPO Acquisition was $121,647,000. Cash paid for the IPO Acquisition totalled $97,850,000 net of cash assumed of $14,762,000 which was paid during the period ended March 31, 2010. The balance of the consideration in the amount of $9,035,000 was provided by way of a non-interest bearing promissory note issued by Leisureworld to MLTCLP. The promissory note was ultimately settled on April 23, 2010 by the issuance of 985,649 Common Shares to MLTCLP.

Agreement to Acquire Additional LTC Licenses

On June 22, 2010, the Company announced an agreement to acquire 88 LTC licences from Christie Gardens Apartments and Care Inc., which has been approved by the MOHLTC and will be in abeyance for an undetermined period. These licences are in the Toronto area and will increase the number Leisureworld's LTC beds by approximately 2%. According to the terms of the agreement, the licences will be acquired by March 31, 2013 at a cost of $2.2 million.

The Royale Kingston and The Royale Kanata RR Acquisition

On April 27, 2011, Leisureworld acquired two high-end RRs comprising 294 suites, located in Kingston and Kanata, Ontario, through The Royale LP ("**Royale LP**"), a limited partnership wholly-owned by Leisureworld (the "**Royale Acquisition**"). The net purchase price for the Royale Acquisition was approximately $89.0 million after working capital adjustments and a holdback of $5.5 million held in escrow as an income guarantee to complement cash flow from the RRs during the lease-up period.

Leisureworld financed the Royale Acquisition by raising equity (the "**Royale Offering**") and obtaining bridge financing. Pursuant to the Royale Offering, Leisureworld issued 4,381,500 subscription receipts to the public at a price of $10.50 per subscription receipt for aggregate gross proceeds of approximately $45 million. Each subscription receipt was automatically exchanged for one Common Share upon completion of the Royale Acquisition. Leisureworld and Royale LP entered into a credit facility for an aggregate principal amount of $55 million (the "**Bridge Loan**") to fund the balance of the Royale Acquisition. On June 29, 2012, the Bridge Loan was converted to a $61.5 million revolving credit facility. See "Indebtedness –Credit Facilities."

The Royale Acquisition constituted a significant acquisition for the Company and a business acquisition report dated July 11, 2011 was filed under the Company's SEDAR profile at www.sedar.com.

The Royale Astoria, The Royale Pacifica and The Royale Peninsula RR Acquisition

On May 24, 2012, two of Leisureworld's wholly-owned subsidiaries, Royale LP and The Royale West Coast LP ("**Royale West Coast**") completed the acquisition (the "**BC Acquisition**") of three luxury retirement residences in the Greater Vancouver Area (the "**GVA**") in British Columbia (the "**BC Portfolio**").

The purchase price for the BC Acquisition was $119.8 million, including a $1,000,000 mark-to-market adjustment on assumed debt and a holdback of $2,030,000 to be held in escrow as an income guarantee to complement cash flow from one of the RRs during the lease-up period, but excluding additional performance-based contingent payments of up to $6,000,000. Two of the residences, the Royale Pacifica and the Royale Peninsula, are located in

South Surrey, BC and consist of 257 residential suites in the aggregate. The third residence, the Royale Astoria, is located in Port Coquitlam, BC and consists of 135 residential suites. Management has evaluated the contingent purchase price consideration of the $6,000,000 performance based earn out and based on currently available information, including performance of the assets, has concluded that the payout is unlikely and therefore it is not reflected in the purchase price.

Royale LP entered into a one-year, $26,100,000 credit facility to finance the acquisition of the Pacifica property and a two-year, $26,000,000 credit facility to finance the acquisition of the Astoria property. Both facilities bear a floating interest rate equal to the 30-day bankers' acceptance rate plus 1.875%. See "Indebtedness – Credit Facilities."

In partial consideration for the acquisition of the Peninsula property, Royale West Coast assumed a mortgage in the amount of $23,716,000. This mortgage bears interest at 5.18% per annum and matures on January 1, 2017. See "Indebtedness – Mortgage Debt."

The balance of the purchase price for the BC Acquisition was funded from the net proceeds of the Company's public issuance of 4,680,500 subscription receipts at a price of $12.05 per subscription receipt, and the issuance of 82,988 Common Shares to one of the sellers at an issue price of $12.05 per Common Share. Each of the subscription receipts issued was automatically exchanged for one Common Share upon completion of the BC Acquisition.

As one of the residences is currently in the lease-up phase, the aggregate purchase price includes an income guarantee of $2,030,000 for a three-year term to be held in escrow and used by the Company to complement cash flow from this residence in accordance with the terms of the acquisition. The income guarantee is intended to supplement after-tax NOI during the remaining lease-up period to a stabilized after-tax NOI. At the end of the income guarantee period any remaining balance in the escrow account will be distributed 80% to the Company and 20% to the vendor.

Madonna Long-Term Care Residence

On July 16, 2012, one of the Company's subsidiaries, The Royale Development LP completed the acquisition of the Madonna Long-Term Care Residence.

The Madonna Long-Term Care Residence is a 160 bed, Class A LTC home in Orleans, Ontario, a suburb of Ottawa. The purchase price for the transaction was $19,900,000, subject to a working capital adjustment, which was satisfied both in cash and through the assumption of a mortgage in the amount of $15,718,000 which bears interest at the floating monthly bankers' acceptance rate plus a stamping fee of 1.5% per annum and matures April 2029. See "Indebtedness – Mortgage Debt."

David Cutler's Resignation as President and CEO of the Company

On September 3, 2012, David Cutler resigned his position as President and Chief Executive Officer of the Company. Mr. Cutler continues to serve as a director of the Company. Dino Chiesa assumed the role of Acting President and CEO following Mr. Cutler's resignation. The Board has completed a comprehensive executive search for a new President and CEO and selected its preferred candidate.

INDUSTRY OVERVIEW

Housing alternatives for Canadian seniors outside of the family home lie across a broad spectrum in Canada, ranging from independent living homes for individuals requiring minimal or no assistance to LTC homes, which provide a higher level of attendant care, including skilled nursing care, for physical and/or mental needs. Along the spectrum, a range of housing options is available, though the types of seniors' housing facilities can be grouped in three categories described below.

- **Long Term Care (LTC) Homes**: LTC homes are designed to accommodate seniors who may require 24-hour per day care and who may suffer from cognitive or physical impairment. LTC homes offer higher levels of personal care and support, including nursing care, than those typically offered by RRs. Most LTC homes either directly provide, or contract to provide, ancillary medical services such as pharmacy and prescription services, rehabilitation therapy and complex medical care such as dialysis, ventilator, wound, stroke, palliative and dementia care. LTC homes may include shared, semi-private and private suites. In addition to being subject to general health and safety regulations and privacy laws, all LTC homes in the Province of Ontario must be licensed by the MOHLTC under the *Long-Term Care Homes Act, 2007* (Ontario) (the "**LTCHA**"), which came into effect on July 1, 2010. In Ontario, LTC homes are eligible for funding from the MOHLTC, including through service accountability agreements with Ontario's Local Health Integration Networks ("**LHINs**"), and are subject to regulation and care standards.

- **Retirement Residences (RRs)**: RRs contain hotel style rooms and suites that are generally rented to residents on a monthly basis in conjunction with a meal and service package. Services provided can range from "light care" (which provides for a high degree of independence, but often within a more secure and supportive environment than in IL homes), "full care" (where the homes and services are similar to those at "light care" RRs, but which are geared towards more frail seniors and may include 24-hour nursing support) and assisted living ("**AL**") (where additional care is provided to very frail or cognitively impaired residents who may require supervision in a secure, controlled section of a RR). Retirement homes in Ontario are subject to generally applicable tenant protection legislation and are now regulated but are not subsidized by the government. Residents are generally responsible for the entire cost of accommodation and care. The *Retirement Homes Act, 2010* (Ontario) received Royal Assent on June 8, 2010. This legislation created a new regulatory body, the Retirement Home Regulatory Authority (the "**RHRA**") and will provide consumer protection but does not provide funding for the provision of care and services in RR facilities. Beginning in April 2012, all RRs were required to apply for a license from the RHRA in order to operate in Ontario, with all eligible operators to be licensed by April 2013. There will be a delayed implementation of certain other sections of this legislation. In British Columbia, the *Community Care and Assisted Living Act* (British Columbia) provides consumer protection and regulation of IL Homes and AL facilities. All types of seniors housing providing personal support in British Columbia must be registered with the Assisted Living Registry.

- **Independent Living (IL) Homes**: IL homes are similar to apartments or town homes and can take the form of a larger seniors' community or campus. Suites in IL homes may be owned or rented and cater to the independent senior who requires minimal or no assistance with daily living. Services such as meals, housekeeping or laundry are often provided on request for an additional charge. IL homes are not subsidized by the Government of Ontario and residents are responsible for the entire cost of accommodation and care. IL facilities are subject to generally applicable tenant protection legislation, healthcare regulations in relation to certain care services, if provided, public health and safety regulations, as well as privacy laws; but they do not require care licences and are not regulated by the MOHLTC.

Comparison of Types of Seniors Housing Facilities

	LTC homes	RRs and ILs
Also referred to as	Nursing homes, skilled nursing facilities or homes for the aged.	Adult living, independent living, seniors living, retirement residence, care home, assisted living, rest home.
Level of care	Individuals who need higher levels of daily personal care, the availability of 24-hour registered nursing care or supervision, or a secure environment.	Ranges from no care or services to assistance with meals, homemaking, low to mid-levels of personal care, and availability of staff on a 24-hour basis.
Accommodation style	Ranges from rooms with four people, to semi-private and private rooms.	Ranges from shared rooms to bachelor, one or two-bedroom apartments.
Owned and managed by	Private sector entities, district or municipal governments, non-profits (including municipal and charitable operators).	Private sector entities and in a few cases, non-profits.
Regulatory Framework	Regulated, provincially licensed and funded by MOHLTC. Also subject to generally applicable laws such as rent controls, public health and safety laws and privacy laws.	Provincially regulated and licensed in Ontario under the *Retirement Homes Act* (Ontario) and in British Columbia under the *Community Care and Assisted Living Act*.
Accreditation	Voluntary accreditation through the Commission on Accreditation of Rehabilitation Facilities ("**CARF**")	Voluntary accreditation through the Ontario Residential Communities Association and the BC Seniors Living Association.
Government funding	Government funds nursing and personal care programs and support services provided in homes. Government provides subsidies for accommodation charges, up to the "basic" accommodation rate for those who qualify.	None.
General occupancy levels	97% – 100%	90%

Source: General Occupancy Levels are as per Care Planning Partners Inc.

Demand and Supply

The demand for seniors' housing and programs continues to grow. Management believes favourable demographics, increasing life expectancy, increasing seniors' affluence and changing family dynamics have and will continue to have a positive impact on demand for LTC, RR and IL accommodations ("**seniors' housing**") and for professional home healthcare services. The factors driving demand, among others, are described below:

- **Favourable demographics**: The primary demographic group living in LTC homes, RR and IL communities are Canadians who are older than 75 years of age. According to Statistics Canada, the 75-plus and 85-plus age cohorts in Canada are anticipated to be among the fastest growing population groups. Statistics Canada projects over 115% growth in Canada's 75-plus age cohort between 2015 and 2035. Ontario demographics mirror the national profile. According to provincial government estimates, Ontario residents in the 75-plus age cohort will grow by approximately 120% by 2036.

Canadian Population Projections (totals in thousands) (1)

			75+ Population			85+ Population		
Year	Total Population	CAGR(2)	Population	% of Total Population	CAGR(2)	Population	% of Total Population	CAGR(2)
2010……………….	34,138	--	2,247	6.6%	--	647	1.9%	--
2015……………….	36,104	1.13%	2,496	6.9%	2.12%	778	2.2%	3.74%
2020……………….	38,025	1.04%	2,914	7.7%	3.15%	880	2.3%	2.51%
2025……………….	39,916	0.98%	3,616	9.1%	4.41%	987	2.5%	2.33%
2030……………….	41,740	0.90%	4,436	10.6%	4.17%	1,216	2.9%	4.26%
2035……………….	43,480	0.82%	5,352	12.3%	3.83%	1,607	3.7%	5.73%

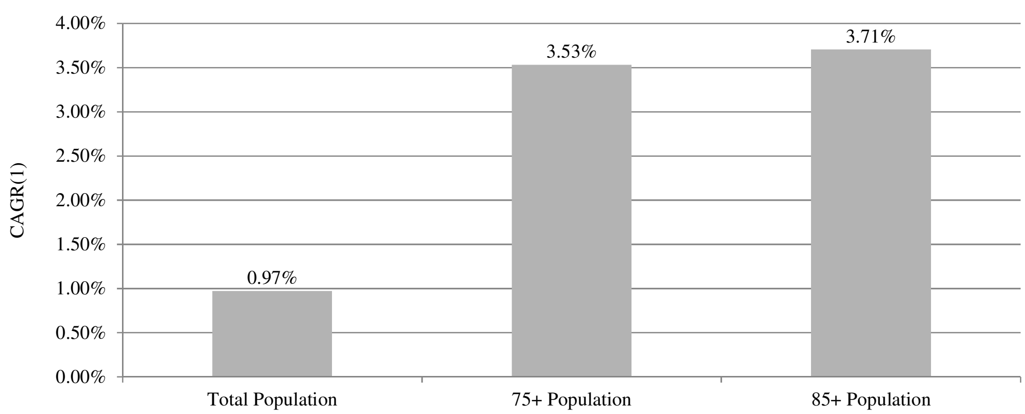
Source: Statistics Canada, CANSIM table 052-0005.

Notes:

(1) Illustrates "medium growth" scenario (fertility and immigration similar to recent years along with moderate growth in life expectancy).

(2) Five-year compound annual growth rate.

