Leisureworld Senior Care Corporation

Financial Report

For the Quarter and Six Months Ended June 30, 2012

(In Canadian Dollars)

Leisureworld Senior Care Corporation

Management's Discussion and Analysis
Quarter and Six Months Ended
June 30, 2012

(In Canadian Dollars)

The following Management's Discussion and Analysis ("MD&A") for Leisureworld Senior Care Corporation ("Leisureworld", "LSCC" or the "Company") summarizes the financial results for the quarter ended June 30, 2012. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the quarter ended June 30, 2012 should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes contained in this financial report and the audited consolidated financial statements and related notes for the year ended December 31, 2011. Additional information relating to the Company is available on SEDAR at www.sedar.com. The information contained in this report reflects all material events up to August 8, 2012, the date on which this report was approved by the Board of Directors of Leisureworld.

As of August 7, 2012 there were 29,272,889 common shares issued and outstanding. No preference shares were outstanding at this time.

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted.

Forward-looking statements

Certain statements in the following discussion and analysis may constitute forward-looking statements that involve known and unknown risks, uncertainties and other factors, which may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. When used in the following discussion and analysis, such statements use words such as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this discussion and analysis. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved.

The forward-looking statements contained in this discussion and analysis are based on information currently available and what management currently believes are reasonable assumptions. However, neither Leisureworld nor management can ensure actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this discussion and analysis, and Leisureworld and management assume no obligation to update or revise them to reflect new events or circumstances. Leisureworld and management caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Introduction

Leisureworld was incorporated under the laws of the Province of Ontario on February 10, 2010 and was continued under the laws of the Province of British Columbia on March 18, 2010. The Company closed its Initial Public Offering ("IPO") on March 23, 2010 and acquired, indirectly, all of the outstanding limited partnership interest in Leisureworld Senior Care LP ("LSCLP") and common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP.

Corporate overview
Leisureworld and its predecessors have been operating since 1972. Leisureworld Senior Care Corporation is Canada's fifth largest operator of seniors' housing and the third largest licensed long-term care ("LTC") provider in Ontario. Leisureworld owns and operates 27 LTC homes across Ontario with 4,474 beds. The Company also owns and operates six retirement residences ("RR") and one independent living ("IL") residence representing 768 suites in Ontario and British Columbia. Ancillary businesses of the Company include: Preferred Health Care Services ("PHCS" or "Heath Care"), an accredited provider of professional nursing and personal support services for both community based home healthcare and LTC homes; and Ontario Long Term Care ("OLTC"), a provider of purchasing services, as well as dietary, social work, and other regulated health professional services to Leisureworld homes.

The objectives of Leisureworld are to: (i) provide shareholders with stable monthly dividends derived from revenues generated from income-producing LTC homes, seniors' housing investments and community based services; (ii) enhance the long-term value of the Company's assets and maximize shareholder value; and (iii) expand the asset base of the Company through accretive acquisitions and construction of new LTC and seniors' living homes and other healthcare related business opportunities.

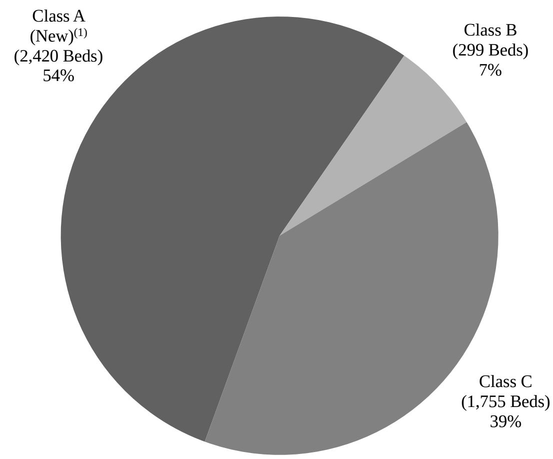
Industry overview
The Company operates in the industry of seniors' living and care. For a thorough overview on the industry, including the LTC funding model, please refer to the Company's Annual Information Form dated March 19, 2012 and our Management's Discussion and Analysis filed for the year ended December 31, 2011.

Business overview

Long-term care
Leisureworld's portfolio is 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 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 23% of the Net Operating Income ("NOI") (see "Non-IFRS performance measures") from Leisureworld's LTC operations are generated from charging residents the regulated premium of $18.00 and $8.00 per day per bed for private and semi-private accommodation, respectively. Effective July 1, 2012, the Ministry of Health and Long-Term Care ("MOHLTC") has announced that the regulated premium has increased to $19.75 for new admissions to private accommodations, with the existing residents in private accommodations being grandfathered.

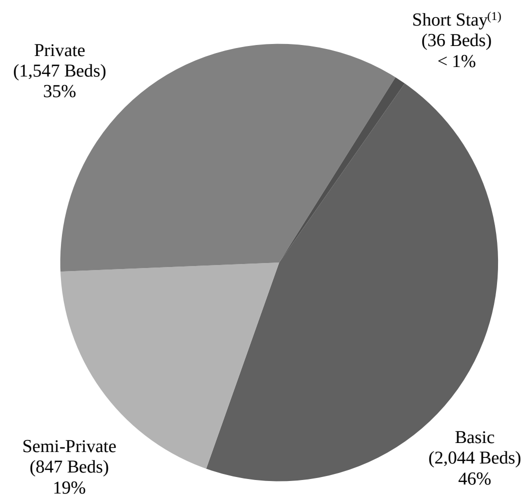
Summary of LTC Beds by Class



Note:

(1) All of Leisureworld's Class A homes are designated New, meeting or exceeding the MOHLTC's most recent (1998) design standards and qualifying for additional capital funding of $10.35 per day, per bed.

Summary of LTC Beds by Accommodation Type



Note:

(1) Short stay and convalescent care beds are reserved for people requiring stays in a 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.

Retirement and independent living residences

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 enable operators to further enhance margins.

Leisureworld owns and operates a RR consisting of 29 suites that adjoins the Muskoka LTC home, and one IL residence comprising 53 apartments that is attached to the Scarborough LTC home. These two homes had a combined occupancy of approximately 80% as at June 30, 2012. As of June 26, 2012, Leisureworld provided written notice to the current residents of the Muskoka RR to vacate on or before October 31, 2012. The Muskoka RR will undergo renovations to allow for the property to accommodate short stay and convalescent care residents to address the needs in the local communities. On April 27, 2011, Leisureworld acquired two additional RRs comprising 294 suites located in Kingston and Kanata, Ontario ("Ontario Portfolio"). 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 June 30, 2012 were 72.8% at Kingston and 66.5% at Kanata. On May 24, 2012, the Company completed the purchase of three luxury retirement properties in the Greater Vancouver Area of British Columbia. The three new properties ("BC Portfolio") 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"). As at the end of the quarter the occupancy was 59.3%, 90.0% and 92.9% respectively. The Astoria property was the most recent property to open in the BC Portfolio and is currently in its lease-up period.

As part of the total purchase consideration for the Ontario Portfolio, 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 June 30, 2012, the Company has drawn down $4.9 million of the income support funds. In conjunction with 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 June 30, 2012, $0.2 million has been drawn down.

Leisureworld's Ontario RRs will have to comply with the requirements of the Retirement Homes Act, as the regulations are phased in over time.

Health Care services

PHCS operates the Company's health care services. PHCS 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.

Key performance drivers

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

Government funding for LTC facilities ensures stability of cash flow

Ontario's LTC sector is regulated by the MOHLTC according to a defined funding model. This model contributes to the stability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: Nursing and Personal Care ("NPC"); Programs and Support Services ("PSS"); and Other Accommodation. Approximately 70% of revenue is received from the MOHLTC. Over the past ten years, government funding of Leisureworld's LTC homes has increased in excess of the Consumer Price Index. Leisureworld also receives capital cost funding of $10.35 per bed, per day from the MOHLTC for Class A homes, as well as payments from residents for both basic and preferred accommodation. Leisureworld also receives structural compliance premiums from the MOHLTC, of $2.50 and $1.00, on a per resident per day basis, for Class B and C homes, respectively. Additionally, the MOHLTC provides funding to LTC homes that have been accredited and reimburses up to 85% of property tax costs.

In 2007, the MOHLTC committed to a capital renewal program that will provide additional funding to operators to upgrade the province's 35,000 Class B and C beds to Class A standards, thereby improving the overall quality and comfort of accommodation available to residents. In April 2009, the MOHLTC published an updated design manual and policy for funding construction costs for the redevelopment of Class B and C LTC homes. The funding for these redevelopment projects will be in the form of a 25-year commitment from the MOHLTC, to pay a specific amount per bed, per day, which depends on the actual construction cost and also the building's compliance with Leadership in Energy and Environmental Design ("LEED") design standards. Redevelopment of Leisureworld's Class C homes is expected to occur under this program in the years ahead, as the capital reimbursement is defined.

PHCS provides home care services that help individuals remain independent and active in their homes. Funding for such services is provided by the Community Care Access Centres ("CCAC"s). CCACs were created by the MOHLTC partially to administer publicly funded home care in the Province of Ontario. PHCS holds three CCAC contracts.

Occupancy levels enhance cash flow

Occupancy is a key driver of Leisureworld's performance. A LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels ranging from 90% to 96% the adjustment range is up to 2% over actual occupancy. There are no adjustments to occupancy below the 90% threshold. However, in 2011 the MOHLTC introduced a policy for homes with occupancy rates above 85% and below 97% to provide funding based on actual occupancy plus 3%. Leisureworld has a strong record of maximizing occupancy. In addition, the supply of LTC beds is controlled and regulated by the MOHLTC, which ensures barriers to entry. For both the quarter and year to date periods ended June 30, 2012, Leisureworld's average occupancy for LTC homes was 98.5% (2011 – 98.7% and 98.3%, respectively).