Population Growth Comparison in Canada (2010 to 2035)

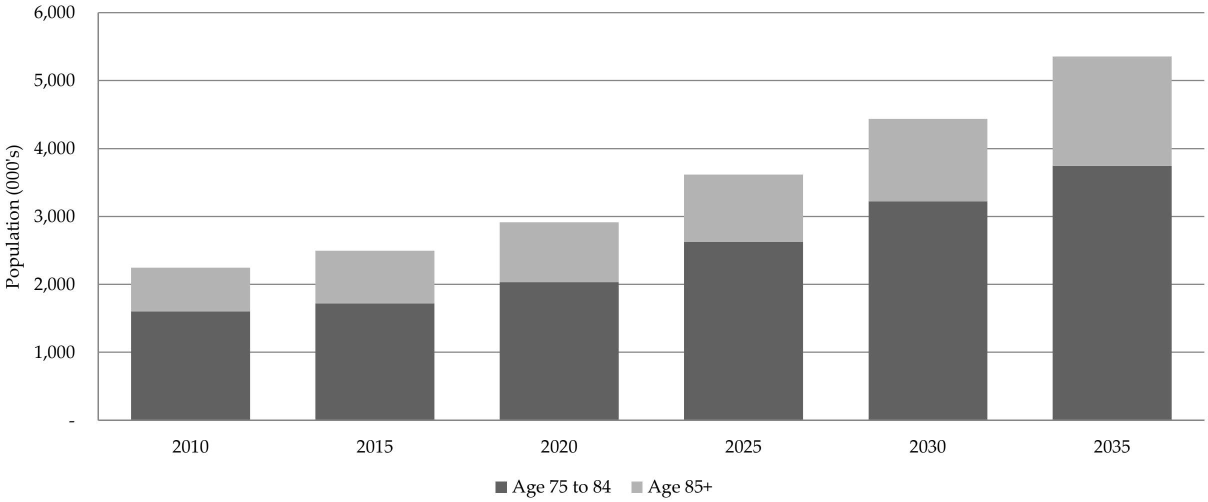


Source: Statistics Canada, CANSIM table 052-0005.

Note:

(1) Compound annual growth rate.

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



Source: Statistics Canada, CANSIM table 052-0005.

- **Increasing life expectancy:** Primarily as a result of advances in healthcare, life expectancy is increasing. According to Statistics Canada, the average life expectancy at birth for Canadians born during the three-year-period between 2005 and 2007 increased to 80.7 years. As recently as the 1995 to 1997 period, the average life expectancy for Canadians at birth was 78.4 years.

  Since the late 1970s, average gains in life expectancy for residents of Ontario have been in the order of approximately 0.17 year per annum for females and approximately 0.27 year per annum for males. Furthermore, individuals that reach the age of 65 have an average life expectancy that extends beyond the average life expectancy at birth of the overall population.

  According to the Ontario Ministry of Finance, the number of seniors aged 65 and over is projected to more than double from 1.9 million, or 14.2% of Ontario's population, in 2011 to 4.2 million, or 23.6%, of Ontario's population, by 2036. The growth in the share and number of seniors will accelerate over the 2011–2036 period as baby boomers begin to turn age 65.

- **Increasing seniors' affluence:** Increases in net worth (largely as a result of the many seniors who now own their homes debt-free), combined with increased household incomes, allow seniors to afford a much higher quality housing product with greater amenities than at any time in the past. Seniors' housing is now more upscale and residential, compared to the institutional feel that previously characterized such facilities.

  Seniors generally fund the costs of the seniors' living solution that best suits their needs through: selling their existing home; income generated from their savings and pensions; and/or financial support from family members.

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

  According to Statistics Canada, the average, after-tax household income of a Canadian economic family with two members or more (defined as an economic family group of individuals sharing a common dwelling unit, who are related by blood, marriage, common-law relationships, or adoption) was $58,900 in 1991 (inflation adjusted to 2010 dollars), compared to $76,600 in 2010.

  In LTC residences, seniors can choose to live in private or semi-private accommodation that affords greater dignity for the resident receiving care and services, and available privacy for day-to-day living. This in turn can provide a greater peace of mind for the resident's family members.

RR and IL residences now feature one or two bedroom units, as opposed to the smaller, one-room studio-style units that were more common in the past. Further, many RR and IL residences now feature lifestyle amenities such as fitness centres, lounges, restaurants, spas, theatres, and wireless internet services, typically found in preferred hotels and condominiums.

- **Changing family dynamics:** With more and more families having both spouses working full-time outside of the home and changes in lifestyle reducing the ability of adult children to care for their aging parents, seniors' housing facilities are an attractive option. There is also an increasing demand for home healthcare services as wait-lists for medical services and emergency room wait-times increase.

- **LTC provides a cost effective alternative:** Rising healthcare costs have resulted in a reduction in the length of hospital stays and a greater demand for home healthcare services and, in turn, are a predominant factor in LTC wait-list numbers. This has resulted in LTC homes increasingly being filled by residents with higher care requirements, leading to higher occupancy levels in LTC homes. According to the MOHLTC, there are currently 77,500 LTC beds in Ontario and a wait list of approximately 20,000 individuals. Many of the individuals currently on wait lists for LTC beds are occupying acute care beds in Ontario hospitals. According to the MOHLTC, the average cost for the Ontario government to fund an acute care hospital bed for a senior is approximately $1,000 a day, compared to approximately $150 a day in a LTC home.

- **Recession Stability:** The LTC industry has historically been largely insulated from economic cycles. This can be attributed to several factors: (i) seniors are generally retired and receiving stable, fixed and predictable income from private and public pensions, RRSPs and other fixed-income investment securities; (ii) demand for LTC housing is not usually discretionary but driven by need, which does not fluctuate during economic cycles; (iii) stability of tenure, as seniors, once having moved into a facility, are reluctant or unable to move to alternative accommodation; (iv) the continual increase in the demand for seniors' accommodation with skilled nursing due to the demographics of the aging population; and (v) a high level of government funding and subsidization of fees.

The RR and IL industries are less insulated from economic cycles when compared to the LTC industry, as these accommodations are not government subsidized and therefore more susceptible to discretionary spending. However, certain of the same factors that support the recession stability of the LTC industry also apply to RRs and ILs such as: (i) seniors are generally retired and receiving stable, fixed and predictable income from private and public pensions, RRSPs and other fixed income investment securities; and (ii) stability of tenure, as seniors, once having moved into a facility, are reluctant or unable to move to alternative accommodation. For these reasons, management believes that the potential sensitivity impact of economic cycles on occupancy rates for RRs and ILs is minimal.

Overview of Industry Segments

Long-Term Care

LTC homes are predominately designed to accommodate seniors who require 24-hour per day care and suffer from cognitive or physical impairment. LTC homes offer higher levels of personal care and support than those typically offered by independent living facilities or retirement residences. All Ontario LTC homes must be licensed by the MOHLTC and are eligible for occupancy based government funding, while being subject to government regulation and care standards. Residents of LTC homes are directly charged only for accommodation costs and, in the event these amounts are unaffordable for the residents, government subsidies are available to reduce the basic accommodation charge. Residents of LTC homes can pay a higher accommodation rate for private and semi-private accommodation.

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

- **Provision of an essential service:** The Ontario LTC sector provides an essential service to Ontario communities. LTC licenced homes generally provide 24-hour nursing support, daily assistance with personal care and supervision throughout the day to individuals who may otherwise require hospital care.

- **Significant barriers to entry:** Barriers to entry are both regulatory and operational. The LTC sector in the Province of Ontario is regulated by the MOHLTC, which requires that a home must be licensed or receive a letter of approval to operate from the MOHLTC in order to operate as an LTC home and to receive government funding. In considering whether it is in the public interest to grant a licence to operate a LTC home, the MOHLTC takes into account certain prescribed factors, including licenced bed capacity in the area, health facilities in the area other than LTC homes providing nursing care, the number of applicants for nursing care, and the available funds. In addition, LTC homes in the Province of Ontario must be built to specified design criteria and funding is tied to the level of delivery of mandated care services. These regulations create significant barriers to entry in the LTC sector and restrict the supply of beds. Currently, there is an almost universal restriction on the issuance of new licences in the Province of Ontario due to funding implications. There are also restrictions on the transfer or reissuance of licences whereby new industry entrants are heavily scrutinized and, conversely, experienced LTC operators with a sophisticated understanding of the regulatory landscape, such as Leisureworld, may gain an advantage as the preferred purchasers of licences. In addition to the regulatory barriers to entry, the successful operation of a LTC home demands a broad range of expertise, which creates additional barriers to entry. The operational skills required include management of healthcare operations, maintenance, marketing, community relationships, labour relations, government relations and financing. Larger operators may be better able to address these required skills through dedicated head office staff responsible for specific functions, the cost of which may be allocated across multiple homes.

- **Sustainable competitive advantage:** LTC homes have a sustainable competitive advantage over other sectors in the Ontario seniors' housing industry due to the affordability for seniors and as a cost-effective alternative to Complex Continuing Care or acute care hospital beds for eligible patients.

- **Stability of revenues:** LTC homes tend to enjoy predictable revenue for the following reasons: (i) a significant portion of revenues generated by LTC homes is received from MOHLTC funding; (ii) LTC homes are characterized by consistently high occupancy levels; (iii) there is a stable trend in escalation of payments; and (iv) revenue from preferred accommodation is available for a significant portion of licenced beds.

LTC Funding Model

Ontario LTC homes are funded through a well-defined funding model. Licensed operators of Ontario LTC homes are entitled to operating subsidies (subject to annual reconciliation), as well as various capital renewal program payments. Provincial support for the Ontario LTC sector has been demonstrated by increased funding commitments to the sector. Operational funding of LTC homes in the Province of Ontario is currently paid monthly and is divided into three "envelopes". The three envelopes include Nursing and Personal Care ("**NPC**"), Programs and Support Services ("**PSS**") and Other Accommodations, which includes Raw Food. Total operational funding received by operators includes a provincial government component and a direct charge to residents in respect of accommodation services. Each envelope is structured as a fixed amount per resident per day, or "rate". If a LTC home's average annual occupancy meets or exceeds 97%, it is the MOHLTC's policy to provide funding based on 100% occupancy. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels above 90% and below 97%, the adjustment range is up to 2% over actual occupancy. There are no adjustments to occupancy below the 90% threshold. In 2011 the MOHLTC introduced a temporary policy for homes with occupancy rates above 85% and below 97% to provide funding based on actual occupancy plus 3%. Previously, if a LTC home's average annual occupancy level was below 97%, the MOHLTC provided funding based on actual occupancy levels.

The MOHLTC categorizes and provides structural compliance and capital funding for homes according to four bed classes: Class A, which includes New, Class B, Class C and Class D. Capital funding is available to operators of LTC homes through Structural Compliance Premiums, Capital Cost Funding for New beds, Capital Cost Funding for Class B and Class C beds, Accreditation and several other revenue sources.

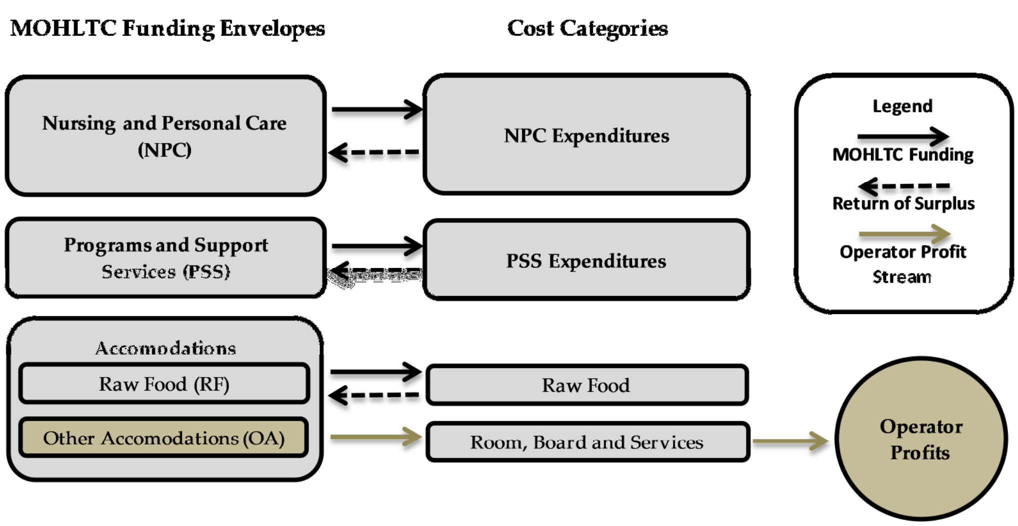
- **Nursing and Personal Care**: Flow-through envelope funded by the MOHLTC and designed to cover expenses associated with nursing and personal care staffing as well as medical and nursing supplies. LTC homes receive funding based on the assessed care needs of their residents.

- **Programs and Support Services**: Flow-through envelope funded by the MOHLTC and designed to cover expenses associated with therapeutic services, pastoral care, recreation, staff training, volunteer coordination and other services.

- **Accommodation**: The flow-through envelope portion funded by the MOHLTC comprises a raw food-only component (the "**Food Component**") and an other accommodation component ("**OA**"). A co-payment is charged to residents to cover funding for room and board expenses such as food, housekeeping, dietary services, laundry and linen, administration, and building/property operations and maintenance, including mortgage payments and taxes.