Leisureworld's RR that adjoins its Muskoka LTC home, and its IL attached to its Scarborough LTC home, have a combined average occupancy for the quarter and year to date periods ended June 30, 2012, of approximately 83% and 86%, respectively. For the Ontario Portfolio properties the combined average occupancy rates for the quarter and year to date periods ended June 30, 2012 was 70.2% and 64.0%, respectively. For Kingston and Kanata, management is targeting a net new average move-in rate of 2.5 per property per month, over a twelve-month period, which will result in achieved occupancy exceeding 90% during the second half of 2013. For the recently acquired BC Portfolio of Astoria, Pacifica and Peninsula in British Columbia the average occupancy since acquisition has been 59.2%, 90.6% and 93.2%, respectively. For the Astoria property, which is a lease-up property, the expected move-in rate is 2.2 per month, which would result in an occupancy rate in excess of 90% by early 2014.

For the quarter ended June 30, 2012, the Ontario Portfolio had strong net move-in activity in excess of management's expectations. The Company has drawn down approximately $4.9 million of the $5.5 million income support established at the close of the acquisition. This drawdown rate is approximately six months ahead of the planned end date which was early 2013. It is management's view, with the likelihood of not having the full value of the income support to stabilize the cash flows during the remainder of the lease-up period, this will not have an impact on the Company's ability to meet its working capital commitments, or its ability to continue the monthly dividend payments.

Optimization of private accommodation mix increases operating profitability
A LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private accommodation at a regulated premium. The LTC home operator retains the premiums collected for such accommodation, which typically increases revenue and enhances profitability. The premium for a private room is currently $18 per day. Leisureworld has approximately 35% of the beds designated as private accommodation. Private bed average total occupancy for the second quarter and year to date period ended June 30, 2012 was 98.1% and 97.8%, respectively (2011 – 96.7% and 96.3%, respectively). Effective July 1, 2012 the MOHLTC increased the private room premium to $19.75 for all new admissions. Existing residents were grandfathered at the historic rate of $18 per day.

Disciplined cost management is key to operating profitability
Leisureworld enjoys economies of scale in areas such as hiring, purchasing and administration for its RR and IL properties and for its LTC homes. Long-term care operators in Ontario receive funding from the government. Operators must return any funding that is not spent for the NPC, PSS, and raw food envelopes to the government; however, spending in excess of the government funding is paid by the LTC operator. Leisureworld manages costs prudently to ensure it continues to provide quality accommodation and services, while maximizing operating profit.

Ensuring high-quality care and services to all residents
A culture of quality is fostered by a corporate team that measures, monitors and audits Leisureworld's performance in care and services. Engagement with management and staff at all levels, through discussion and disseminating reports, analysis and recommendations, is an ongoing process. The outcome of these encounters is also connected to establishing best practices, revisions to benchmarks and is used to develop training and educational initiatives.

Providing professional on-site administration of well-operated Leisureworld homes
Each home has its own on-site management team that is supported through regional and corporate staff who have areas of more focused expertise. Management of each Leisureworld home is supported by networking

with other homes through internal conferences, home comparative management reports and involvement in project teams.

Ensuring continued maintenance and upgrade of properties
Capital budgets, operational reviews and equipment/building service contracts are used by management in the planning and monitoring of Leisureworld's physical assets. Leisureworld has established an active, ongoing maintenance approach, which helps ensure appropriate preventative maintenance and that the Leisureworld homes operate efficiently and competitively.

Growth strategies of Leisureworld Senior Care Corporation
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 healthcare services. As a result of the government initiative, management is hopeful of obtaining additional home healthcare 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 licensed 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 diversify Leisureworld's portfolio into other regions of Canada through accretive acquisitions.

Non-IFRS performance measures
Net operating income (loss) ("NOI"), funds from operations ("FFO"), and adjusted funds from operations ("AFFO") are not measures recognized under 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 and extraordinary items, but before the provision (recovery) of income taxes, depreciation and amortization, net finance charges, loss (gain) on interest rate swap contracts, 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 receivables and amounts received from income guarantees less maintenance capital expenditures ("capex"). 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 used by other issuers.

Business performance

For the second quarter of 2012, Leisureworld generated NOI of $14,061, an increase of $2,653 or 23.3% from $11,408 in the same quarter a year ago. The LTC portfolio generated $11,562 of NOI compared to $10,589 in the second quarter of the prior year, resulting in an increase of $973, primarily due to greater government funding, lower utility costs and cost constraint measures across the business segment and higher management fees. The retirement segment contributed a favourable year over year NOI increase of $1,473 as a result of the timing of the Ontario Portfolio acquisition in the second quarter of 2011 and the addition of the BC Portfolio in May of this year. Health Care's NOI increased by $207 primarily due to an increase in personal support contract volumes.

For the year to date period, NOI was $25,972 compared to $21,514 in 2011, reflecting a year over year increase of $4,458 or 20.7%. LTC contributed $1,579 of the increase primarily due to greater government funding, lower utility costs and cost constraint measures across the business segment and higher management fees. The retirement portfolio's total NOI was $2,849, compared to $469 in the prior year. The increase of $2,380 was attributed to the timing of acquisitions. The Ontario Portfolio contribution in the period was $1,983 and the BC Portfolio contributed $680 since the acquisition. Health Care NOI for the year to date was $1,360, an increase of $499 over the prior year. The increase is attributable to increase in personal support contract volumes.

FFO for the quarter was $7,261 compared to $5,703 in the prior year, an increase of $1,558 or 27.3%. The increase was the result of the higher NOI of $2,653 and a higher transaction costs add-back of $317, primarily relating to the closing of the acquisition in the quarter. This was partly offset by increased net finance charges of $428, and higher current income taxes of $812, as the prior year had a favourable book to filing tax adjustment of $739. Net finance charges increase was due to the credit facility ("Bridge Loan") related to the acquisition of the retirement properties in Kingston and Kanata, as well as the finance costs associated with the debt used and assumed as part of the acquisition of the BC Portfolio.

For the first six months, FFO was $12,210, an increase of $2,424 or 24.8%, compared to FFO of $9,786 in the prior year. Improved NOI contributed $4,458 of the increase along with a higher add-back for transaction costs of $181. This was partly offset by $997 of higher net finance charges, an increase of $765 in current income taxes, as the prior year had a favourable book to filing adjustment of $739, and an unfavourable variance in administrative expenses of $367. The net finance charge increase was due to timing of the acquisition of the Ontario Portfolio in the second quarter of 2011 and the current quarter acquisition of the BC Portfolio. The higher administrative expenses were primarily due to higher transaction related costs, partly offset by lower people related expenditures.

AFFO for the quarter increased to $9,495 from $7,007. The increase of $2,488 or 35.5%, was principally attributable to the higher FFO of $1,558 and the prior year reduction associated with the income tax book to filing adjustment of $739 not recurring in the current year.

The year to date AFFO was $16,636, representing a $4,468 or 36.7% increase over the prior year. The increase was the result of the $2,424 favourble FFO performance, the year over year increase of the income support draws of $1,039, which was due to the timing of the acquisition of the Ontario Portfolio and BC Portfolio, and the prior year reduction associated with the income tax book to filing adjustment of $739 not recurring in the current year.

Net Operating Income

Thousands of dollars

	Quarter		Year-to-Date	
	2012	2011	**2012**	2011
Net loss	**(5,039)**	(2,449)	**(7,648)**	(5,313)
Provision (recovery) of income taxes	**3,283**	(2,086)	**2,497**	(3,288)
Loss before income taxes	**(1,756)**	(4,535)	**(5,151)**	(8,601)
Depreciation and amortization	**5,537**	8,355	**13,655**	15,917
Net finance charges	**4,314**	4,396	**8,128**	7,814
Impairment loss	**2,697**	-	**2,697**	-
Income from Operations Before the Undernoted	**10,792**	8,216	**19,329**	15,130
Administrative expenses	**3,269**	3,192	**6,643**	6,384
Net Operating Income (NOI)	**14,061**	11,408	**25,972**	21,514

Funds from Operations and Adjusted Funds from Operations

Thousands of dollars, except share and per share data

	Quarter		Year-to-Date	
	2012	2011	**2012**	2011
Net Operating Income (NOI)	**14,061**	11,408	**25,972**	21,514
Interest income on construction funding receivable	**730**	789	**1,491**	1,577
Net finance charges[(1)]	**(4,549)**	(4,121)	**(8,849)**	(7,852)
Current income taxes	**(314)**	498	**(719)**	46
Administrative expenses[(2)]	**(3,247)**	(3,134)	**(6,568)**	(6,201)
Transaction costs	**580**	263	**883**	702
Funds from Operations (FFO)	**7,261**	5,703	**12,210**	9,786
Income tax book to filing adjustment	**-**	(739)	**-**	(739)
HRIS expense	**63**	16	**52**	(36)
Income support	**947**	905	**1,944**	905
Construction funding principal	**1,403**	1,344	**2,798**	2,689
Maintenance capex[(3)]	**(179)**	(222)	**(368)**	(437)
Adjusted Funds from Operations (AFFO)	**9,495**	7,007	**16,636**	12,168
Basic FFO per share	**$0.2745**	$0.2461	**$0.4799**	$0.4530
Basic AFFO per share	**$0.3589**	$0.3024	**$0.6539**	$0.5633
Weighted average common shares outstanding - Basic [(4)]	**26,454,216**	23,171,626	**25,442,695**	21,602,743
Diluted FFO per share	**$0.2741**	$0.2454	**$0.4790**	$0.4513
Diluted AFFO per share	**$0.3585**	$0.3015	**$0.6527**	$0.5612
Weighted average common shares outstanding - Diluted [(4)]	**26,487,549**	23,238,292	**25,488,849**	21,682,116

Notes:

(1) Net finance charges excluding non-cash interest expense on debentures, construction funding interest income, and loss (gain) on the interest rate swap contracts.