Funding provided to the NPC and PSS envelopes and for the Food Component of the accommodation envelope generally makes up more than 60% of the per day operational funding received by operators of LTC homes. This funding may only be applied to expenses categorized for each respective envelope and cannot be transferred to any other envelope. Any funding received by an LTC operator home from the NPC or PSS envelopes, or from the Food Component of the accommodation envelope, in excess of the amounts spent by the operator must be reimbursed to the MOHLTC during an annual reconciliation process. The reimbursements may result in current year adjustments, known as "prior period adjustments", which may impact an operator's NOI. Funding related to the OA component of the accommodation envelope may be applied to expenses under any envelope or retained for profit (provided that all MOHLTC accommodation standards for LTC homes have been met). Should an operator incur costs in excess of the amount allocated for an envelope, then that expenditure must be paid from the OA component of the accommodation envelope (a practice known as "overspending"). Thus, overspending in the NPC and PSS envelopes and the Food Component of the accommodation envelope can impact profitability as any shortfall must be made up from the OA component of the accommodation envelope. As such, operators of LTC homes have an incentive to manage costs within their funding envelopes. The economies of scale in hiring, purchasing, administration and other areas enjoyed by larger operators reduce the likelihood of overspending. The following diagram (which is not to scale and actual spending amounts differ) provides an overview of the overall funding framework for an LTC home in the Province of Ontario on a normalized basis, assuming no overspending.

MOHLTC Funding Model



Historical Escalation of LTC Funding Rates

Funding Envelope	1993[3] ($ per bed per diem)	2012[1] ($ per bed per diem)	CAGR (%)
Nursing and personal care..................	$38.23	$86.91	4.67%
Programs and support services............	2.51	8.43	6.96%
Accommodation.............................	34.61	52.17	2.31%
Food.......................................	4.26	7.68	3.33%
	$79.61	$155.19	3.78%

Rebased to 100 in 2002	1993	2012	CAGR (%)
CPI Index [2]................................	84.70	121.20	2.01%

Notes:

(1) MOHLTC, as at July 1, 2012

(2) Bank of Canada – Total CPI

(3) MOHLTC, 1993.

Capital Renewal Initiatives

The MOHLTC categorizes and provides structural compliance and capital funding for homes according to four bed classes. Class A homes, which include New homes, substantially meet or, in the case of New homes, meet or exceed the MOHLTC's most recent design standards which were issued in 1998. The subset of New homes comprise those developed or redeveloped in accordance with the MOHLTC's initiatives over the past 12 years to add new LTC beds and refurbish homes that will enhance the accommodation and services for residents living in these homes. These New homes have generally been developed no earlier than 1999. All of Leisureworld's Class A homes are New. Class B homes exceed the MOHLTC's 1972 standards but do not meet the 1998 design standards. Class C homes meet the 1972 standards. Class D homes do not meet the 1972 standards. The LTC home ranking system applies only to the LTC home buildings: care is dictated by resident needs irrespective of the class of LTC home.

Capital funding is available to operators of LTC homes under the following MOHLTC programs, which together make up the "**Capital Renewal Initiatives**":

- **Structural Compliance Premiums**: Structural compliance funding is provided on a per person per day basis and applies to those operators (other than operators of Class D LTC homes) who have fully or partially financed their own construction costs. The amount depends on the design standard that the LTC home meets and the amount of any government grants received. The current *per diem* funding levels are (on a per resident basis): Class A homes which are not New — $5.00, Class B homes — $2.50, Class C homes — $1.00.

- **Current Capital Cost Funding for New Beds ($10.35 funding)**: While Class D homes do not receive structural compliance premiums, they are eligible for capital cost funding upon entry into development agreements with the MOHLTC pursuant to which Class D beds are converted (through re-development, retrofitting or upgrades) to New beds. Increased capital funding also applies to homes that have New beds as a result of being constructed after April 1, 1998. Under the development agreements, these New beds (whether converted or newly constructed) receive a 20-year commitment from the MOHLTC to provide *per diem* funding of up to $10.35 per bed, depending on actual construction costs.

- **New Capital Cost Funding for Class B and C Beds**: On July 31, 2007, the MOHLTC announced plans to establish a new capital cost funding initiative, similar to the current program for New homes, aimed at providing incentives for owners of existing Class B and C LTC homes to redevelop such properties to current standards. In December 2008, operators of existing Class B, C and upgraded Class D LTC homes were surveyed by the MOHLTC to assess available funding mechanisms for proposed redevelopments or retrofits. The MOHLTC has indicated that the range of base green-field construction funding subsidy for nursing homes larger than 100 beds is $13.30 *per diem* per bed for 25 years, provided a minimum of

$120,000 per bed is spent on construction costs. However, Leisureworld will likely be entitled to take advantage of the same rate subsidy plan that provides funding for downsizing and retrofitting with no minimum capital expenditure requirement. Additional premiums will be provided to nursing homes that achieve Leadership in Energy and Environmental Design status. The Ontario Long-Term Care Association, an LTC industry association, and their elected officials have been working with the Government of Ontario to further clarify the details of the capital subsidy program and express concerns about the adequacy of the construction funding subsidy for green-field development and await any further announcement from the Provincial Government addressing their concerns.

In addition to operational funding and subsidies pursuant to the Capital Renewal Initiatives, LTC operators may receive additional revenue from the following sources:

- **Accreditation**: LTC homes that are accredited by CARF earn an additional *per diem* of $0.33 per bed from the MOHLTC. CARF, a not-for-profit, independent organization provides healthcare organizations with a self-regulatory review process to assess and improve the quality of care and services provided to clients and residents. Accreditation is granted through a regular peer review process that examines and evaluates the roles, responsibilities and competencies of a home's professional and support staff. It also assesses the organization's services, systems and infrastructure. The quality framework of the accreditation council defines quality through eight dimensions: population focus; accessibility; safety; work life; client centered services; continuity of services; efficiency; and effectiveness. Leisureworld's LTC homes have been accredited until December 31, 2015.

- **Municipal Taxes, High Intensity Funding, Pay Equity & Preferred Accommodation**: The MOHLTC also provides additional funding or reimbursement for various other items including reimbursement of LTC homes' municipal property tax obligations (currently up to 85%) and additional funding for high intensity needs and specialty programs (e.g., convalescent care, and peritoneal dialysis). Funds are also provided to operators of LTC homes to cover past and continuing pay equity obligations for LTC homes that have used the "proxy pay equity method". Pay equity funding varies from home to home based on individual payroll obligations. An equalization adjustment of up to $3.25 per resident per day is provided to LTC homes. As well, preferred premiums are received from residents for semi-private or private accommodation.

LTC Competitive Structure

The LTC industry in the Province of Ontario is comprised of a number of private and public sector operators offering a variety of similar services to those offered by Leisureworld. The Ontario LTC industry has historically been fragmented, with small independent operators providing most of the housing. However, in recent years, the industry has experienced some consolidation. Larger operators run by professional management are able to realize cost efficiencies, economies of scale and greater access to capital while at the same time increasing the quality of their homes and the services provided. According to Care Planning Partners Inc., the 10 largest participants in the Ontario LTC sector together accounted for approximately 36% of the beds in LTC homes. Further, no participant exceeded a 10% market share of beds in the Province of Ontario and only three participants exceeded a 5% market share of such beds.

Leisureworld also faces competition from other healthcare providers, hospital based LTC units, rehabilitation hospitals, home health agencies and rehabilitative therapy providers. Competitive factors which determine the placement of residents in LTC and AL homes include quality of care, services offered, reputation, physical appearance of the home, location and cost to the resident for additional services and private or semi-private accommodation. At present, wait-lists for LTC homes have grown to approximately 20,000, reflecting the inadequate availability of licensed LTC spaces to absorb people who are in need of 24-hour care and services.

Leading LTC sector participants in the Province of Ontario include:

Operator	LTC Beds	% of Total	LTC Homes	% of Total
Revera Inc.	6,747	8.71%	58	9.32%
Extendicare Canada Inc. (1)	4,989	6.44%	34	5.47%
Leisureworld Senior Care Corporation (1) (2)	4,474	5.77%	27	4.34%
Chartwell Seniors Housing REIT (1)	3,001	3.87%	23	3.70%
Toronto Long-Term Care Homes and Services	2,640	3.41%	10	1.61%
Schlegel Villages	1,563	2.02%	11	1.77%
Specialty Care Inc.	1,500	1.94%	11	1.77%
Omni Health Care Ltd.	1,415	1.83%	17	2.73%
Jarlette Health Services	1,322	1.71%	12	1.93%
Caressant Care	1,237	1.60%	15	2.41%
Total major providers	28,888	37.27%	218	35.05%
Estimated provincial total	**77,500**		**622**	

Source: Care Planning Partners Inc., as at March, 2013.

Notes:

(1) Publicly traded, listed on the TSX.

(2) 1 LTC home is operated on behalf of Spencer House Inc., a non-profit charitable organization.

Retirement and Independent Living

Retirement communities accommodate seniors who require minimal to moderate assistance with daily activities whereas independent living communities accommodate seniors who require minimal or no assistance with daily living. Residents are generally responsible for the entire cost of accommodation and care. RRs in Ontario are now regulated by the *Retirement Homes Act 2010* (Ontario), but generally are not subsidized by the government. This legislation will provide consumer protection and does not provide funding for the provision of care and services in these facilities. RRs in British Columbia are regulated under the *Community Care and Assisted Living Act* (British Columbia).

Canada's 75-plus age cohort is entering a period of unprecedented growth and, if current demand levels for RR and IL residences remain constant, management believes Canada's current RR and IL capacity will not be able to meet future demand. Further, given the increasing affluence and evolving lifestyle expectations of Canadian seniors, management believes new opportunities are emerging to meet the preferences of this burgeoning demographic group. Affluent seniors who are in relatively good health, but prefer ready access to care and services in a community setting, are becoming increasingly discerning about the lifestyle options RR and IL operators provide. For instance, one to two bedroom living quarters are now preferred to single-room studio units that were more prevalent in the past. Further, amenities such as fitness centres, lounges, restaurants, spas, theatres, and wireless internet services, typically found in preferred hotels and condominiums, are also attractive. The provision of these "five star" luxury features and amenities enable RR and IL operators to optimize rental or lease rates and thereby realize superior operating margins to those that can be achieved via government subsidized seniors' housing. In addition, affluent seniors also appreciate the availability of à-la-carte services, such as chauffeured town cars or shuttle vans for day trips, dog walking services, beauty salons, cooking classes, or gourmet prepared meals, which enables operators to further enhance margins.

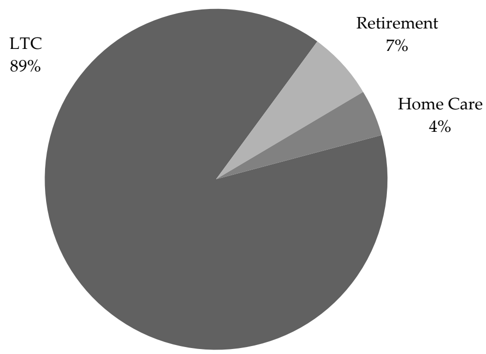
Home Care

Home Care services in Ontario are designed to accommodate seniors that require assistance in day-to-day activities and healthcare. Funding for such services is provided by Ontario's Community Care Access Centres ("**CCACs**"). CCACs were created by the MOHLTC partially to administer publicly funded home care in the Province of Ontario. The Government of Ontario continues to fund a wide range of home healthcare and community support services to enable seniors to continue leading healthy and independent lives in their own homes. Currently, Leisureworld's Preferred Health Care Services holds three CCAC contracts for personal support worker services. The MOHLTC, Ontario's LHINs and CCACs are now moving forward with "Home First", a similar initiative to "Aging at Home", designed to support seniors with government subsidized home healthcare and community services.

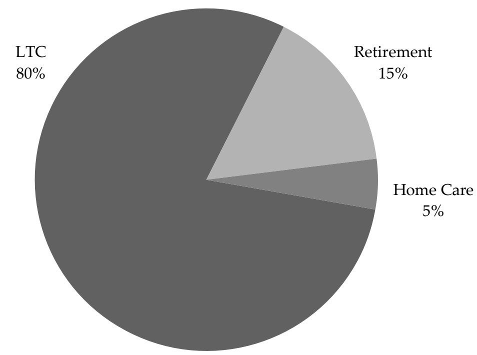
BUSINESS OF LEISUREWORLD

Leisureworld's reportable segments include its business in respect of: (i) its 27 LTC homes, (ii) its five RRs and one IL residence, and (iii) Home Care.

2012 Revenue Breakdown by Segment(1)



2012 NOI Breakdown by Segment(1)



Notes:

(1) In September 2012 the Muskoka RR was temporarily closed for renovations to better address the needs of the community.

Company History

LSCLP and its predecessors have been operating since 1972. Leisureworld is the third largest provider of licensed LTC in Ontario and has, to date, focused almost exclusively on LTC. Since inception, Leisureworld has expanded both through acquisition growth and organically, which reflects a proven ability to increase the capacity and occupancy of its portfolio.

Leisureworld has achieved critical mass through:

- **Organic growth** — increasing capacity and occupancy levels: Since 2005, Leisureworld has improved its quality of care while increasing the average LTC annual occupancy rate from 89.6% in 2005 to 98.8% as at December 31, 2012**.**

- **Acquisition Growth** — consolidation opportunities in a highly fragmented market: Since January 2008, Leisureworld has completed the acquisition of eight LTC homes, comprising 1,287 beds, to increase the capacity and occupancy of its portfolio and has entered into an agreement to acquire 88 LTC licences from Christie Gardens Apartments and Care Inc. Since 2011, Leisureworld has acquired five luxury RRs, comprising 686 units.

- **Capital Renewal Initiatives and Development** — Leisureworld's management has the necessary skills and ability to take full advantage of the Capital Renewal Initiatives and other property development opportunities. From 1998 to 2006, Leisureworld developed 13 new LTC homes, representing 2,260 beds, and 1 RR, actively participating in the design, construction and management of these properties.

Core Business Operations

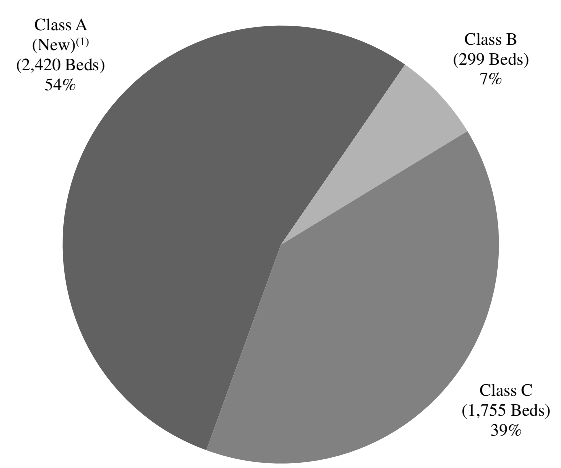
Long-term care

Leisureworld's LTC portfolio generated approximately 89% of the Company's net revenues and approximately 80% of NOI. The LTC properties are comprised largely of New homes within the Class A category, which represent approximately 54% of Leisureworld's beds. Class B and C homes represent 7% and 39% of the portfolio, respectively. In addition, Leisureworld is well positioned to capitalize on the MOHLTC's capital renewal initiatives, which will provide funding to upgrade Class B and C homes.

A significant proportion of Leisureworld's LTC beds are designated as preferred accommodation, with approximately 54% of beds designated as private or semi-private accommodation. Approximately 4% of the revenues and 22% of the NOI from Leisureworld's LTC operations are generated from charging residents the regulated premium of up to \$19.75 and \$9.00 per day per bed for private and semi-private accommodation, respectively. Effective July 1, 2012, the MOHLTC announced that the regulated premium has increased to \$19.75 and \$9.00, respectively, for new admissions to preferred accommodations, with the existing residents in preferred accommodations being grandfathered at \$18.00 and \$8.00, respectively.

On July 16, 2012, the Company completed the acquisition of the Madonna LTC home in Orleans, Ontario. Built in 2007, the Madonna Long-Term Care Residence is a 160 bed Class A home.

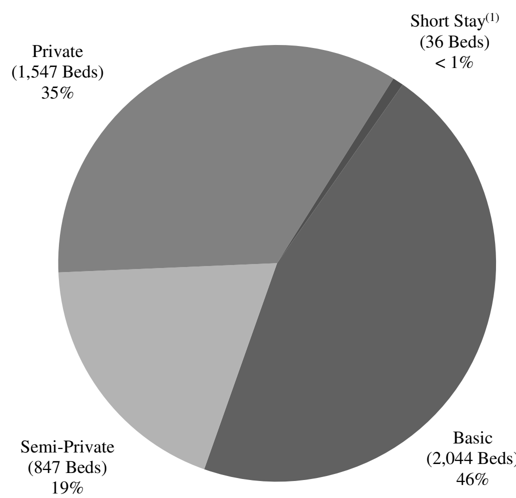
Summary of LTC Beds by Class



Note:

(1) All of Leisureworld's Class A homes are designated New, meeting or exceeding the MOHLTC's 1998 design standards and qualifying for additional capital funding of \$10.35 per day, per bed for a period of 20 years from initial licencing date.

Summary of LTC Beds by Accommodation Type



Note:

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

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Retirement and Independent Living Residences

The Company's Retirement portfolio consists of five luxury retirement properties and one independent living community This segment, while still growing its revenue base, has provided approximately 7% of the net revenues, while providing approximately 15% of the NOI for the Company.

On April 27, 2011, Leisureworld acquired two additional RRs comprising 294 suites located in Kingston and Kanata, Ontario. These residences are new luxury retirement living properties featuring top quality amenities and services. Leisureworld has branded these properties as 'The Royale'. As new properties, both residences are currently in the lease-up period. Occupancy rates as at December 31, 2012 were 69.9% at Kingston and 71.5% at Kanata.

As part of the total purchase consideration for these properties, Leisureworld put in place a $5.5 million three-year income support agreement with the vendor, to be held in escrow as an income guarantee to supplement cash flow during the period that the residences are being leased-up. As at September 30, 2012, the Company had fully utilized the income support funds.

On May 24, 2012, the Company completed the purchase of three luxury retirement properties in the GVA, which have been added to the brand of 'The Royale' and operate as The Royale Astoria ("**Astoria**"), The Royale Pacifica ("**Pacifica**") and The Royale Peninsula ("**Peninsula**"). Occupancy rates as at year end were 57.0% for Astoria, 89.2% for Pacifica and 82.7% for Peninsula. The Astoria property was the most recent property to open and is currently in its lease-up period.

In conjunction with the acquisition of Astoria, the Company put in place a $2.0 million three-year income support agreement with the vendor which is held in escrow. As at December 31, 2012, the Company had drawn down $1.1 million of the income support funds.

Leisureworld's IL residence is comprised of 53 apartments that are attached to the Scarborough LTC home. This IL residence had occupancy of 98.1% as at December 31, 2012.

During the year, Leisureworld temporarily closed the Muskoka retirement property for extensive renovations in response to the changing needs of the community it serves.

Home Care services

PHCS operates the Company's Home Care segment. PHCS, which was recently accredited with Exemplary Standing by Accreditation Canada, offers home care, education and training, and relief staffing services. These services either complement or support the core nursing home operations of Leisureworld. PHCS effectively broadens Leisureworld's presence across the continuum of care. PHCS has been providing professional nursing and personal support services in the community and LTC homes since 1987. Employees of PHCS include registered nurses, registered practical nurses, foot care nurses, companions and personal support workers who work on a permanent full-time, part-time or elect-to-work basis. Elect-to-work employees are not guaranteed any minimum amount of work. Employees are non-unionized and salaries are dictated by the market. The Company's Home Care segment contributes approximately 4% of the net revenue and approximately 5% of the NOI.

Growth Strategies

Management has identified both internal and external growth opportunities. Organic growth opportunities include project development under the capital renewal initiatives, as well as an increase in the number of home healthcare contracts. External growth strategies include LTC, RR, IL and home healthcare acquisitions, expansion across the continuum of care, and geographic extension.

Organic

Leisureworld anticipates participating in the MOHLTC's capital renewal initiatives, under which 12 Class B and Class C LTC homes would be eligible for refurbishment. This strategy includes both the downsizing and retrofitting of certain of its homes as well as new home construction. Ultimately, the program is expected to extend licence terms at newly developed homes and increase preferred bed revenues. In addition, Leisureworld's PHCS business stands to benefit from the stated intention by the Government of Ontario to increase investment in community based services, which includes home care services. As a result of the government initiative, management is hopeful of obtaining additional home care contracts, which will ultimately result in PHCS becoming a larger participant in this sector.

External

Management believes a large number of LTC acquisition targets exist as a result of the fragmented nature of the LTC industry. Additionally, Leisureworld will consider older LTC homes with limited redevelopment opportunities and implement the transportation of licenced capacity from those homes to Leisureworld's existing portfolio. Opportunities also exist for Leisureworld to expand in the RR and IL segment of senior housing through acquisition and development. Finally, management anticipates opportunities to further diversify Leisureworld's portfolio into other regions of Canada through accretive acquisitions.

Overview of Leisureworld LTC Homes

The MOHLTC ranks LTC homes into four categories, Class A (including New) through to D, based upon whether the LTC home meets certain design standards (New represents Class A LTC homes that meet or exceed the MOHLTC's most recent (1998) design standards). Class A LTC homes (consisting entirely of New beds) comprise approximately 54% of the total beds of the Leisureworld LTC Homes, as shown in the following table:

Leisureworld LTC Homes Breakdown of Beds by Class

Beds by Class (1)	Number of Beds	Percentage of Portfolio	Percentage of NOI
A (New) (2)……………………………………………………………	2,420	54.1%	56.1%
B……………………………………………………………………	299	6.7%	7.8%
C……………………………………………………………………	1,755	39.2%	36.1%
Total………………………………………………………………	**4,474**	**100.0%**	**100.0%**

Notes:

(1) Class A homes substantially meet or, in the case of the subset of New homes, meet or exceed 1998 design standards. Class B homes exceed 1972 standards but do not meet 1998 design standards. Class C homes meet 1972 standards.

(2) All of Leisureworld's Class A homes are designated New homes and qualify for capital funding of $10.35 per day, per bed.

Summary of Leisureworld LTC Homes

The following table outlines Leisureworld's LTC homes by Class, occupancy rate and bed classification:

Summary of Leisureworld LTC Homes

Name of LTC Home	Year Built	Class	Bed Type: Private	Semi-Private	Basic	Short Stay/ Convalescent [3]	Total
Altamont	1965	C	5	90	63	1	159
Barrie	1972	C	3	31	23		57
Brampton Meadows	2003	New	96	-	64	-	160
Brampton Woods	2003	New	96	-	54	10	160
Brantford							
Expansion	2002	New	32	-	-	-	32
Original	1972	C	2	37	49	2	90
Cheltenham	1976	C	10	92	67	1	170
Creedan Valley	1975	C	13	30	52	-	95
Ellesmere	2003	New	134	-	90	-	224
Elmira	2000	New	58	-	36	2	96
Etobicoke	2001	New	80	-	80	-	160
Lawrence	2002	New	134	-	90	-	224
Madonna	2007	New	96	-	64	-	160
Mississauga	1970	C	13	129	94	1	237
Muskoka	1999[2]	New	68	-	112	2	182
Norfinch	2003	New	96	-	64	-	160
North Bay	1975	C	30	20	92	6	148
O'Connor Court	2001	New	100	-	60	-	160
O'Connor Gate	2001	New	80	-	78	-	158
Orillia[1]	2006	New	94	-	66	-	160
Oxford	1975	C	8	40	30	2	80
Richmond Hill	2003	New	96	-	64	-	160
Rockcliffe	1968	C	24	98	81	1	204
Scarborough	1991	B	30	106	159	4	299
St. George	1972	C	4	18	213	3	238
Streetsville	1976	C	8	64	46	-	118
Tullamore	1965	C	3	92	63	1	159
Vaughan	2004	New	134	-	90	-	224
Total			**1,547**	**847**	**2,044**	**36**	**4,474**
Percent of Total			**34.6%**	**18.9%**	**45.7%**	**0.8%**	**100.0%**

Notes:

(1) The Orillia LTC home opened on November 17, 2006. Spencer House Inc., a non-profit organization, holds the licence from the MOHLTC to operate the LTC beds and leases the Orillia LTC home's land, buildings, furniture, fixtures and equipment from a subsidiary of LSCLP. Spencer House Inc. has also appointed a subsidiary of LSCLP as manager of the Orillia LTC home's 160 LTC beds.

(2) The original structure at Muskoka was built in 1975 but was rebuilt in 1999 to meet new LTC design standards and at that time the RR was also refurbished.

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

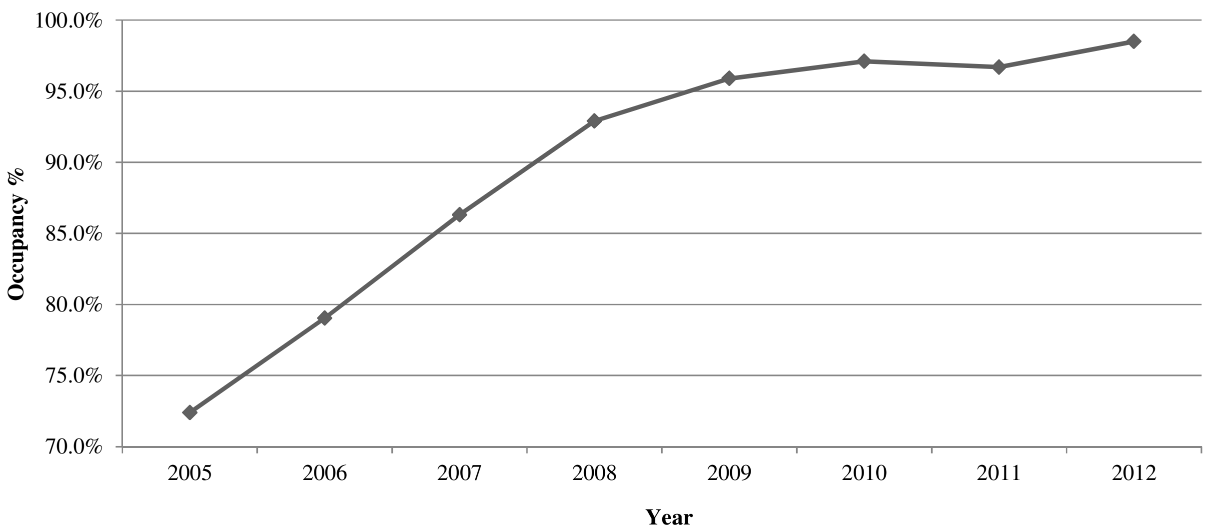
A significant proportion of Leisureworld's LTC beds are designated as preferred accommodation with approximately 54% of beds designated as private or semi-private accommodation. Approximately 4% of the revenues and 22% NOI from Leisureworld's LTC operations are generated from charging residents the regulated premium of up to $19.75 and $9.00 per day per bed for private and semi-private accommodation, respectively.

Historical Occupancy

Management has a proven ability to grow and manage Leisureworld's LTC portfolio, achieving consistently high occupancy rates across its Leisureworld LTC homes. Since 2008, Leisureworld has successfully integrated 1,287 additional beds and increased the average annual occupancy rate from 89.6% in 2005 to 98.8% as at December 31, 2012 Leisureworld has consistently displayed the ability to effectively increase occupancy at newly acquired homes.

The MOHLTC permits operators to charge its residents $18.00 per day for private accommodation. On July 1, 2012, this was increased to $19.75 for new admissions to private accommodations. This amount is received by the operator in addition to the basic MOHLTC accommodation funding. The average annual private occupancy for Leisureworld LTC homes has grown consistently over the past seven years as shown in the chart below:

Private Occupancy %



Commitment to Quality of Care

Leisureworld has internal programs to ensure the quality of the services and care it provides to residents are at the highest standards by providing direction to staff in terms of performance expectations, clarifies operational goals and objectives, and defines core values. This framework also guides the strategic planning process at both the corporate and home level to support a balance in setting goals and objectives.