(2) Administrative expenses have been decreased by $22, $58, $75, and $183 respectively for share-based compensation expense related to stock issued to senior management in relation to the IPO, the effect being a reduction in proceeds to the seller.

(3) Maintenance capex has been decreased by $216, $118, $435, and $368 respectively for capital expenditures related to the HRIS project.

(4) Weighted average common shares outstanding are calculated based on the period of time the shares have been outstanding.

Quarterly Financial Information

Thousands of dollars, except per share data

	2012		2011				2010	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**76,090**	**74,738**	79,028	73,310	70,029	67,740	71,589	68,824
Operating expenses (excluding depreciation and amortization)	**62,029**	**62,827**	66,961	60,952	58,621	57,634	60,734	58,319
Administrative expenses	**3,269**	**3,374**	4,682	3,364	3,192	3,192	3,114	2,493
Income from operations before the undernoted	**10,792**	**8,537**	7,385	8,994	8,216	6,914	7,741	8,012
Net loss	**(5,039)**	**(2,609)**	(3,344)	(3,320)	(2,449)	(2,864)	(2,268)	(2,291)
Per share and diluted per share	**(0.19)**	**(0.11)**	(0.14)	(0.14)	(0.11)	(0.14)	(0.11)	(0.11)
Dividends declared (1)	**5,879**	**5,202**	5,202	5,202	5,202	4,271	4,271	4,271
Per share and diluted per share	**0.21**	**0.21**	0.21	0.21	0.21	0.21	0.21	0.21
AFFO	**9,495**	**7,141**	6,754	7,657	7,007	5,162	5,030	5,533
Per share - basic (2)	**0.36**	**0.29**	0.28	0.31	0.30	0.26	0.25	0.28
Per share - diluted (2)	**0.36**	**0.29**	0.28	0.31	0.30	0.26	0.25	0.28

Notes:

(1) All dividends paid by the Company, unless otherwise indicated, are designated as eligible dividends for Canadian tax purposes in accordance with subsection 89(14) of the Income Tax Act (Canada), and any applicable corresponding provincial and territorial provisions.

(2) AFFO per share calculations are based on weighted average shares outstanding, which are calculated based on the period of time the shares have been outstanding. Prior MD&A disclosures calculated the share weighting based on months of dividend eligibility.

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

A discussion of the quarter ended June 30, 2012 results compared to the same period in the prior year is provided under the section "Selected Consolidated Financial and Operating Information".

Selected Consolidated Financial and Operating Information

Thousands of dollars, except occupancy data

	Quarter		Year-to-Date	
	2012	2011	**2012**	2011
Revenue	**76,090**	70,029	**150,828**	137,769
Expenses				
Operating expenses (1)	**62,029**	58,621	**124,856**	116,255
Administrative expenses	**3,269**	3,192	**6,643**	6,384
	65,298	61,813	**131,499**	122,639
Income from operations before the undernoted	**10,792**	8,216	**19,329**	15,130
Other expenses				
Depreciation and amortization	**5,537**	8,355	**13,655**	15,917
Net finance charges	**4,314**	4,396	**8,128**	7,814
Total other expenses	**9,851**	12,751	**21,783**	23,731
Impairment loss	**2,697**	-	**2,697**	-
Loss before income taxes	**(1,756)**	(4,535)	**(5,151)**	(8,601)
Provision for (recovery of) income taxes				
Current	**314**	(498)	**719**	(46)
Deferred	**2,969**	(1,588)	**1,778**	(3,242)
	3,283	(2,086)	**2,497**	(3,288)
Net loss	**(5,039)**	(2,449)	**(7,648)**	(5,313)
Total assets	**762,073**	658,195	**762,073**	658,195
Long-term debt	**433,110**	354,254	**433,110**	354,254
Average occupancy				
Long-term care	**98.5%**	98.7%	**98.5%**	98.3%
Long-term care - private accommodations	**98.1%**	96.7%	**97.8%**	96.3%
Retirement and independent living (2)	**73.3%**	60.5%	**70.9%**	67.6%

Notes:

(1) Operating expenses excluding depreciation and amortization.

(2) The 2011 retirement and independent living occupancy rates include the addition of the Kingston and Kanata properties as of April 27, 2011.

Revenue

For the second quarter, Leisureworld generated revenue of $76,090 compared to $70,029 in 2011, representing an increase of $6,061 or 8.7%. LTC accounted for $2,321 of the increase, primarily due to the timing of $1,803 of revenue recognition to match spending under the flow-through funding envelopes and a partial government funding rate increase of approximately 0.5% or $310. There was also an incremental funding of approximately $172 related to the case mix index adjustment. The rate increase does not reflect the MOHLTC announced increases in the flow-through envelopes. Retirement revenue accounted for $2,819 of the increase due primarily to the timing of the addition of the two Ontario retirement residences acquired in the second quarter of 2011 and the recently acquired BC Portfolio in the current quarter. The Ontario Portfolio incremental revenue year over year was $1,372 and the BC Portfolio generated revenues of $1,480 since the close of the acquisition in late

May 2012. Health Care's external revenue increased by $921, which was primarily attributable to an increase in personal support contract volumes.

For the year to date period, revenues of $150,828 increased by $13,059 or 9.5% from $137,769 in the same period of the previous year. The performance of the LTC portfolio contributed incremental revenues of $5,883 or 4.5% over the $130,841 of net revenues generated in the prior year. The increase was due to the government funding rate increase of approximately 1.8% or $2,073 and incremental funding of approximately $639 related to the case mix index adjustment. The rate increase does not reflect the MOHLTC announced increases in the flow-through envelopes. As well, LTC recognized additional revenue of $2,604 due to the timing of revenue recognition to match spending under the flow-through funding envelopes, partly offset by lower capital initiative funding of $298. Retirement generated revenues of $7,247 compared to $1,906 in the prior year. The incremental revenue of $5,341 was primarily the result of timing of acquisitions. The Ontario Portfolio had incremental revenues of $3,895 as the acquisition closed in April of 2011. The BC Portfolio's revenue was $1,480 since its acquisition in the quarter. Health Care continued to perform favourably as a result of higher personal support contract volumes. Gross revenues for the period were $7,910, an increase of $1,872 or 31.0% over the prior year.

Operating expenses

Total operating expenses for the quarter were $62,029, which was $3,408 or 5.8% higher than the $58,621 in the same quarter last year. LTC expenditures increased by $1,348 compared to the prior year. The increase is attributable to expenses incurred as a result of the increased funding and expenditure timing of $2,169 and higher dietary service costs of $124 following the implementation of increased regulatory requirements last year. This was partly offset by lower property administration costs of $687, favourable property maintenance costs and laundry expenses of $84 and $68, respectively. The favourable property administration costs were primarily attributable to the lower utility costs of $487 and lower wages and benefits of $172. Retirement operating expenses for the quarter increased by $1,346, which was attributable to the timing of the acquired retirement residences. The Ontario Portfolio had incremental expenses of $530 and the BC Portfolio incurred expenses of $800 since the acquisition closed. During the quarter ended June 30, 2012, Health Care's operating expenses increased by $734, primarily related to higher volume of personal support contracts associated with the higher revenues.

For the year to date, operating expenses totalled $124,856, an increase of $8,601 or 7.4%. The operating expenditures for LTC increased by 3.9% or $4,304 to $114,961 compared to the prior year. The increase is attributable to expenses incurred as a result of the increased funding and expenditure timing of $5,284 and higher dietary service costs of $484 following the implementation of increased regulatory requirements last year. This was partly offset by lower property administration costs of $1,288 resulting from lower year over year utility expenses of $952 and favourable wages and benefits of $297. Retirement incurred expenses of $4,398 which was an increase of $2,961 over the prior year. The increase is the result of the timing of the acquisitions. The Ontario Portfolio had incremental expenses of $2,167 and the BC Portfolio incurred expenses of $800 since the acquisition closed. The Health Care segment's operating expenses increased by $1,373, which was attributable to the increased personal support contract volume.

Administrative expenses

For the quarter, administrative expenses of $3,269 were consistent with the prior year of $3,192. Wages and benefits favourability of $248 was primarily offset by higher transaction costs of $317. Lower wages and benefits were attributable to an adjustment to executive compensation to account for the incentive plans that received Board of Director and shareholder approval at the annual general meeting. This was partly offset by increased costs associated with personnel changes and annual wage increases.

Administrative expenses were $6,643 for the six months ended June 30, 2012 compared to $6,384 in the prior year. The increase of $259 was primarily the result of higher transaction costs of $181.

Depreciation and amortization

Depreciation and amortization decreased from $8,355 in the second quarter of 2011 to $5,537 in the current quarter. The $2,818 decrease was primarily attributable to LTC resident relationships from the IPO being fully amortized at the end of the first quarter, partly offset by the increase in resident relationship amortization associated with the retirement portfolios. The main components of depreciation and amortization charges are property and equipment of $4,394, resident relationships of $859, and service contracts of $257.