In order for performance expectations to be set and monitored they must be measureable. Leisureworld has a quality program that sets out quantifiable performance indicators for key areas of care that support trending, benchmarking and target setting. Data collection is strengthened with the application of clinical software and a growing national data bank for LTC that supports data comparison and analysis. Internal care and service audits are carried out by both a central clinical team and management at the home level. Information gained through audits is reviewed in concert with care data indicators to build a more complete picture on quality and performance to identify opportunities for improvement.

Care and specialized services include peritoneal dialysis, hyperdermoclysis, IV therapy, tube feeding, diabetes, mental health issues and convalescent care. In addition to being highly sought after by certain resident niches, these types of added services assist the MOHLTC in achieving its goal of reducing waiting time to access hospital beds and lines at emergency rooms.

Overview of Leisureworld RRs and ILs

Summary of Leisureworld RRs and ILs

The following table outlines Leisureworld's RR and IL homes by construction/open date, suite types, net rentable area and occupancy:

				Rentable Suites					
Property	**Location**	**Year Opened**	**Total Suites**	**Studio / Alcove**	**One Bedroom**	**One Bedroom plus Den**	**Two Bedroom**	**Net Rentable Area (sq. ft.)**	**Occupancy Level**
Muskoka RR[1]……………….	Gravenhurst, ON	1999	27	-	27	-	-	7,331	n/a
Scarborough IL………………	Scarborough, ON	1991	53	53	-	-	-	23,940	98.1%
The Royale Kanata………….	Kanata, ON	2009	158	32	89	-	64	115,187	71.5%
The Royale Kingston……….	Kingston, ON	2009	136	1	120	-	15	85,780	69.9%
The Royale Astoria………….	Port Coquitlam, BC	2010	135	3	112	12	8	84,395	57.0%
The Royale Pacifica…………	Surrey, BC	2008	130	17	70	12	31	81,949	89.2%
The Royale Peninsula……….	Surrey, BC	2006	127	6	86	6	29	85,980	82.7%
Total…………………………			**766**	**112**	**504**	**30**	**147**	**484,562**	

Notes:

(1) In September 2012, the Muskoka RR was temporarily closed for renovations to better address the needs of the community.

Operational Permits and Environmental Matters

Leisureworld holds all necessary licences and approvals required to operate its business, including licences for the LTC homes issued by the MOHLTC (with the exception of the Orillia LTC home which it manages on behalf of Spencer House Inc., the holder of the licence from the MOHLTC) and is in compliance with the licensing requirements to operate its RRs in Ontario under the *Retirement Homes Act, 2010* (Ontario). Management believes that each of the Leisureworld homes and their operations are in compliance in all material respects with environmental, health and safety laws.

It is Leisureworld's policy to obtain a phase I environmental site assessment, conducted by an independent and experienced environmental consultant or consulting firm, prior to acquiring any new property. Phase I environmental site assessments are non-intrusive investigations which involve a visual site inspection and a review of historical land use information. Where phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Leisureworld's policy is to obtain phase II environmental site assessments, which are more involved investigations that involve soil, groundwater or other sampling, to confirm the absence or presence and extent of an environmental concern.

Employees

As at December 31, 2012, the Leisureworld employed, directly and indirectly, approximately 6,000 people. All of the Leisureworld LTC homes and two RR are currently unionized with approximately 80% of employees represented by union locals of one of the following: the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada, the Canadian Union of Public Employees or the Canadian Auto Workers or the BC Government and Service Employees Union. The *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' housing industry, governs the Leisureworld LTC homes' labour relations. Leisureworld believes that it has a good relationship with all of its employees.

Seasonality and Cyclicality

The results of the Company are subject to various factors including, but not limited to seasonality of utility expenses, timing of government funding rate increases and the timing of revenue recognition to match spending under the flow-through envelopes.

RISK FACTORS

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

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

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

In the Province of Ontario, all LTC homes are funded and must be licensed
The LTCHA contains a licence term regime for all LTC homes which will result in licence terms for the Leisureworld homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC including approval of new licences, and transfer, renewal or revocation of existing licences. With an existing wait-list of approximately 20,000 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences will continue to be renewed and to have indefinite lives. A failure of Leisureworld's LTC licences to be renewed or conditional renewal could have an impact on the Leisureworld business.

The LTCHA also contains a number of other provisions regulating the operation of LTC facilities, including proscriptions on the terms of external management agreements, reporting requirements and restrictions relating to a broad range of non-arm's length transactions, circumscription on lenders' rights on enforcement and more stringent controls on LTC purchase and sale transactions.

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

There can be no assurance that future regulatory changes in health care, particularly those changes affecting the seniors housing industry, will not adversely affect Leisureworld.

Acquisitions

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

Capital intensive industry

The ability of Leisureworld to maintain and enhance its properties, predominately relating to its LTC homes, in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in its markets will require the Company to commit a substantial portion of cash to its facilities and equipment. Certain competitors of the Company may operate homes that are not as old as those owned by the Company, or that may appear more modern, and therefore, may be attractive to potential patients and residents. Significant future capital requirements could have a material adverse effect on the business, operating results or financial condition of the Company, which could adversely affect the Company's results and ability to pay dividends to its shareholders.

Financing Risk

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

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

Redevelopment of Class B and C homes
The Company intends to redevelop, over the next five to fifteen years, all of its Class B and Class C homes pursuant to the MOHLTC Capital Renewal Initiatives. The redevelopment plans include significant capital outlays which are expected to be funded with a combination of cash on hand, working capital lines, construction facilities and conventional and/or CMHC insured financing. To the extent such redevelopment plans are not implemented or proceed on significantly different timing or terms, including with respect to the levels of expected MOHLTC funding, there could be an adverse effect on the Company's results and ability to pay dividends to its shareholders.

Real property ownership
All real property investments are subject to a degree of risk. They are affected by various factors, including changes in general economic conditions (such as the availability of long-term mortgage funds) and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to residents, competition from other available space and various other factors, including increasing property taxes. In addition, fluctuations in interest rates could have a material adverse effect on the business, operating results or financial condition of Leisureworld.

Rising healthcare and utility costs
Healthcare costs have been rising and are expected to continue to rise at a rate higher than that anticipated for consumer goods and services as a whole. The business, operating results or financial condition of the Company could be adversely affected if it is unable to implement annual private-pay increases due to market conditions or if funding rates from the MOHLTC are not appropriately adjusted to cover increases in labour and other costs.

Utility costs are subject to volatility arising from supply and demand factors as well as consumption due to fluctuations in weather.

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

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

The Leisureworld business is labour intensive
The Leisureworld business is labour intensive, with labour-related costs comprising a substantial portion of the Company's direct operating expenses. The Leisureworld business competes with other healthcare providers with respect to attracting and retaining qualified personnel. The LTC industry is currently facing a shortage of qualified personnel, such as nurses, pharmacists, certified nurse's assistants, nurse's aides, therapists, and other important providers of healthcare services. The shortage of qualified personnel and general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for such personnel, the costs of which are included in the annual operating budget for each home. The Company may not be able to offset such added costs by increasing the rates charged to residents. An increase in these costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of

the Company. No assurance can be given that labour costs will not increase, or that if they do increase, that they will be matched by corresponding increases in revenue. Wage increases in excess of increases that can be obtained from increases in rental or cost reimbursement could have an impact upon the business, operating results, and financial condition of the Company, which could adversely affect the Company's results and the Company's ability to pay dividends.

The Company is heavily dependent on certain of its key executives and other personnel

The Company's success depends heavily on its ability to attract, retain and motivate key employees, including senior management. If the Company loses the services of any of its key executives and cannot replace them in a timely manner, its business and prospects may be adversely affected. Since the Company is managed by a small group of executive officers, the loss of the technical knowledge, management expertise and knowledge of operations of one or more members of the Company's executive management team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any executive officer who leaves the Company and would need to spend time usually reserved for managing the business to search for, hire and train new members of management. The loss of some or all of the Company's executives could negatively affect the Company's ability to develop and pursue its business strategy which could adversely affect the Company's business and financial results. The Company does not currently carry any ''key man'' life insurance on its executives.

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

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

Liability and insurance

The businesses, which are carried on, directly or indirectly, by Leisureworld, entail an inherent risk of liability, including with respect to injury to or death of its residents. Management expects that from time to time Leisureworld may be subject to such lawsuits as a result of the nature of its businesses. Leisureworld maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

A successful claim against Leisureworld not covered by, or in excess of, Leisureworld's insurance could have a material adverse effect on Leisureworld's businesses, operating results and financial condition. Claims against Leisureworld, regardless of their merit or eventual outcome, also may have a material adverse effect on its ability to attract residents or expand its businesses (particularly where such claims receive negative media exposure), and will require management to devote time to matters unrelated to the direct operation of the business.

Competition

Numerous other seniors housing facilities compete with Leisureworld in seeking residents. While the existence of competing owners and competition for Leisureworld residents could have an adverse effect on the Company's ability to find residents for its seniors housing properties and on the rents charged, and could adversely affect the Company's revenues and its ability to meet its debt obligations and the Company's ability to pay dividends on its common shares. Any impact from competition in relation to the LTC homes is expected to be mitigated by the wait list numbers for LTC and the barriers to entry into the LTC industry.

Geographic concentration

A majority of the business and operations of Leisureworld are conducted in Ontario. The fair value of the Leisureworld assets and the income generated therefrom could be negatively affected by changes in local and regional economic conditions. However, management believes the seniors housing sector in Ontario is currently a desirable market in which to operate, particularly when contrasted to comparable US markets in terms of general economic conditions and government funding rates for skilled nursing. Also, the Company has expanded its retirement portfolio to include properties in British Columbia.

Geographic risk
On May 24, 2012 the Company completed the acquisition of the BC Portfolio. Inherent with these acquisitions are the risks associated with operating businesses in a different jurisdiction which include, but are not limited to, different provincial labour laws, provincial regulations applicable to operating a retirement residence, operating properties in lease-up periods and accessibility by key management. The Company is mitigating this risk by employing the services of the existing management company that is currently operating these residences.

Changes in the Company's credit ratings may affect the Company's capital structure
The credit ratings assigned to the 2015 Notes are an assessment of the Company's ability to pay its obligations. The current ratings are A (stable) by Dominion Bond Rating Services Limited and A- (negative) by Standard & Poor's. Consequently, real or anticipated changes in the Company's credit ratings may affect its capital structure.

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

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

Risks Relating to a Public Company and Common Shares

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

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

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the common shares may decline even if the Company's operating results, underlying asset values or prospects have not changed.

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

The Company is a holding company

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

Dividend policy

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

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

The Company is subject to reporting and other obligations under applicable Canadian securities laws and Toronto Stock Exchange rules, including NI 52-109. These reporting and other obligations place significant demands on the Company's management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors to lose confidence in the Company's reported financial information, which could result in a lower trading price of its common shares.

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

Future sales of common shares by directors and executive officers

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

Directors and officers may have conflicts of interest

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

Dilution and future sales of common shares may occur

The Company's articles permit the issuance of an unlimited number of common shares and an unlimited number of preferred shares, and shareholders will have no pre-emptive rights in connection with such further issuances. The directors of the Company have the discretion to determine the price and the terms of issue of further issuances of common shares and preferred shares.

DIVIDENDS

The Company's dividend policy is at the discretion of the Board. Commencing with the December 2012 dividend, the Board established a dividend policy authorizing the declaration and payment of an annual dividend of $0.90 per common share (formerly $0.85 per common share), to be paid to holders of common shares on a monthly basis. Future dividends, if any, will depend on the operations and assets of the Company and will be subject to various factors, including, without limitation, the Company's financial performance, fluctuations in its working capital, the sustainability of its margins, its capital expenditure requirements, obligations under its credit facilities, provisions of applicable law (including satisfying the dividend solvency test applicable to BCBCA companies) and other factors that the Board may deem relevant from time to time. There can be no guarantee that the Company will maintain its current dividend policy. See "Risk Factors".

The chart below sets out the amount of cash dividends paid by the Company since its IPO.

Year-Ended	Cash Dividend per Common Share
2010	$0.6578 (1)
2011	$0.8496
2012	$0.8496

Note:

(1) $0.0708 per Common Share on a monthly basis between April and December 2010, and $0.0206 per Common Share for the nine day period from completion of the IPO until the end of March, 2010.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of: (a) one special share; (b) an unlimited number of Common Shares; and (c) an unlimited number of Preferred Shares, issuable in series. The special share was issued on the formation of Leisureworld and was redeemed, for nominal consideration, immediately following closing of the IPO and no further special shares may be issued.

Common Shares

Holders of Common Shares are entitled to receive notice of and to attend and vote at all meetings of shareholders of the Company, except meetings of holders of another class of shares. Each Common Share entitles the holder thereof to one vote.

Subject to the preferences accorded to holders of any other shares of the Company ranking senior to the Common Shares from time to time with respect to the payment of dividends, holders of Common Shares are entitled to receive, if, as and when declared by the Board, such dividends as may be declared thereon by the Board from time to time in equal amounts per share on the Common Shares at the time outstanding, without preference or priority.

In the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Company, or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs (a "**Distribution**"), holders of Common Shares are entitled, after payment of debts and other liabilities, in each case subject to the preferences accorded to the holders of any other shares of the Company ranking senior to the Common Shares from time to time with respect to payment on a Distribution, to share equally, share for share, in the remaining property of the Company.

Preferred Shares

The Preferred Shares are issuable at any time and from time to time in one or more series. The Board is authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the Preferred Shares of each series, which may include voting rights, the whole subject to the issue of a certificate of amendment setting forth the designation and provisions attaching to the Preferred Shares or shares of the series. The Preferred Shares of each series will rank on par with the Preferred Shares of every other series and will be entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares with respect to payment of dividends and on a Distribution. If any cumulative dividends (whether or not declared), non-cumulative dividends declared or amounts payable on a return of capital are not paid in full, the Preferred Shares of all series will participate rateably in accordance with the amounts that would be payable on such Preferred Shares if all such dividends were declared and paid in full or the sums that would be payable on such shares on the return of capital were paid in full, as the case may be.