For the six months ended June 30, 2012, depreciation and amortization totalled $13,655, a decrease of $2,262 from $15,917 in the prior year. The decrease was primarily the result of the LTC resident relations being fully amortized at the end of the first quarter in 2012. This decrease was partly offset by the increase in depreciation and amortization of resident relationships resulting from the retirement acquisitions. The main components of depreciation and amortization charges are property and equipment of $8,890, resident relationships of $4,208, and service contracts of $514.

Net finance charges

For the quarter, net finance charges totalled $4,314, an $82 decrease from $4,396 for the same quarter last year. Interest expense increased year over year by approximately $571 related to the financing costs associated with the retirement properties, which was offset by the favourable variance from the mark to market adjustment on the interest rate swap contracts. The current quarter had a gain of $104 as opposed to the prior year which realized a net loss on the interest rate swap contracts of $541.

Net finance charges totalled $8,128 for the year to date period compared to $7,814 in the prior year. The increase of $314 was primarily due to increased net interest expense of $1,230 partly offset by the favourable mark to market adjustment on the interest rate swap contracts of $916 on a year over year basis. An increase in interest expense of $1,162 was the result of the interest cost associated with financing the retirement properties acquired in Ontario and British Columbia. The favourable adjustment from the interest rate swap contracts was due to realizing a gain in the current year of $419, compared to a net loss in the prior year of $497.

Impairment loss

During the quarter ended June 30, 2012, the Company determined that the carrying amount of the Human Resource Information System ("HRIS") being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a $2,697 impairment of intangible assets. During the development of the project, it allowed the Company to refine and improve upon many of its payroll and human resource processes, and although the carrying value of these incurred cost have been written off, these improvements continue to add value to the organization.

Income taxes

Current income taxes have been calculated at the combined corporate tax rate of 26.5%. The income tax expense for the quarter ended June 30, 2012 was $3,283, compared to the second quarter of 2011 income tax recovery of $2,086. The deferred income tax expense was primarily the result of a change in corporate tax rates. According to the last federal and provincial budgets, corporate tax rates will be frozen at a combined rate

26.5%, previously these rates were expected to decrease to 25.0% over the next few years. The impact of the rate change was an increase of approximately $3,759 in deferred tax. As well, in the second quarter of the prior year the Company recorded a favourable book to filing tax adjustment of $739.

For the year to date, the total tax expense was $2,497, compared to a recovery of $3,288 in the prior year. The unfavourable variance of $5,785 was primarily attributed to the rate adjustment in deferred taxes of $3,768 as well as the book to filing tax adjustment of $739.

Net loss

The net loss for the quarter was $5,039, compared to $2,449 in the prior year. The favourable performance in the income from operations before the undernoted of $2,576 and the lower depreciation and amortization charge of $2,818 was more than offset by higher tax charges in the quarter of $5,369 and the impairment loss of $2,697.

For the year to date period ended June 30, 2012, the net loss was $7,648 an increase of $2,335 compared to the prior year. For the period, the Company's results were negatively impacted by the impairment loss of $2,697, and the $5,785 increase in the tax expense compared to the tax recovery in the prior year. This was only partly offset by the improved income from operations of $4,199 and the lower depreciation and amortization charges of $2,262.

Liquidity and capital resources

Leisureworld reported a cash and cash equivalents balance of $34,169 as at June 30, 2012. The changes in cash and cash equivalents for the quarters and periods ended June 30, 2012 and 2011 are as follows:

	Quarter		Year-to-Date	
	2012	2011	**2012**	2011
Cash flow from operations before non-cash working capital items	**10,654**	8,208	**18,839**	14,795
Non-cash changes in working capital	**(6,994)**	(8,834)	**(4,440)**	(11,096)
Cash provided by (used in):				
Operating activities	**3,660**	(626)	**14,399**	3,699
Investing activities	**(89,988)**	(88,328)	**(88,192)**	(86,639)
Financing activities	**91,861**	86,013	**86,041**	81,680
Increase (decrease) in cash and cash equivalents	**5,533**	(2,941)	**12,248**	(1,260)

Operating activities

For three months ended June 30, 2012, cash flow from operations before non-cash changes in working capital totalled $10,654, compared to $8,208 in the second quarter a year ago. During the quarter, non-cash changes in working capital decreased the cash position by $6,994, compared to $8,834 in the same period of the prior year. During the current quarter, accounts payable and accrued liabilities used $3,463 of cash as a result of the timing of payroll related accruals and payments, partly offset by an increase in trade payables. The net increase in income support used $1,025 of cash for the payment into an escrow account of $2,030 in relation to the Astoria property that was part of the BC Portfolio acquisition. This was partly offset by the drawdowns associated with the lease-up of the Ontario Portfolio and Astoria properties of $802 and $203, respectively. The increase in prepaid expense was associated with the timing of deposits paid partly for corporate initiatives and an increase in deposits and other assets associated with the BC Portfolio. Accounts receivable increased primarily as a result of accruals for WSIB adjustments that settle after the end of the year, and the timing of management fee receipts. The change in government funding balances is primarily the result of the timing of revenue recognition as it relates to the expenditures incurred as the Company has not had significant adjustments relating to the settlement of prior year balances.

For the quarter ended June 30, 2011, cash flow from operations before non-cash changes in working capital totalled $8,208. During the quarter, non-cash changes in working capital used $8,834 of operating cash. The use of cash was principally attributable to the Company entering into an income support agreement with a balance of $4,595 held in escrow, a reduction in accounts payable and accrued liabilities of $2,913, an increase in accounts receivable and other assets of $1,151 and an increase in income taxes receivable of $1,113, which was partly offset by an increase in the net government funding payable of $713. The decrease in accounts payable and accrued liabilities is mainly due to lower trade payables and accruals, and a reduction in payroll related accruals due to the timing of payments in the period. The increase in accounts receivable and other assets of $1,151 is attributable to increased management fees receivable and the receivable associated with the drawdown of the income support for the month of June. Income taxes receivable increased due to a tax recovery from the prior year as well as the timing of instalments compared to the calculated tax provision for the period.

For the year to date period ended June 30, 2012, cash flow from operations before non-cash changes in working capital totalled $18,839, compared to $14,795 for the same period in the prior year. Non-cash changes in working capital used $4,440 of cash compared to $11,096 a year ago. Of the $4,440 of changes in non-cash working capital, the decrease of $2,925 was attributable to lower accounts payable and accrued liabilities. The movement of trade payables and accruals is primarily the result of higher spending in the last quarter of the year. The other use of cash was the result of the increase in prepaid expenses and deposits of $1,889. The increase was attributable to the increase in deposits related to healthcare plans and other corporate initiatives. The use of cash as it pertains to the increase in income taxes payable is the result of timing of instalments and the provisions recorded in the period. A partial offset to the use of cash was the cash provided by the movement in the net government funding balances. This was primarily related to the timing of revenue recognition as it relates to the expenditures incurred as the Company has not had significant adjustments relating to the settlement of prior year balances.

For the same period ended June 30, 2011, cash flow from operations before non-cash changes in working capital totalled $14,795. For the year to date period ended June 30, 2011, non-cash changes to working capital used $11,096 of operating cash. For the year to date period, the use of cash was attributable principally to a decrease in accounts payable and accrued liabilities of $4,783, the inclusion of income support of $4,595 held in escrow which related to the acquisition of the Ontario Portfolio properties, a decrease of $3,226 in income taxes payable, an increase in accounts receivable and other assets of $1,378, and an increase in prepaid expenses and deposits of $531, which was partly offset by an increase of $3,417 in government funding payable. The decrease in accounts payable and accrued liabilities was primarily attributable to a decrease in trade payables and the reclass of credit balance resident receivables due to the timing of payments prior to the end of the year, as well as the decrease in payroll related accruals due to timing. The change in income taxes was attributable to the timing of the payment and final tax adjustments related to the prior year, as well as the payment of current year instalments compared to the calculated provision. The increase in net government funding is a result of the timing of expenditures related to the flow-through envelopes.

Investing activities

For the quarter, investing activities utilized $89,988 of cash. These funds were primarily used for the acquisition completed in the quarter of the three retirement properties that form the BC Portfolio totalling $91,775. This was partly offset by the cash received from construction funding of $2,133.

For the quarter ended June 30, 2011, investing activities used $88,328 of cash. These funds were used primarily for the acquisition of the two retirement properties in Kingston and Kanata totalling $89,020. Additionally, the property and equipment increased by $1,471 principally related to land transfer tax associated with the acquisition of the properties, which was reversed in a subsequent quarter to transaction costs, building improvements and the HRIS project costs. Partly offsetting this was the amounts received from construction funding of $2,133.

Year to date cash used for investing activities was $88,192, which was the result of the $91,775 cash investment in the BC Portfolio. Partly offsetting this was the cash provided by construction funding received of $4,289.

During the six month period ended June 30, 2011, investing activities used cash of $86,639. These funds were used primarily for the acquisition of the two retirement properties in Kingston and Kanata totalling $89,020. Additionally, the Company purchased other property and equipment of $1,936 principally related to land transfer tax associated with the acquisition of the properties, which was reversed in a subsequent quarter to transaction costs. Partly offsetting this was the amount received from construction funding of $4,266.

Financing activities

During the current quarter, financing activities provided $91,861 of cash. The Company raised net debt and equity to complete the transaction of the BC Portfolio of $51,919 and $53,787, net of underwriters and other fees; respectively. Partly offsetting this was the use of cash for dividend payments of $5,541, and interest payments on debt of $8,132.

For the comparative quarter ended June 30, 2011, financing activities provided cash of $86,013. The issuance of common shares generated net proceeds of $44,394, and the Bridge Loan generated additional proceeds of $54,835. These proceeds were used to finance the acquisition of the two retirement properties in Kingston and Kanata. During the quarter, the Company made dividend payments of $5,202 and interest payments on long-term debt of $7,803.

For the period ended June 30, 2012, cash provided by financing activities totalled $86,041. The cash was primarily generated from the funds raised to complete the acquisition of the BC Portfolio. The amount raised included net debt of $51,919 and equity of $53,787. This was partly offset by the dividend payments of $10,743 and interest payments on long-term debt of $8,553.

During the six month period ended June 30, 2011, financing activities provided cash of $81,680. The issuance of common shares generated net proceeds of $44,394, and the Bridge Loan generated additional proceeds of $54,835. These proceeds were used to finance the acquisition of the two retirement properties in Kingston and Kanata. During the period, the Company made dividend payments of $9,473 and interest payments on long-term debt of $7,803.

Capital resources

Leisureworld's debt as at June 30, 2012 was $433,110 compared to $355,399 as at December 31, 2011. The increase of $77,711 relates to the $52,100 of new debt raised to finance the acquisition in the quarter, as well as the $24,716 of debt assumed on the acquisition, inclusive of a $1,000 fair value adjustment. Of the remaining increase, $1,112 relates to the accretion of the fair value increment from the purchase price allocation of the Series A Senior Secured Notes due November 24, 2015 and accretion of deferred financing charges on the debt raised to acquire the retirement properties of the Royale. As at June 30, 2012, Leisureworld had a committed revolving credit facility of $10,000 with a Canadian chartered bank; the Company had no claims outstanding against this credit facility. On July 30, 2012, the Company paid down $20,000 of the $55,000 drawn on revolving credit facility.

As of June 30, 2012 the Company had negative working capital of $65,903 arising from the credit facilities coming due within a year. Management is currently in the process of re-financing and extending the maturity dates of these credit facilities. In addition, with the Company current leverage ratio, the Company has access to additional equity financing.

Capital commitments

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

On June 22, 2010, the Company announced an agreement to acquire 88 LTC licences from Christie Gardens Apartments and Care Inc. These licences are in the Toronto area and will increase the total number of the Company'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 $2,200.

Leisureworld expects to meet its operating cash requirements through 2012, including required working capital investments, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed borrowing capacity.

Contractual obligations and other commitments

On November 24, 2005, LSCLP issued 4.814% Series A Senior Secured Notes due November 24, 2015 (the "2015 Notes"), which are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships.

The 2015 Notes may be redeemed in whole or in part at the option of the Company at any time, upon not less than 30 days' and not more than 60 days' notice, to the holders of the 2015 Notes. The redemption price is the greater of: (i) the face amount of the 2015 Notes to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such 2015 Notes equal to the Government of Canada Yield Price plus 0.25%, plus 0.18%, in each case together with accrued and unpaid interest.

On April 27, 2011, the Company entered into the Bridge Loan to finance the acquisition of the retirement properties in Kingston and Kanata, which bears interest at 187.5 basis points ("bps") per annum over the floating 30-day bankers' acceptance ("BA") rate. On June 29, 2012 the Bridge Loan was converted to a $61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the original Bridge Loan, entered into an interest rate swap contract to effectively fix the interest rate at 4.045% on the $55,000, which is still in effect. The Company is not applying hedge accounting.

On May 24, 2012, the Company entered into a one-year secured acquisition term loan for $26,100 to finance the acquisition of the Pacifica property. The term loan bears a floating interest rate equal to the 30-day BA rate plus 187.5 bps.

On May 24, 2012, the Company entered into a two-year secured acquisition term loan for $26,000 to finance the acquisition of the Astoria property. The term loan bears a floating interest rate equal to the 30-day BA rate plus 187.5 bps.

As a part of the acquisition of the Peninsula Property, the Company assumed a remaining mortgage in the amount of $23,716, excluding a fair value adjustment of $1,000. The mortgage assumed bears an interest rate of 5.18% and matures on January 1, 2017. The mortgage is collateralized by a first collateral mortgage on the land and building located at 2088-152nd Street, Surrey, BC and a general security agreement providing a first charge on all assets and undertakings.

Interest expense on the long-term debt for the quarter ended June 30, 2012 was $5,055 (2011 - $4,508), which includes non-cash interest of $599 (2011 - $524). Interest expense for the six months ended June 30, 2012 was $9,787 (2011 - $8,706), which includes non-cash interest of $1,189 (2011 - $1,042).

Leisureworld has an undrawn $10,000 revolving credit facility with a Canadian chartered bank collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships, which it can access for working capital purposes. The facility bears interest on cash advances at 150 bps per annum over the floating BA rate (30, 60, 90 days), or at 50 bps per annum over prime rate and on letters of credit at 150 bps per annum. As at June 30, 2012, the Company had no claims outstanding against the credit facility.

Leisureworld has a ten-year lease with respect to its corporate office, which expires on December 31, 2015. As well, there are various operating leases for office and other equipment that expire over the next five years. Payments due for each of the next five years and thereafter, for the leases and the long-term debt are as follows:

	Operating Leases	Long-Term Debt	Licences Purchase Commitment	Total
2012	281	243	-	**524**
2013	529	81,605	2,200	**84,334**
2014	438	26,532	-	**26,970**
2015	373	310,560	-	**310,933**
2016	-	589	-	**589**
Thereafter	-	21,177	-	**21,177**
	1,621	**440,706**	**2,200**	**444,527**

Acquisitions

On April 27, 2011, Royale completed the acquisition of two retirement residences comprising 294 suites, for a net purchase price of $88,742 after working capital adjustments and an income support agreement with the vendor for $5,500 to be held in escrow as an income guarantee to complement cash flow from the properties during the lease-up period.

Royale is a limited partnership that was formed under the laws of the Province of Ontario on March 17, 2011. The sole general partner of Royale is The Royale GP Corporation ("Royale GP"), a corporation incorporated under the laws of the Province of Ontario on March 16, 2011. The Company holds all of the issued and outstanding shares of Royale GP and the limited partnership interest in Royale.

To partly finance the purchase price, the Company entered into a two-year Bridge Loan with a Canadian chartered bank in the amount of $55,000, which was subsequently converted to a revolving credit facility. The Bridge Loan was secured by the assets of Royale and guaranteed by the Company and was subject to certain customary financial and non-financial covenants. The Company entered into an interest rate swap contract to substantially fix the interest rate payable on the Bridge Loan at 4.045%, which remains in effect. The balance of the purchase price was funded from the net proceeds of a public offering of subscription receipts, completed on April 27, 2011, which raised gross proceeds of approximately $46,000. On closing of the acquisition, one common share was automatically issued in exchange for each outstanding subscription receipt, resulting in the issuance of 4,381,500 common shares.

On May 24, 2012, Leisureworld's subsidiaries, The Royale LP and The Royale West Coast LP ("Royale West Coast") completed the acquisition of the BC Portfolio which consists of three luxury retirement residences in the Greater Vancouver Area (the "GVA") in British Columbia. Royale West Coast is a limited partnership that was formed under the laws of the Province of Ontario on April 18, 2012. The sole general partner of Royale West Coast is The Royale West Coast GP Corporation ("Royale West Coast GP"), a corporation incorporated under the laws of the Province of Ontario on April 17, 2012. The Company holds all of the issued and outstanding shares of Royale West Coast GP and the limited partnership interest in Royale West Coast.

The aggregate purchase price was $119,750 net of a $1,000 mark to market adjustment on assumed debt and excluding a performance-based earn-out of up to $6,000. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, the Company raised net equity of $54,787, which consisted of issuing 4,680,500 Common Shares (including the overallotment of 610,500 Common Shares) at a price of $12.05 per Common Share, and issued 82,988 Common Shares to one of the sellers at an issue price of $12.05 per Common Share. The balance of the purchase price was financed through short-term bridge financing based on floating rates. Management has evaluated the contingent purchase price consideration of the $6,000 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.

As one of the residences is currently in the lease-up phase, the aggregate purchase price includes an income guarantee of $2,030 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 net operating income ("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.

On July 6, 2012, one of the Company's subsidiaries, The Royale Development LP ("Royale Development") completed the acquisition of the Madonna Long-Term Care Residence. Royale Development is a limited partnership that was formed under the laws of the Province of Ontario on November 25, 2011. The sole general partner of Royale Development is The Royale Development GP Corporation ("Royale Development GP"), a corporation incorporated under the laws of the Province of Ontario on November 24, 2011. The Company holds all of the issued and outstanding shares of Royale Development GP and the limited partnership interest in Royale Development.

The Madonna Long-Term Care Residence is a 160 bed, "A" Class home in Orleans, Ontario, a suburb of Ottawa. The purchase transaction is for $19,900, comprised of $13,400 for the operating business and approximately $6,500 of construction funding. Incremental expenses for transaction and land transfer costs are expected to be approximately $1,100.

Related party transactions

A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc., which is considered a related party by virtue of common management. During the quarter and six months ended June 30, 2012, the Company earned revenue from Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario. Total revenue for the quarter ended June 30, 2012 was $480 (2011 - $464) and six months ended June 30, 2012 was $960 (2011 - $937). Included in accounts receivable is $61 owing from Spencer House Inc. at June 30, 2012 (December 31, 2011 - $12). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non–interest bearing.