Shareholders' Rights Plan

Summary

The following is a summary of certain material provisions of Leisureworld's shareholder rights plan agreement dated as of March 23, 2010 (the "**Rights Plan**") between Leisureworld and Computershare Trust Company of Canada, as rights agent, a copy of which is available at www.sedar.com. This summary does not purport to be complete and is qualified entirely by the Rights Plan.

Pursuant to the Rights Plan, the Company has issued one right (a "**Right**") for each Common Share which is currently outstanding and will issue one Right for each Common Share issued during the currency of the Rights Plan.

The Rights Plan utilizes the mechanism of the "Permitted Bid" (as described below) to ensure that a person seeking control of Leisureworld gives shareholders and the Board sufficient time to evaluate the bid, negotiate with the initial bidder and encourage competing bids to emerge. The purpose of the Rights Plan is to protect shareholders by requiring all potential bidders to comply with the conditions specified in the Permitted Bid provisions or else such bidders are subject to the dilutive features of the Rights Plan.

Separation Time

The Rights will separate and trade separately from the Common Shares after the Separation Time (as defined below). Following the Separation Time, separate certificates evidencing the Rights ("**Rights Certificates**") will be provided for shareholders as of the Separation Time and each separate Rights Certificate alone will evidence the Rights. Registration of interests in and transfer of the Rights will be made only through a book entry system administered by CDS Clearing and Depository Services Inc.

The "**Separation Time**" is the close of business on the 10^{th} Business Day following the earliest of:

(a) the date (the "**Common Share Acquisition Date**") of the first public announcement made by Leisureworld or an Acquiring Person (as defined below) that a person has become an Acquiring Person;

(b) the date of the commencement of a take-over bid by any person (an "**Offeror**") for the Common Shares;

(c) the date upon which a Permitted Bid ceased to be a Permitted Bid; or

(d) such later date as may be determined by the Board.

If any take-over bid triggering the Separation Time expires or is cancelled, terminated or otherwise withdrawn prior to the Separation Time, the bid shall be deemed, for the purposes of determining the Separation Time, never to have been made.

Exercise Price of Rights

The initial exercise price established under the Rights Plan is $100 per Common Share. After the Separation Time and prior to the occurrence of a Flip-In Event (as defined below), each Right entitles the registered holder to purchase one Common Share at the exercise price of $100 per Common Share, subject to certain anti-dilution adjustments and other rights as will be set out in the Rights Plan. The terms of the Rights adjust significantly upon the occurrence of a "Flip-In Event", as described below.

Flip-In Event

A "Flip-In Event" is triggered when a person becomes an Acquiring Person. Upon the occurrence of a Flip-in Event, Leisureworld must take such action as shall be necessary to ensure that each Right (except for Rights beneficially owned by the persons specified below) shall thereafter constitute the right to purchase from Leisureworld upon exercise thereof in accordance with the terms of the Rights Plan that number of Common Shares having an aggregate market price on the date of the consummation or occurrence of such Flip-In Event equal to twice the exercise price, for an amount in cash equal to the exercise price. By way of example, if at the time of such announcement the exercise price of the Rights is $100 and the Common Shares have a market price of $10 per Common Share, the holder of each Right would be entitled to purchase the number of Common Shares that has in the aggregate a market price of $200 (i.e., 20 Common Shares in this example) for a price of $100, that is, at a 50% discount.

The Rights Plan provides that Rights that are beneficially owned by:

(a) an Acquiring Person, any affiliate or associate of an Acquiring Person, any person acting jointly or in concert with an Acquiring Person, or any affiliate or associate of such Acquiring Person; or

(b) a transferee, direct or indirect, of Rights from any of the foregoing,

shall in certain circumstances become null and void without any further action and any holder of such Rights (including transferees) shall not have any rights whatsoever to exercise such Rights under any provision of the Rights Plan.

Acquiring Person

An "Acquiring Person" is a person who beneficially owns 20% or more of the outstanding Common Shares. An Acquiring Person does not, however, include:

(a) Leisureworld or any other affiliate controlled by Leisureworld;

(b) any person who owns, directly or indirectly, 20% or more of the securities of Leisureworld on closing of the IPO (a "**Grandfathered Person**"), provided, however, that this exemption shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such Grandfathered Person shall, after closing of the IPO, become the owner, directly or indirectly, of an additional 1% of the outstanding Common Shares, other than pursuant to certain exempt transactions described below; or

(c) any person who becomes the beneficial owner of 20% or more of the Common Shares as a result of certain exempt transactions.

Where a Person is deemed to beneficially own the Common Shares issuable under that Person's Convertible Securities, those Common Shares will be considered to be outstanding for purposes of calculating the number and percentage of Common Shares beneficially owned by that Person.

Exempt transactions include:

(a) specified acquisitions or redemptions of Common Shares;

(b) acquisitions pursuant to a Permitted Bid (which may include a Competing Permitted Bid), as described below; or

(c) acquisitions of Common Shares in exchange for additional properties being acquired by Leisureworld.

Permitted Bids and Competing Permitted Bids

A "Permitted Bid" means a bid which is made by an Offeror by means of a take-over bid circular and which also complies with the following additional provisions:

(a) the bid is made to all holders of Common Shares, other than the Offeror, for all of the issued and outstanding Common Shares (including any Common Shares that may be issued on the conversion or exchange of securities issued by Leisureworld);

(b) the bid contains, and the take-up and payment for securities tendered or deposited thereunder is subject to, irrevocable and unqualified conditions that (A) no Common Shares shall be taken up or paid for pursuant to the bid prior to the close of business on the date which is not less than 60 days following the date of the bid and (B) no Common Shares shall be taken up or paid for pursuant to the bid unless, at the date referred to in (A) above, more than 50% of the Common Shares held by independent shareholders shall have been deposited or tendered pursuant to the bid and not withdrawn;

(c) the bid contains an irrevocable and unqualified provision that, unless the bid is withdrawn, Common Shares may be deposited pursuant to such bid at any time prior to the close of business on the date of first take-up or payment for Common Shares and that any Common Shares deposited pursuant to the bid may be withdrawn until taken up and paid for; and

(d) the bid contains an irrevocable and unqualified provision that if, on the date on which Common Shares may be taken up or paid for, more than 50% of the Common Shares held by independent shareholders shall have been deposited or tendered pursuant to the bid and not withdrawn, the Offeror will make a public announcement of that fact and the bid will remain open for deposits and tenders of Common Shares for not less than 10 business days from the date of such public announcement;

provided that if a bid constitutes a Competing Permitted Bid, the term "Permitted Bid" shall also mean the Competing Permitted Bid.

A "Competing Permitted Bid" means a bid that:

(a) is made after a Permitted Bid or another Competing Permitted Bid has been made and prior to the expiry of the Permitted Bid or other Competing Permitted Bid;

(b) satisfies all components of the definition of a Permitted Bid other than the requirements set out in paragraph (b)(A) of such description above; and

(c) contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified condition that no Common Shares will be taken up or paid for pursuant to the bid prior to the close of business on a date that is no earlier than the later of (A) 60 days after the date on which the earliest Permitted Bid then in existence was made and (B) 35 days after the date of the bid constituting the Competing Permitted Bid;

Neither a Permitted Bid nor a Competing Permitted Bid is required to be approved by the Board and such bids may be made directly to shareholders. Acquisitions of Common Shares made pursuant to a Permitted Bid or a Competing Permitted Bid do not give rise to a Flip-In Event.

Redemption and Waiver

The Board acting in good faith may, at any time prior to the occurrence of a Flip-In Event, elect to redeem all but not less than all of the Rights at a redemption price of $0.0001 per Right (the "**Redemption Price**"). Rights will be deemed to immediately be redeemed at the Redemption Price where a person acquires Common Shares pursuant to a Permitted Bid or Competing Permitted Bid. If the Board elects or is deemed to have elected to redeem the Rights, the right to exercise the Rights will terminate and each Right will after redemption be null and void and the only right thereafter of the holders of Rights shall be to receive the Redemption Price.

Under the Rights Plan, the Board may waive application of the Rights Plan to a take-over bid prior to the occurrence of a Flip-In Event. Once the Board has exercised its discretion to waive application of the Rights Plan in respect of any particular take-over bid and another take-over bid is made, the Board shall be deemed to have waived the application of the Rights Plan to such other take-over bid provided that such other take-over bid is made by way of a formal take-over bid circular to all holders of Common Shares prior to the expiry of the take-over bid in respect of which the waiver has been granted.

Reconfirmation and Amendment

In order to remain effective, the Rights Plan must be reconfirmed by the shareholders at the third, sixth and ninth annual meeting of shareholders following the IPO. The Board has determined that it is in the best interests of the Company that the Rights Plan be amended and restated to reflect current Canadian best corporate practices and address institutional investor guidelines. The proposed amendments to the Rights Plan are described in the Company's management information circular dated March 25, 2013, and the amended and restated Rights Plan will be presented to the shareholders for approval at the annual and special meeting of shareholders to be held on April 24, 2013.

INDEBTEDNESS

2015 Notes

On November 24, 2005, LSCLP issued an aggregate principal amount of $310 million 4.814% Series A Senior Secured Notes due November 24, 2015 (the "**2015 Notes**") collateralized by the assets of LSCLP and its subsidiary entities and guaranteed by these subsidiary entities. The proceeds of the 2015 Notes were used to repay a senior bridge debt facility provided to LSCLP by a Canadian chartered bank in connection with the acquisition by LSCLP on October 18, 2005 of 19 LTC homes (representing 3,187 beds) and certain related businesses. The 2015 Notes require payment of interest-only until their maturity in 2015. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year, and commenced on May 24, 2006. The 2015 Notes may be redeemed in whole or in part at the option of LSCLP at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the 2015 Notes, at a redemption price equal to the greater of (i) the face amount of such notes and (ii) the Canada Yield Price, as defined in the trust indenture governing the 2015 Notes (the "**2015 Note Indenture**"), plus 0.18% on the business day preceding the date notice of redemption is given, in each case together with accrued and unpaid interest. The 2015 Notes may be purchased for cancellation at any time, in whole or in part, in the market or by tender or private contract at a price not to exceed the redemption price therefore plus any reasonable costs of purchaser. The 2015 Note Indenture includes customary restrictions on the business of LSCLP and its subsidiary entities. These include restrictions on distributions and indebtedness which, *inter alia*, are based on LSCLP maintaining specified debt service coverage ratios. In addition, the 2015 Note Indenture includes customary events of default.

Credit Ratings

The 2015 Notes are presently rated as "A- (negative)" from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc ("**S&P**"), and rated as "A (stable)" from DBRS Limited ("**DBRS**"). The following information relating to credit ratings is based on information made available to the public by such rating agencies.

A credit rating by S&P is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligation or a specific financial program, including ratings on medium-term note programs and commercial paper programs. Credit ratings can be either long-term or short-term; medium-term notes are assigned long-term ratings. S&P's credit ratings for long-term debt instruments range from AAA to D. An obligation rated "A-", "A" or "A+" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligations is still strong. A rating of "A-" is an indication of the relative standing of the 2015 Notes compared to other obligations rated "A" or "A+".

The DBRS long-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted in the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. DBRS' credit ratings for long-term debt instruments range from AAA to D. Long-term debt securities rated "A" are of satisfactory credit quality and protection of interest and principal is considered high.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings on the 2015 Notes may not reflect the potential impact of all risks on the value of the 2015 Notes. In addition, real or anticipated changes in the Company's credit ratings will generally affect the market value of the 2015 Notes. The ratings are not a recommendation to buy, sell or hold securities and the ratings may be changed, suspended or withdrawn if, in their judgment, circumstances so warrant.

Credit Facilities

On June 29, 2012, Leisureworld and Royale LP converted the $55 million bridge financing that had been obtained in connection with the Royale Acquisition (see "General Development of the Business – The Royale Kingston and The Royale Kanata RR Acquisition") into a $61,500,000 revolving credit facility. Amounts borrowed under the facility bear interest at 1.875% per annum over the floating 30-day bankers' acceptance rate published by the Bank of Canada. The facility is secured by Royale LP's properties situated in Kingston and Kanata. The facility is guaranteed by the Company and subject to certain customary financial and non-financial covenants. On September 30, 2012, the Company extended the maturity date on the $61.5 million revolving credit facility to April 26, 2014. As at December 31, 2012, the Company had drawn $46 million from this credit facility.

The Company entered into two credit facilities in connection with the BC Acquisition (see "General Development of the Business – The Royale Astoria, The Royale Pacifica and The Royale Peninsula RR Acquisition"): a one-year, $26,100,000 facility to finance the acquisition of the Pacifica property, and a two-year, $26,000,000 facility to finance the acquisition of the Astoria property. Both facilities bear interest at a rate of 1.875% per annum over the floating 30-day bankers' acceptance rate published by the Bank of Canada. These credit facilities are secured by each of the properties' assets, and are guaranteed by the Company and are subject to customary financial and non-financial covenants. Interest on the credit facilities is payable in advance each month.

Mortgage Debt

As part of the acquisition for the Peninsula property (see "General Development of the Business – The Royale Astoria, The Royale Pacifica and The Royale Peninsula RR Acquisition"), the Company assumed a mortgage in the amount of $23,716,000. The mortgage bears an interest rate of 5.18% and matures on January 1, 2017. The mortgage is subject to certain customary financial and non-financial covenants and is collateralized by a first collateral mortgage on the property and a general security agreement providing a first charge on all assets and undertakings of Royale West Coast. Interest and principal on the mortgage is due on the first day of each month.