As of June 30, 2012, the Company had amounts outstanding from certain key executives of $216 (December 31, 2011 - $Nil) which have been recorded as a contra to equity in relation to the Long-Term Incentive Plan ("LTIP") issuance. These amounts outstanding bear interest at the prime rate.

Capital disclosure

The Company defines its capital as the total of its long-term debt, shareholders' equity, net of cash and cash equivalents.

The Company's objectives when managing capital are to: (i) maintain a capital structure that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and dividend payments; and (iii) deploy capital to provide an appropriate investment return to its shareholders.

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

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

The Series A Senior Secured Notes and revolving credit facility are collateralized by all assets of LSCLP and the subsidiary partnerships totalling $497,270 as at June 30, 2012 and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The $61,500 revolving credit facility is secured by the Ontario Portfolio assets of Royale guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of June 30, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

The one-year term loan for $26,100 to finance the acquisition of the Pacifica property is secured by the property held by Royale guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of June 30, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

The two-year term loan for $26,000 to finance the acquisition of the Astoria property is secured by the property held by Royale guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of June 30, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

As a part of the acquisition for the Peninsula Property, the Company assumed an existing mortgage. The mortgage is collateralized by a first collateral mortgage on the land and building located at 2088-152nd Street, Surrey, BC and a general security agreement providing a first charge on all assets and undertakings.

There were no changes in the Company's approach to capital management during the quarter.

Financial instruments and the nature and extent of risks arising from financial instruments

Financial instruments consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, annuity, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts. For a further discussion on the components of financial instruments and the nature and extent of risks arising from financial instruments, please refer to the Company's Annual Information Form dated March 19, 2012 and our Management's Discussion and Analysis filed for the year ended December 31, 2011.

Critical accounting estimates and accounting policies

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2011, please refer to those statements for further detail.

Accounting standards issued but not yet applied

Other than those disclosed in the audited consolidated financial statements for the year ended December 31, 2011, there are no accounting standards issued but not yet applied that would be expected to have a material impact on the Company.

Risks and uncertainties

The Company's Annual Information Form ("AIF") dated March 19, 2012 and our Management's Discussion and Analysis filed for the year ended December 31, 2011 contain a detailed discussion of the risk and uncertainties that could affect the Company.

On July 23, 2012, Mr. David Cutler announced his resignation as the President and CEO, effective September 4, 2012. Mr. Cutler has served the organization for 21 years. Mr. Cutler will remain on the Board of Directors ("Board") as a non-management director. In the interim, the Board has appointed Mr. Dino Chiesa, Chairman of the Board, as the interim President and CEO until a suitable replacement can be found. Mr. Chiesa is a seasoned chief executive, having served as President and Chief Executive Officer of Residential Equities Real Estate Investment Trust from 1999 until its merger with Canadian Apartment Properties Real Estate Investment Trust 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. He is the immediate past chair of CMHC, one of Canada's largest financial institutions. The Company believes that with Mr. Cutler remaining as an active member of the Board of Directors and the level of expertise and experience that Mr. Chiesa offers to the Company, that this will minimize the risk associates with the leadership change in senior management.

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.

With the exception of the above, there have been no changes or updates since the filings of the AIF.

Disclosure controls and procedures and internal controls over financial reporting

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

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

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

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

Outlook

Leisureworld continues to benefit from strong industry fundamentals including favourable demographics and maintaining high occupancy in its' LTC portfolio and increasing occupancy in its retirement portfolio. Management continues to focus on the integration of the recently acquired assets and NOI performance of all business segments which forms a strong platform for reliable shareholder dividends. Leisureworld expects to pay a monthly dividend to its shareholders of $0.0708 per common share, representing $0.85 per share on an annualized basis.

As the Province of Ontario and other provinces in Canada look for ways to contain healthcare spending, management believes that private delivery of certain healthcare services by trusted providers, such as Leisureworld, represents a cost-effective solution. With its strong balance sheet, Leisureworld is well positioned to capitalize on growth opportunities across the entire spectrum of government regulated, seniors living and care services sector in Canada.

Looking ahead, Leisureworld will maintain its strategy of: delivering high quality care service and accommodation for seniors; supporting and increasing occupancy rates; identifying opportunities to augment its LTC portfolio, through the renewal of its older LTC facilities, or complementary acquisitions; and increasing its presence across the continuum of seniors living and care in Canada.

Leisureworld Senior Care Corporation

Condensed Interim Consolidated Financial Statements

For the Quarter and Six Months Ended June 30, 2012
(Unaudited)

(In Canadian Dollars)

Leisureworld Senior Care Corporation
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
Thousands of dollars

	Notes	**June 30, 2012**	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	5	**34,169**	21,921
Accounts receivable and other assets	13	**5,742**	5,564
Income support		**1,402**	2,395
Prepaid expenses and deposits		**3,889**	1,639
Government funding receivable		**2,598**	2,440
Construction funding receivable		**5,751**	5,621
Income taxes receivable		**159**	20
		53,710	39,600
Government funding receivable		**58**	163
Construction funding receivable		**66,617**	69,533
Income support		**1,021**	-
Property and equipment		**453,263**	357,416
Intangible assets	6	**95,938**	86,373
Goodwill		**91,466**	91,466
Total assets		**762,073**	644,551
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	**34,484**	35,331
Government funding payable		**3,267**	4,082
Current portion of long-term debt	7	**81,389**	-
Interest rate swap contracts		**473**	688
		119,613	40,101
Long-term debt	7	**351,721**	355,399
Deferred income taxes	8	**67,336**	64,128
Government funding payable		**5,277**	3,691
Share-based compensation liability	11	**118**	-
Interest rate swap contract		**-**	204
Total liabilities		**544,065**	463,523
SHAREHOLDERS' EQUITY			
Share capital	9	**288,880**	233,207
Contributed surplus		**36**	-
Deficit		**(70,908)**	(52,179)
Total shareholders' equity		**218,008**	181,028
Total liabilities and shareholders' equity		**762,073**	644,551

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Leisureworld Senior Care Corporation

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Thousands of dollars

	Notes	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2010		188,517	-	(20,326)	168,191
Issuance of shares	9	44,394	-	-	44,394
Net loss and comprehensive loss		-	-	(5,313)	(5,313)
Share-based compensation	11	183	-	-	183
Dividends	10	-	-	(9,473)	(9,473)
Balance, June 30, 2011		233,094	-	(35,112)	197,982

	Notes	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total Shareholders' Equity**
Balance, December 31, 2011		**233,207**	**-**	**(52,179)**	**181,028**
Issuance of shares	**9**	**55,470**	**-**	**-**	**55,470**
Net loss and comprehensive loss		**-**	**-**	**(7,648)**	**(7,648)**
Long-term incentive plan	**11**	**13**	**36**	**-**	**49**
Deferred tax rate change	**8**	**115**	**-**	**-**	**115**
Share-based compensation	**11**	**75**	**-**	**-**	**75**
Dividends	**10**	**-**	**-**	**(11,081)**	**(11,081)**
Balance, June 30, 2012		**288,880**	**36**	**(70,908)**	**218,008**

See accompanying notes.

Leisureworld Senior Care Corporation

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

Thousands of dollars, except share and per share data

	Notes	Quarter ended June 30, 2012	Quarter ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue	13, 14	**76,090**	70,029	**150,828**	137,769
Expenses					
Operating		**67,566**	66,976	**138,511**	132,172
Administrative		**3,269**	3,192	**6,643**	6,384
	15	**70,835**	70,168	**145,154**	138,556
Income (loss) from operations		**5,255**	(139)	**5,674**	(787)
Finance costs	7	**5,197**	5,261	**10,135**	9,532
Finance income	7	**(883)**	(865)	**(2,007)**	(1,718)
Net finance charges		**4,314**	4,396	**8,128**	7,814
Impairment loss	6	**2,697**	-	**2,697**	-
Loss before income taxes		**(1,756)**	(4,535)	**(5,151)**	(8,601)
Provision for (recovery of) income taxes					
Current	8	**314**	(498)	**719**	(46)
Deferred	8	**2,969**	(1,588)	**1,778**	(3,242)
		3,283	(2,086)	**2,497**	(3,288)
Net loss and comprehensive loss attributable to shareholders		**(5,039)**	(2,449)	**(7,648)**	(5,313)
Basic and diluted loss per share		**($0.19)**	($0.11)	**($0.30)**	($0.25)
Weighted average number of common shares outstanding		**26,454,216**	23,171,626	**25,442,695**	21,602,743

See accompanying notes.

Leisureworld Senior Care Corporation
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Thousands of dollars

	Notes	Quarter ended June 30,		Six months ended June 30,	
		2012	2011	**2012**	2011
OPERATING ACTIVITIES					
Net loss		**(5,039)**	(2,449)	**(7,648)**	(5,313)
Add (deduct) items not affecting cash					
Depreciation of property and equipment		**4,394**	4,294	**8,890**	8,295
Amortization of intangible assets		**1,143**	4,061	**4,765**	7,622
Deferred income taxes		**2,969**	(2,152)	**1,778**	(3,806)
Share-based compensation		**176**	58	**229**	183
Net finance charges		**4,314**	4,396	**8,128**	7,814
Impairment loss	6	**2,697**	-	**2,697**	-
		10,654	8,208	**18,839**	14,795
Non-cash changes in working capital					
Accounts receivable and other assets		**(889)**	(1,151)	**(165)**	(1,378)
Prepaid expenses and deposits		**(930)**	225	**(1,889)**	(531)
Income taxes payable/receivable		**(136)**	(1,113)	**(139)**	(3,226)
Accounts payable and accrued liabilities		**(3,463)**	(2,913)	**(2,925)**	(4,783)
Income support		**(1,025)**	(4,595)	**(28)**	(4,595)
Government funding, net		**(551)**	713	**706**	3,417
Cash provided by (used in) operating activities		**3,660**	(626)	**14,399**	3,699
INVESTING ACTIVITIES					
Purchase of property and equipment		**(179)**	(1,353)	**(368)**	(1,692)
Purchase of intangible assets		**(216)**	(118)	**(435)**	(244)
Amounts received from construction funding		**2,133**	2,133	**4,289**	4,266
Interest received from cash and cash equivalents		**49**	30	**97**	51
Acquisition of the Astoria property	4	**(36,728)**	-	**(36,728)**	-
Acquisition of the Pacifica property	4	**(39,768)**	-	**(39,768)**	-
Acquisition of the Peninsula property	4	**(15,279)**	-	**(15,279)**	-
Acquisition of the Ontario portfolio, net of cash acquired		**-**	(89,020)	**-**	(89,020)
Cash used in investing activities		**(89,988)**	(88,328)	**(88,192)**	(86,639)
FINANCING ACTIVITIES					
Repayment of long-term debt		**(40)**	-	**(40)**	-
Proceeds from issuance of long-term debt		**51,919**	54,835	**51,919**	54,835
Deferred financing costs		**-**	(119)	**-**	(119)
Net settlement payment on interest rate swap contracts		**(132)**	(92)	**(329)**	(154)
Interest paid on long-term debt		**(8,132)**	(7,803)	**(8,553)**	(7,803)
Dividends paid		**(5,541)**	(5,202)	**(10,743)**	(9,473)
Net proceeds from issuance of common shares		**53,787**	44,394	**53,787**	44,394
Cash provided by financing activities		**91,861**	86,013	**86,041**	81,680
Increase (decrease) in cash and cash equivalents during the period		**5,533**	(2,941)	**12,248**	(1,260)
Cash and cash equivalents, beginning of period		**28,636**	16,299	**21,921**	14,618
Cash and cash equivalents, end of period		**34,169**	13,358	**34,169**	13,358
Supplementary information					
Income taxes paid		**450**	615	**858**	3,430

See accompanying notes.

1 Organization

Leisureworld Senior Care Corporation ("Leisureworld" or the "Company") was incorporated under the laws of the Province of Ontario on February 10, 2010 and was continued under the laws of the Province of British Columbia on March 18, 2010. The Company closed its Initial Public Offering on March 23, 2010 and acquired, indirectly, all of the outstanding limited partnership interests in Leisureworld Senior Care LP ("LSCLP") and common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP. On April 27, 2011, two additional retirement residences comprising 294 suites located in Kingston and Kanata, Ontario ("Ontario Portfolio") were acquired by the Company's subsidiary, The Royale LP ("Royale"). On May 24, 2012, three additional retirement residences comprising 392 suites located in the Greater Vancouver Area in British Columbia ("BC Portfolio") were acquired by the Company's subsidiaries. Two of the properties, Astoria and Pacifica, were acquired by Royale. The third property, Peninsula, was acquired by The Royale West Coast LP, a newly established subsidiary.

Leisureworld and its predecessors have been operating since 1972. The Company's head office is located at 302 Town Centre Blvd., Markham, Ontario, L3R 0E8. Leisureworld owns and operates 26 long-term care ("LTC") homes (representing an aggregate of 4,314 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates six retirement residences ("RR") (representing 715 suites) and one independent living residence ("IL") (representing 53 apartments) in the Provinces of Ontario and British Columbia. Ancillary businesses of the Company include Preferred Health Care Services, an accredited provider of professional nursing and personal support services for both community-based home health care and LTC homes.

The Company is a public company listed on the Toronto Stock Exchange (the "TSX").

2 Basis of preparation

The unaudited condensed interim consolidated financial statements ("interim consolidated financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). The interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim consolidated financial statements were approved by the Board of Directors for issue on August 8, 2012.

3 Summary of significant accounting policies, judgments and estimation uncertainty

In preparing these interim consolidated financial statements, the accounting policies adopted are consistent with those of the previous financial year except where otherwise mentioned. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2011.

Long-term incentive plan ("LTIP")
The Company issued shares under the LTIP to certain senior executives ("Participants"). Fair value of the shares is measured at the grant date using the Cox-Ross-Rubinstein binomial tree model. The Participants were given a loan to purchase the shares which is recorded as a reduction to shareholders' equity. The expense related to the LTIP is recognized in administrative expenses.

Restricted share unit ("RSU")
The Company awarded notional shares to the Participants. These shares vest equally at the end of one, two and three years from the grant date and are amortized on a graded basis over the vesting periods. The expense related to the RSUs is calculated based on the closing share price on the TSX measured at each reporting period and is recorded in administrative expenses.

Deferred share unit ("DSU")
The DSU plan allows eligible members of Board of Directors ("Members") to elect to receive up to 100% of their annual retainer fees as notional shares, which can be redeemed only when the member no longer serves on the Board of Directors for any reason. The Company shall match the amount elected by each Member to be contributed to the DSU plan. Redemptions will be paid out in cash. The expense related to the DSUs is calculated based on the closing share price on the TSX measured at each reporting period and is recorded in administrative expenses.

Recent accounting pronouncements

IFRS 10, Consolidated Financial Statements
IASB published an amendment to IFRS 10, Consolidated Financial Statements, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. This amendment requires that if the consolidation conclusion under IFRS 10 differs from IAS 27 or SIC-12 as at the date of initial application, the immediately preceding comparative period should be restated to be consistent with the accounting conclusion under the IFRS 10 through an adjustment to equity. The Company intends to adopt this amendment in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of this amendment has not yet been determined.

IAS 32, Financial Instruments
IASB published an amendment to IAS 32, Financial Instruments, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. Prior to the amendment, IAS 32 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity. The amendment clarifies that the treatment is in accordance with IAS 12, Income Taxes. Therefore, income tax related to distributions is recognized in the income statement, and income tax related to the costs of equity transactions is recognized in equity. The Company intends to adopt this amendment in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of this amendment has not yet been determined.

IAS 34, Interim Financial Reporting
IASB published an amendment to IAS 34, Interim Financial Reporting, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. The amendment brings IAS 34 in line with the requirements of IFRS 8, Operating Segments. A measure of total assets and liabilities are required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material

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

change in those measures since the last annual financial statements. The Company has chosen to early adopt this standard and is in compliance with the new amendment.

There are no other recent accounting pronouncements that would be expected to have a material impact on the Company.

4 Acquisitions

On May 24, 2012, Leisureworld completed the acquisition of three luxury retirement residences in British Columbia.

The total net purchase price of $92,775 was allocated to the assets and liabilities on a preliminary basis as follows:

	Astoria	Pacifica	Peninsula	**Total**
Assets				
Accounts receivable and other assets	-	8	5	**13**
Prepaid expenses and deposits	50	-	29	**79**
Property and equipment	36,228	33,830	34,311	**104,369**
Intangible assets - resident relationships	2,471	7,111	7,010	**16,592**
Total assets	**38,749**	**40,949**	**41,355**	**121,053**
Liabilities				
Accounts payable and accrued liabilities	343	489	489	**1,321**
Deferred income taxes	678	692	871	**2,241**
Long-term debt	-	-	24,716	**24,716**
Total liabilities	**1,021**	**1,181**	**26,076**	**28,278**
Net assets acquired	**37,728**	**39,768**	**15,279**	**92,775**

As part of the total purchase consideration for the Astoria property, Leisureworld put in place a $2,030 three-year income support agreement with the vendor, which is held in escrow as an income guarantee to supplement cash flow during the lease-up period. For the six months ended June 30, 2012, the Company has drawn down $203. As a part of the consideration transferred for the property, the Company issued $1,000 of shares to the vendor as part of the total purchase price.

As a part of the purchase agreement, the vendor will have the ability to earn up to an additional $6,000, in aggregate, should the net operating income of the Pacifica or Peninsula properties exceed specified targets over the next twelve months from the acquisition date. Management has evaluated the contingent purchase price consideration of the $6,000 earn out and has concluded that the payout is unlikely and therefore it is not reflected in the net purchase price.

Transaction costs expensed related to the acquisition of the BC Portfolio for the quarter and six months ended June 30, 2012 were $472 and $690, respectively.

The BC Portfolios' revenue and net loss recorded for the period from May 24, 2012 to June 30, 2012 was $1,480 and $297, respectively.

If the acquisition had taken place on January 1, 2012, the revenue and net loss for the Company for the quarter ended June 30, 2012 are estimated to have been $78,155 and $5,452, respectively. For the six months ended June 30, 2012, the revenue and net loss are estimated to have been $156,439 and $8,771, respectively.

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

5 Cash and cash equivalents

	June 30, 2012	December 31, 2011
Cash	**24,281**	16,082
Cash equivalents	**9,888**	5,839
Cash and cash equivalents	**34,169**	21,921

6 Impairment of intangible assets

During the quarter ended June 30, 2012, the Company determined that the carrying amount of the Human Resource Information System being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a $2,697 impairment of intangible assets recorded in the condensed interim consolidated statements of operations and comprehensive loss. The impairment impacted all cash generating units in the LTC business segment.