As part of the acquisition of the Madonna property (see "General Development of the Business – Madonna Long-Term Care Residence"), the Company assumed a mortgage in the amount of $15,718,000 which bears interest at the floating monthly bankers' acceptance rate plus a stamping fee of 1.5% per annum and matures in April, 2029. The mortgage is collateralized by a first collateral mortgage on the property, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the assumption of the mortgage, assumed the related interest rate swap contract, in the amount of $2,317,000 to effectively fix the floating bankers' acceptance rate at 3.7%. The swap is collateralized by a second mortgage on the property. Interest and principal on the mortgage is payable monthly on the 16th day of each month.

MARKET FOR SECURITIES

The outstanding Common Shares of the Company trade on the TSX under the symbol "LW". The following table sets forth the reported high and low prices and the trading volume for the periods indicated:

	Toronto Stock Exchange		
Month	**High**	**Low**	**Volume**
January 2012	12.20	11.25	769,033
February 2012	13.00	11.68	649,489
March 2012	12.61	11.90	775,525
April 2012	12.47	11.95	874,959
May 2012	12.15	11.55	1,047,325
June 2012	12.04	11.35	764,512
July 2012	12.19	11.70	746,192
August 2012	12.40	11.55	1,606,846
September 2012	12.50	12.01	672,926
October 2012	12.59	12.20	823,169
November 2012	12.68	12.00	1,557,417
December 2012	12.59	12.19	661,472

DIRECTORS AND OFFICERS

The following table sets out, as of the date hereof, for each of the directors and executive officers of the Company, the person's name, municipality of residence, positions with the Company (i.e., directorship) and principal occupation. Each of the directors has been a director since the closing of the IPO in March 2010. The term of office for each of the directors will expire at the time of the next annual meeting of the shareholders of the Company.

On September 3, 2012, David Cutler resigned his position as President and Chief Executive Officer of the Company. Mr. Cutler continues to serve as a director of the Company. Dino Chiesa assumed the role of Acting President and CEO following Mr. Cutler's resignation. The Board has completed a comprehensive executive search for a new President and CEO and selected its preferred candidate.

As of March 25, 2013, the directors and executive officers of the Company collectively beneficially own, directly or indirectly, or exercise control and direction over 198,515 Common Shares representing, in the aggregate less than 1% of the issued and outstanding Common Shares, calculated on a fully diluted basis.

Name and Municipality of Residence	Position with the Company	Principal Occupation if Different from Position Held
Dino Chiesa Toronto, Ontario	Chairman and Director Acting Chief Executive Officer	Principal of Chiesa Group
Janet Graham[(1),(2),(3)] Toronto, Ontario	Director	Managing Director of IQ Alliance Incorporated and Corporate Director
Jack C. MacDonald[(1),(2),(3)] Burlington, Ontario	Director	Corporate Director
John McLaughlin[(1),(2),(3)] Oakville, Ontario	Director	President of Tall Oak Management Inc. and Corporate Director
David Cutler Toronto, Ontario	Director	President and Chief Executive Officer, Centric Health Corporation

Name and Municipality of Residence	Position with the Company	Principal Occupation if Different from Position Held
Manny DiFilippo(4) .... Toronto, Ontario	Executive Vice-President and Chief Financial Officer	—
Paul Rushforth(5) .... Stoufville, Ontario	Executive Vice-President and Chief Operating Officer	—

Notes:

(1) Members of the Audit Committee.

(2) Members of the Compensation, Nominating and Governance Committee.

(3) Independent members of the Board.

(4) During the past 5 years, Mr. DiFilippo's previous principal occupation was as Senior Vice President, Internal Audit & Risk Management for George Weston Limited.

(5) During the past 5 years, Mr. Rushforth's previous principal occupation was as Vice President of Western Operations for Extendicare Real Estate Investment Trust.

Biographies

The following are brief profiles of the directors of the Company. The principal occupations of each of the directors of the Company for the five years preceding the date of this AIF are set out below.

Dino Chiesa — Chair and Director

Mr. Chiesa is principal of Chiesa Group, a commercial property investment firm and is also a member of the Board of Trustees of Morguard North American Residential REIT, a publicly-traded Canadian real estate investment trust. He is the immediate past chair of the Canada Mortgage Housing Corporation (CMHC) one of Canada's largest financial institutions. Mr. Chiesa has also served as Trustee and Vice-Chair of Canadian Apartment Properties Real Estate Investment Trust ("**CAP REIT**"), a TSX-listed Canadian residential real estate investment trust, since June 2004 following its merger with Residential Equities Real Estate Investment Trust ("**Res REIT**"). Mr. Chiesa served as President and Chief Executive Officer of Res REIT from 1999 until its merger with CAP REIT in 2004. Prior to that, from 1989 to 1999, Mr. Chiesa held several positions within the Government of Ontario, including Assistant Deputy Minister, Municipal Affairs and Housing and Chief Executive Officer of each of Ontario Housing Corporation and Ontario Mortgage Corporation. Mr. Chiesa is a former Director of Dynacare Laboratories, Inc., was a member of the Board of Trustees of Sunrise Senior Living Real Estate Investment Trust and has served on the board of two public hospitals. Mr. Chiesa sits on the advisory board for the Shulich School of Business at York University and is President of the Expert Advisory Committee on Real Estate Development at Ryerson University. Additionally, Mr. Chiesa has been active in the charitable sector, including his role as chair at Villa Charities. Mr. Chiesa holds a Bachelor of Arts in Economics from McMaster University.

Janet Graham — Director

Ms. Graham has been a Managing Director of IQ Alliance Incorporated, a Toronto based real estate advisory services firm since August 2002. Prior to joining IQ Alliance Incorporated, Ms. Graham was an independent consultant for a number of years, delivering real estate related financial advisory services to major corporate clients. Prior to March 1996, Ms. Graham held senior positions at a Canadian chartered bank and its affiliated investment bank for 15 years specializing in corporate finance and corporate lending to real estate and other companies. Ms. Graham is a member of the Board of Trustees and Chair of the Audit Committee of Milestone Apartments Real Estate Investment Trust, a publicly-traded Canadian real estate investment trust and a member of the Board of Directors and Chair of the Audit Committee of Toronto Waterfront Revitalization Corporation, a corporation without share capital. Ms. Graham is a former member of the Board of Trustees and Chair of the Audit and Special Committees of Partners Real Estate Investment Trust (formerly, Charter Real Estate Investment Trust), a publicly-traded Canadian real estate investment trust, a former member of the Board of Trustees and member of the Audit Committee of IPC US Real Estate Investment Trust, a publicly-traded Canadian real estate investment trust and a former member of the Board of Directors and member of the Audit Committee of Crystal River Capital, Inc., a public Maryland corporation. Ms. Graham holds a Bachelor of Applied Science from Guelph University, a Master of Business Administration from York University and holds a CPA, CA designation.

Jack C. MacDonald — Director
Mr. MacDonald served as Chair & CEO of Compass Group Canada & ESS North America from 1996 to 2012. During this period of time he was also an Officer of Compass Group North America, a $10.0 billion company operating in the hospitality sector. One of Jack's primary responsibilities was to grow the company in Canada. This he did successfully, leading it from $47 million to $1.6 billion. Compass Group provides hospitality services such as plant operations & maintenance; housekeeping and food services to the institutional sector (hospitals, retirement homes, etc.). Previous management roles have included President, MDS Communicare (1991 to 1996); President, Marriott Canadian Management Services (1984 to 1991); and Vice-President Sales & Retail Operations, Clearwater Seafood (1980 to 1984). Previous Board roles include Chair, Canadian Aboriginal Business Hall of Fame; Chair, Canadian Foundation for Dietetic Research; Chair, President's Advisory Council for Humber College; Director, Colorectal Cancer Screening Initiative Foundation and Director, Canadian Physiotherapy Association.

Mr. MacDonald is currently an Honourary Chair of the Toronto Zoo Campaign –'Wild for Life' and a member of the Province of Ontario Investment & Trade Advisory Council.

In 2007 he was awarded an Honourary Bachelor of Applied Studies degree from Humber College and in 2010 he successfully completed the Institute of Corporate Directors Program at the University of Toronto's Rotman School of Management.

It is Mr. MacDonald's extensive senior management experience, his focus on successfully assimilating growth into a company & culture, his knowledge of the health care sector and his understanding of the legislative process that is of value to Leisureworld Senior Care Corporation as the Company pursues growth in the seniors market.

John McLaughlin — Director
Mr. McLaughlin is President of Tall Oak Management Inc., a privately held management consulting and investment company. From 2004 to 2012 Mr. McLaughlin served on the Board of Directors of Futuremed Healthcare Products Corporation serving as Chairman from 2006 to March 2012. From 2008 to 2011 he served on the Board of Directors of Aim Health Group where he was Chair of the Audit Committee. Currently, he is a Director of Medical Pharmacies Group Inc., a privately held institutional and retail pharmacy company. Previously, Mr. McLaughlin worked in various positions with Extendicare Inc. including Managing Director of Extendicare (UK) Ltd., President of Extendicare (Canada) Inc., and President of Extendicare Health Care Services Inc., Extendicare's US operations. Prior to joining Extendicare Mr. McLaughlin was Chief Executive Officer of a number of Canadian hospitals. He has served on the Board of the Ontario Long Term Care Association in several posts including Chair. He is a graduate of St. Mary's University and of the University of Western Ontario's Executive Development Program.

David Cutler — Director
Mr. Cutler is the President and CEO of Centric Health, Canada's leading diversified healthcare company, which is a publicly traded company on the Toronto Stock Exchange. Prior to joining Centric Health, Mr. Cutler was the President and CEO of Leisureworld Senior Care Corporation from 2010 to September 2012 and oversaw Leisureworld's rapid growth which quadrupled in size during his leadership. Mr. Cutler has served as Director of Leisureworld Senior Care Corporation from 2010. He has been involved in the Long-Term Care sector since 1990 when he joined Leisureworld as Vice President of Operations and became Chief Operating Officer in 1999 until 2004. He served as CEO and Director of LSCLP (a wholly owned subsidiary of Leisureworld) from 2005 to 2009. Prior to joining Leisureworld, Mr. Cutler was Managing Partner at Civin Winer & Cutler, a law practice in South Africa where he practiced law for 10 years as a senior litigant, handling litigation involving commercial, contract and bankruptcy of major clients of the practice. Mr. Cutler earned a diploma in Business Administration from Damelin Business School and a Baccalaureus Procurationis, as well as an Honours Diploma in Company Law and Tax Law from the University of Witwatersrand, both located in Johannesburg, South Africa.

Mr. Cutler served on the Board of Directors of the Ontario Long Term Care Association for 20 years in various capacities including Vice President at Large for 3 years, Vice President of Government Relations for 11 years and President for 6 years. Mr. Cutler also served on the Board of Directors of Futuremed Healthcare Products Corporation from May 2010 to March 2012.

Directorships

Except as described above, none of the directors are currently directors of other issuers that are also reporting issuers (or the equivalent) in a territory of Canada or in a foreign territory.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

None of the directors or executive officers of the Company is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any person or company (including the Company) that was subject to one of the following orders, that was in effect for a period of more than 30 consecutive days:

(a) a cease trade order, an order similar to a cease trade order or an order that denied the company access to any exemption under securities legislation that was issued while the director or executive officer was acting in the capacity as director or executive officer; or

(b) a cease trade order, an order similar to a cease trade order or an order that denied the company access to any exemption under securities legislation that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

None of the directors or executive officers of the Company, or shareholders holding a sufficient number of securities of the Company to affect materially its control:

(a) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer of the shareholder; or

(c) has had imposed any penalties or sanctions by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a security regulatory authority or has had imposed any penalties or sanctions by a court or a regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

The directors of the Company are required by law to act honestly and in good faith with a view to the best interest of the Company and to disclose any interests which they may have in any project or opportunity of the Company. However, the Company's directors and officers may serve on the boards and/or as officers of other companies which may compete in the same industry as the Company, giving rise to potential conflicts of interest. To the extent that such other companies may participate in ventures in which the Company may participate or enter into contracts with the Company, they may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that a conflict of interest arises at a meeting of the directors of the Company, such conflict of interest must be declared and the declaring parties must recuse themselves from the meeting and abstain from participating and voting for or against the approval of any project or opportunity in which they may have an interest. Provided such steps are followed and subject to any limitations in the Company's constating documents, a transaction would not be void or voidable because it was made between the Company and one or more of its directors or by reason of such director being present at the meeting at which such agreement or transaction was approved. The remaining directors will determine whether or not the Company will participate in any such project or opportunity.

To the best of the Company's knowledge, other than as set forth below, there are no known existing or potential conflicts of interest among the Company, directors, officers or other members of management of the Company as a result of their outside business interests. Mr. David Cutler and Mr. John McLaughlin are former board members of Futuremed Healthcare Products Corporation, which is a supplier to Leisureworld. Mr. Cutler is the President and CEO of Centric Health Corporation, a supplier to the Company for physiotherapy services.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest, and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The text of the Audit Committee's charter is attached as Schedule "A".

Composition of Audit Committee

The members of the Company's Audit Committee are:

Janet Graham (Chairperson)	Independent[(1)]	Financially literate[(2)]
Jack MacDonald	Independent[(1)]	Financially literate[(2)]
John McLaughlin	Independent[(1)]	Financially literate[(2)]

Notes:

(1) Pursuant to NI 52-110, a member of an audit committee is independent if the member has no direct or indirect material relationship with the Company, which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.

(2) An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

Relevant Education and Experience

Each member of the Company's Audit Committee has adequate education and experience that will be relevant to his or her performance as an Audit Committee member and, in particular, the requisite education and experience that have provided the member with:

(a) an understanding of the accounting principles used by the Company to prepare its financial statements;

(b) the ability to assess the general application of the above noted principles in connection with estimates, accruals and reserves;

(c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements or experience actively supervising individuals engaged in such activities; and

(d) an understanding of internal controls and procedures for financial reporting.

See "Directors and Executive Officers" for further details.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemption in Sections 2.4 (De Minimis Non-audit Services), 3.2 (Initial Public Offerings), 3.3(2) (Controlled Companies), 3.4 (Events Outside Control of Members), 3.5 (Death, Disability or Resignation of Audit Committee Member), 3.6 (Temporary Exemption for Limited and Exceptional Circumstances), 3.8 (Acquisition of Financial Literacy) of NI 52-110, or an exemption from NI 52-110, in whole or in part, granted under Part 8 thereof.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has the Audit Committee made a recommendation to nominate or compensate an external auditor not adopted by the Board.

Pre-Approval Policies and Procedures

The Audit Committee is authorized by the Board to review the performance of the Company's external auditors and approve in advance provision of services other than auditing and to consider the independence of the external auditors, including a review of the range of services provided in the context of all consulting services bought by the Company. The Audit Committee is authorized to approve in writing any non-audit services or additional work which the Chair of the Audit Committee deems is necessary, and the Chair will notify the other members of the Audit Committee of such non-audit or additional work and the reasons for such non-audit work for the committee's consideration, and if thought fit, approval in writing.

External Auditor Service Fees

The fees billed by the Company's external auditors for the last three fiscal years are as follows:

Year	Audit Fees	Audit Related Fees(1)	Tax Fees(2)	All Other Fees(3)	Total Fees
2012………………………	$320,011	$202,874	$107,154	$0	$630,039
2011………………………	$378,012	$193,994	$126,362	$1,786	$700,154
2010………………………	$165,437	$83,769	$64,165	$646,788	$960,159

Notes:

(1) Fees charged for assurance and related services that are reasonably related to the performance of an audit, and not included under Audit Fees.

(2) Fees charged for tax compliance, tax advice and tax planning services.

(3) Fees for services other than disclosed in any other column.

PROMOTERS

No person was considered a promoter of Leisureworld for the purposes of applicable securities legislation during the last two completed fiscal years of the Company.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Leisureworld's business is involved in various legal actions and proceedings which arise from time to time in the ordinary course. In view of the quantum of the amounts claimed and the insurance coverage maintained by the Company in respect of these matters, the Company considers that the aggregate contingent liability resulting from those legal actions and proceedings is not material.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer or shareholder who beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the outstanding Common Shares, or any known associate or affiliate of any such person, has or had any material interest, direct or indirect, in any transaction within the last three years or in any proposed transaction, that has materially affected or will materially affect the Company or a subsidiary entity of the Company.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal offices located in Toronto, Ontario.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts in the ordinary course of business, which have been entered into by Leisureworld and/or its subsidiary entities and which are still in effect:

- the 2015 Note Indenture (see "Indebtedness — 2015 Notes"); and

- the Rights Plan (see "Description of Capital Structure — Shareholders' Rights Plan")

INTERESTS OF EXPERTS

The Company's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, ("**PWC**") who have prepared an independent auditors' report dated February 21, 2013 in respect of the Company's financial statements with accompanying notes as at and for the year ended December 31, 2012. PWC has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on the System for Electronic Document Analysis and Retrieval at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, and principal holders of the Company's securities will be contained in the Company's information circular for its April 24, 2013 annual meeting of shareholders. Additional financial information is provided in the Company's financial statements and management's discussion and analysis for the year ended December 31, 2012.

SCHEDULE "A"
CHARTER OF THE AUDIT COMMITTEE

1. Purpose

The Audit Committee (the "**Committee**") is appointed by the board of directors (the "**Board**") of Leisureworld Senior Care Corporation (the "**Corporation**") to assist in the oversight and evaluation of:

- the quality and integrity of the financial statements of the Corporation;
- the internal control and financial reporting systems of the Corporation;
- the compliance by the Corporation with legal and regulatory requirements in respect of financial disclosure;
- the qualification, independence and performance of the Corporation's independent auditors;
- the performance of the Corporation's Chief Financial Officer; and
- any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

In addition, the Committee provides an avenue for communication between the independent auditor, financial management, other employees and the Board concerning accounting and auditing matters.

The Committee is directly responsible for the appointment, compensation, retention (and termination) and oversight of the work of the independent auditor (including oversight of the resolution of any disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing audit reports or performing other audit, review or attest services for the Corporation.

The Committee is not responsible for:

- planning or conducting audits;
- certifying or determining the completeness or accuracy of the Corporation's financial statements or that those financial statements are in accordance with generally accepted accounting principles, or
- guaranteeing the report of the Corporation's independent auditor.

The fundamental responsibility for the Corporation's financial statements and disclosure rests with management and the independent auditors are responsible for auditing those financial statements. It is not the duty of the Committee to conduct investigations, to itself resolve disagreements (if any) between management and the independent auditor or to ensure compliance with applicable legal and regulatory requirements.

2. Reports

The Committee shall report to the Board on a regular basis and, in any event, before the public disclosure by the Corporation of its quarterly and annual financial results. The reports of the Committee shall include any issues of which the Committee is aware with respect to:

- the quality or integrity of the Corporation's financial statements;
- compliance by the Corporation with legal or regulatory requirements in respect of financial matters and disclosure;
- the performance and independence of the Corporation's independent auditor;

- the effectiveness of systems of control (including risk management) established by management to safeguard the assets (real and intangible) of the Corporation; and

- the proper maintenance of accounting and other records.

The Committee shall also prepare, as required by applicable law, any audit committee report required for inclusion in the Corporation's publicly filed documents.

3. Composition

The members of the Committee shall be three or more individuals who are appointed (and may be replaced) by the Board. Each of the members of the Committee shall meet the standards for independence required by applicable regulatory, stock exchange and securities law requirements and, without limitation, shall be financially literate (or acquire that familiarity within a reasonable period after appointment). This shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity that can reasonably be expected to be raised by the Corporation's financial statements. No member of the Committee shall accept (directly or indirectly) any consulting, advisory or other compensatory fee from the Corporation (other than remuneration for acting in his or her capacity as a director) or be an "affiliated person" of the Corporation. (For this purpose, an "affiliate" of a person is a person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the first person.) Without the approval of the Board, no member of the Committee shall concurrently serve on the audit committee of a competitor or client.

4. Responsibilities

It is recognized that, in fulfilling their responsibilities, members of the Committee are not full-time employees of the Corporation. As such, it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to determine that the Corporation's financial statements are complete and accurate. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Corporation from which it receives information; and (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board).

The Committee shall have authority over, and shall be responsible for, the following specific matters:

4.1 *Independent Auditors*

The Committee shall:

- Recommend to the Board the independent auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Corporation.

- Establish the compensation of the independent auditor.

- Obtain confirmation from the independent auditor that it ultimately is accountable, and will report directly, to the Committee and the Board.

- Oversee the independent auditor and, in the context thereof, require the independent auditor to report to the Committee (among other things) any disagreement between management and the independent auditor regarding financial reporting and the resolution of each such disagreement.

- Adopt policies and procedures for the pre-approval of the retention of the Corporation's independent auditor for all audit and permitted non-audit services (subject to any restrictions on such services imposed by applicable legislation), including procedures for the delegation of authority to provide such approval to one or more members of the Committee.

- At least annually, review the qualifications, performance and independence of the independent auditor. In doing so, the Committee should, among other things, undertake the measures set forth in Appendix “A” to this Charter.

4.2 *The Audit Process, Financial Statements and Related Disclosure*

The Committee shall, as it determines to be appropriate:

- Review with management and the independent auditor:
  - the proposed audit plan and scope of review by the independent auditor;
  - before public disclosure, the Corporation’s annual audited financial statements and quarterly unaudited financial statements, the Corporation’s accompanying disclosure of Management’s Discussion and Analysis (“**MD&A**”) and earnings press releases and make recommendations to the Board as to the approval and dissemination of those statements and disclosure;
  - the adequacy of the procedures for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements, other than the public disclosure referred to in the immediately preceding paragraph and periodically assess the adequacy of those procedures and consider whether they are complete and consistent with the information known to committee members;
  - financial information and any earnings guidance provided to analysts and rating agencies, recognizing that this review and discussion may be done generally (consisting of a discussion of the types of information to be disclosed and the types of presentations to be made) and need not take place in advance of the disclosure of each release or provision of guidance;
  - any significant financial reporting issues and judgments made in connection with the preparation of the Corporation’s financial statements, including any significant changes in the selection or application of accounting principles, any major issues regarding auditing principles and practices, and the adequacy of internal controls that could significantly affect the Corporation’s financial statements;
  - all critical accounting policies and practices used;
  - all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;
  - the use of “pro forma” or “adjusted” non-GAAP information;
  - the effect of regulatory and accounting initiatives, as well as any off-balance sheet structures, transactions, arrangements and obligations (contingent or otherwise), on the Corporation’s financial statements;
  - any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls or disclosure controls made to the Committee by the Chief Executive Officer and the Chief Financial Officer during their certification process in documents filed with applicable securities regulators;
  - the adequacy of the Corporation’s internal accounting controls and management information systems and its financial, auditing and accounting organizations and personnel and any special steps adopted in light of any material control deficiencies; and
  - the establishment, and periodic review, of procedures for the review of financial information extracted or derived from the Corporation’s consolidated financial statements.

- Review with management the Corporation's guidelines and policies with respect to risk assessment and the Corporation's major financial and business risk exposures and the steps management has taken to monitor and control such exposures.

- Review with the independent auditor:

  - the quality as well as the acceptability of the accounting principles that have been applied;

  - any problems or difficulties the independent auditor may have encountered during the provision of its audit related services, including any restrictions on the scope of activities or access to requested information and any significant disagreements with management, any management letter provided by the independent auditor or other material communication (including any schedules of unadjusted differences) to management and the Corporation's response to that letter or communication; and

  - any changes to the Corporation's significant accounting principles and practices suggested by the independent auditor and members of management.

- Review with management all related party transactions and the development of policies and procedures related to those transactions.

- Following completion of the annual audit, review with each of management and the independent auditors any significant issues, concerns or difficulties encountered during the course of the audit including:

  - restrictions on the scope of work or on access to required or requested information;

  - issues or concerns that arose during the course of the audit concerning the Corporation's internal accounting controls, or the fair presentation, completeness or accuracy of the financial statements; and

  - analyses prepared by management or the auditors setting forth significant financial reporting issues and judgments made in connection with preparation of the financial statements (including analysis of the effects of alternative treatments under generally accepted accounting principles).

- Periodically review reports on the Corporation's information technology systems that support the financial reporting process.

- Receive and review reports from other Board committees with regard to matters that could affect the audit or results of operations.

- Oversee appropriate disclosure of the Charter, and other information required to be disclosed by applicable legislation in the Corporation's public disclosure documents, including any management information circular distributed in connection with the solicitation of proxies from the Corporation's security holders.

4.3 *Compliance*

The Committee shall, as it determines appropriate:

- Review with the Corporation's Chief Financial Officer, other members of management and the independent auditor any correspondence with regulators or provincial agencies and any employee complaints or published reports, which raise material issues regarding the Corporation's financial statements or accounting policies.

- Review with the Corporation's external legal counsel legal matters that may have a material impact on the financial statements or accounting policies.

- Establish procedures for:

- o the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters; and
- o the confidential, anonymous submission by employees of the Corporation with concerns regarding any accounting or auditing matters.

- Review independent financial analyst commentary concerning the Corporation and its financial reporting.

4.4 *Delegation*

To avoid any confusion, the Committee responsibilities identified above are the sole responsibility of the Committee and may not be delegated to a different committee.

5. Meetings

The Chair of the Committee shall be selected by the Board. If the Chair of the Committee is not present, the members of the Committee may designate a Chair for the meeting by majority vote of the members of the Committee present.

The Committee shall meet in accordance with a schedule established each year by the Committee, and at other times that the Committee may determine. Quorum for all meetings shall be a majority of the Committee members. Minutes shall be maintained of all meetings of the Committee and copies of the minutes shall be made available to all members of the Board.

The Committee shall meet periodically with the Chief Financial Officer, the independent auditors and external legal counsel in separate sessions. Meeting agendas shall be developed by the Committee chair in consultation with the Corporation's management and the independent auditors. Committee members may propose agenda items through communication with the Chair of the Committee or the Chief Financial Officer. Agendas, together with appropriate briefing materials, shall be circulated to Committee members prior to meetings. At the discretion of the Committee, members of management and others may attend Committee meetings other than the separate sessions with the independent auditors, the Chief Financial Officer and the external legal counsel.

6. Resources and Authority

The Committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to engage and establish the compensation of, at the expense of the Corporation, outside advisors including experts in particular areas of accounting, legal counsel and other experts or consultants as it determines necessary to carry out its duties, without seeking approval of the Board or management. The Committee will advise the Board of any such action taken.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and has direct access to the independent auditors as well as anyone in the Corporation.

7. Annual Evaluation

At least annually, the Committee shall, in a manner it determines to be appropriate:

- Perform a review and evaluation of the performance of the Committee and its members, including the compliance of the Committee with this Charter.

- Review and assess the adequacy of its Charter (including with respect to the procedures regarding the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements) and recommend to the Board any improvements to this Charter that the Committee determines to be appropriate.

Appendix "A"
Qualifications, Performance and Independence of Independent Auditor

- Review the experience and qualifications of the senior members of the independent auditor's team.

- Confirm with the independent auditor that it is in compliance with applicable legal, regulatory and professional standards relating to auditor independence.

- Review and approve clear policies for the hiring by the Corporation of employees or partners or former employees or former partners of the current and former independent auditor.

- Review annual reports from the independent auditor regarding its independence and consider whether there are any non-audit services or relationships that may affect the objectivity and independence of the independent auditor and, if so, recommend that the Board take appropriate action to satisfy itself of the independence of the independent auditor.

- Obtain and review such report(s) from the independent auditor as may be required by applicable legal and regulatory requirements.

- Conduct an evaluation (taking into account the opinions of management) of the independent auditors qualification, performance and independence and present to the Board the Committee's conclusion in such regard.

- Review, as required, the independent auditors plans with respect to the partner rotation.