7 Long-term debt

	Interest rate	Maturity date	June 30, 2012	December 31, 2011
Current				
Revolving Credit Facility	Floating	April 26, 2013	**54,875**	
Current Portion of Mortgage Payable	5.180%	N/A	**492**	-
One-year Loan	Floating	May 23, 2013	**26,022**	-
			81,389	-
Long-Term				
Series A Senior Secured Notes	4.814%	November 24, 2015	**301,711**	300,599
Revolving Credit Facility	Floating	April 26, 2013	**-**	54,800
Two-year Loan	Floating	May 23, 2014	**25,897**	-
Mortgage Payable	5.180%	January 1, 2017	**24,113**	-
			351,721	355,399
			433,110	355,399

The 4.814% Series A Senior Secured Notes ("2015 Notes"), due November 24, 2015, have a face value of $310,000 and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships.

The 2015 Notes may be redeemed in whole or in part at the option of the Company at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the 2015 Notes. The redemption price is the greater of: (i) the face amount of the 2015 Notes to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such 2015 Notes equal to the Canada Yield Price plus 0.18%, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the

Government of Canada Yield plus 0.25%. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year.

On April 27, 2011, the Company entered into a two-year credit facility agreement ("Bridge Loan") for $55,000 to finance the acquisition of the Royale properties, which bears interest at 187.5 basis points ("bps") per annum over the floating 30-day bankers' acceptance ("BA") rate. The Bridge Loan is secured by the assets of Royale and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the Bridge Loan, entered into an interest rate swap contract to effectively fix the interest rate at 4.045%. Interest on the Bridge Loan is payable in advance every 30 days beginning on April 30, 2011. As a part of the Bridge Loan, the Company incurred financing costs of $299 directly associated with obtaining the financing. These costs have been recorded as a reduction of the total financing received and are expensed over the term of the loan.

On June 29, 2012, the Bridge Loan was converted to a $61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. As at June 30, 2012, the Company has drawn $55,000 from this credit facility.

On May 24, 2012, the Company entered into a one-year credit facility for $26,100 to finance the acquisition of the Pacifica property and a two-year credit facility for $26,000 to finance the acquisition of the Astoria property. Both facilities bear a floating interest rate equal to the BA rate plus 187.5 bps. These term loans are secured by each of the properties' assets and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. Interest on the term loans is payable in advance each month. As part of the term loans, the Company incurred financing costs of $181 directly associated with obtaining the financing. These costs have been recorded as a reduction of the total financing received and are expensed over the term of each loan.

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

Interest expensed on the long-term debt for the quarter ended June 30, 2012 was $5,055 (2011 - $4,508), which includes non-cash interest of $599 (2011 - $524). Interest expensed for the six months ended June 30, 2012 was $9,787 (2011 - $8,706), which includes non-cash interest of $1,189 (2011 - $1,042).

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

The following summarizes the components of net finance charges in the condensed interim consolidated statements of operations:

	Quarter ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
Finance costs				
Interest expense on long-term debt	**4,456**	3,984	**8,598**	7,664
Interest expense and fees on revolving credit facility	**10**	11	**19**	22
Accretion of the fair value increment on long-term debt	**560**	524	**1,112**	1,042
Amortization of deferred financing charges	**39**	-	**77**	-
Net settlement payment on interest rate swap contracts	**132**	155	**329**	217
Loss on interest rate swap contract	**-**	587	**-**	587
	5,197	5,261	**10,135**	9,532
Finance income				
Interest income on construction funding receivable	**730**	789	**1,491**	1,577
Other interest income	**49**	30	**97**	51
Gain on interest rate swap contract	**104**	46	**419**	90
	883	865	**2,007**	1,718
Net finance charges	**4,314**	4,396	**8,128**	7,814

8 Income taxes

Total income tax recovery for the period can be reconciled to the loss in the condensed interim consolidated statements of operations as follows:

	Quarter ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
Loss before income taxes	**(1,756)**	(4,535)	**(5,151)**	(8,601)
Canadian combined income tax rate	**26.50%**	28.30%	**26.50%**	28.30%
Income tax recovery	**(465)**	(1,279)	**(1,365)**	(2,430)
Adjustments to income tax provision:				
Non-deductible items	**32**	23	**51**	64
Tax rate change	**3,759**	-	**3,768**	-
Book to filing adjustment	**-**	(739)	**-**	(739)
Other items	**(43)**	(91)	**43**	(183)
Provision for (recovery) of income taxes	**3,283**	(2,086)	**2,497**	(3,288)

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

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at December 31, 2011	(58,695)	(9,013)	3,010	4,599	(4,029)	(64,128)
Due to acquisition of the BC properties	(3,049)	543	-	-	265	(2,241)
Credit (charge) to net loss	(1,550)	542	(542)	(172)	(56)	(1,778)
Effect of change in tax rates	-	-	115	-	-	115
Credit to equity	-	-	696	-	-	696
As at June 30, 2012	**(63,294)**	**(7,928)**	**3,279**	**4,427**	**(3,820)**	**(67,336)**

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

	June 30, 2012	December 31, 2011
Within one year	**(2,743)**	(2,202)
One to four years	**(10,274)**	(9,616)
After four years	**(54,319)**	(52,310)
Total	**(67,336)**	(64,128)

9 Share capital

Authorized

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

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2011	20,108,649	188,517
Issued common shares	4,381,500	44,394
Share-based compensation (Note 11)	-	296
Balance, December 31, 2011	24,490,149	233,207
Issued common shares	4,680,500	54,470
Shares issued to vendor (Note 4)	82,988	1,000
Long-term incentive plan, net of loans receivable (Note 11)	19,252	13
Deferred tax rate change (Note 8)	-	115
Share-based compensation (Note 11)	-	75
Balance, June 30, 2012	**29,272,889**	**288,880**

On May 23, 2012, the Company issued 19,252 shares to the Participants related to the LTIP. Total net value of the share-based payment at the grant date was $13.

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

There are 52,586 unvested common shares that are outstanding (Note 11) and anti-dilutive.

10 Dividends

The Company paid dividends at $0.0708 per month per common share totalling $5,541 for the quarter and $10,743 for the six months ended June 30, 2012, respectively (2011 - $5,202 and $9,473, respectively). Dividends of $2,072 are included in accounts payable and accrued liabilities as of June 30, 2012 (December 31, 2011 - $1,734). Subsequent to June 30, 2012, the Board of Directors declared dividends of $0.0708 per common share for July 2012 totalling $2,072. These dividends are not included in accounts payable and accrued liabilities.

11 Share-based compensation

The Company has share-based compensation plans described as follows:

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

On February 22, 2012, 19,252 shares were granted to the Participants under this plan which was approved by the shareholders at the Annual General Meeting ("AGM") held on April 18, 2012. The amount of expense associated with the LTIP for the quarter and six months ended June 30, 2012 was $36 which was recognized in administrative expenses (2011 - $Nil). The loan balance as of June 30, 2012 of $216 has been recorded as a reduction to shareholders' equity (December 31, 2011 - $Nil).

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

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

Valuation date	February 22, 2012
Fair value at grant date	$11.84
Volatility	15.00%
Monthly discrete dividend	$0.0708
Risk-free rate	1.69%
Annual interest rate on participant's loan - prime rate	3.00%
Forfeiture rate	0.00%

RSU

Participants may be awarded RSUs on an annual basis based on performance targets being achieved. Participants are awarded the number of notional shares equal to a portion of their compensation amount divided by the Average Closing Price on the grant date. RSU plan Participants are entitled to receive distributions equal to the amount of dividend per common share. Such distributions will be granted to the Participant in the form of additional RSUs equal to the dividend amount divided by the Average Closing Price on the day of such dividend was declared. These RSUs vest equally at the end of year one, two and three from the grant date and are amortized on a graded basis over the vesting periods. Upon vesting of the RSUs, the Participants have the option to redeem all or a portion of vested RSUs in cash or receive one common share of the Company for each RSU redeemed. Any lump sum payment in cash will be calculated by multiplying the number of RSUs to be redeemed for cash by the Average Closing Price of the applicable vesting date. The value of each RSU is measured at each reporting date and is equivalent to the market value of a common share of the Company at the reporting date.

On February 22, 2012, 19,252 RSUs were granted to the Participants under this plan as approved by the shareholders at the AGM. None have vested during the second quarter of 2012 and the expense related to this plan for the quarter and six months ended June 30, 2012 was $50 which was recognized in administrative expenses (2011 - $Nil). The total liability recorded as a part of the share-based compensation liability as of June 30, 2012 was $50 (December 31, 2011 - $Nil).

DSU

Eligible Members can elect on an annual basis to receive their annual retainer fees up to 100% as notional shares of the Company which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using Average Closing Price of the grant date. The Company shall match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the notional shares, so long as the Member continues to serve on the Board of Directors, as additional notional units under DSU plan. The value of each DSU is measured at each reporting date and is equivalent to the market value of a common share of the Company at the reporting date. Total expense related to this plan for the quarter and six months ended June 30, 2012 was $68, which was recognized in administrative expenses (2011 - $Nil). The total liability recorded as a part of the share-based compensation liability as of June 30, 2012 was $68 (December 31, 2011 - $Nil).

Shares awarded

The Company awarded 130,000 shares to certain key management in 2010 in relation to the IPO. Of this amount, 30,000 shares were awarded for nominal value and had trading restrictions imposed on them for a period of six months. These shares vested immediately upon issuance. The remaining 100,000 shares vest in three equal installments on the first, second and third anniversary of the grant date and also have trading restrictions imposed. The fair value of these shares was determined using Black-Scholes option pricing model. Total expense related to this plan for the quarter and six months ended June 30, 2012 was

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$22 and $75 respectively, which was recognized in administrative expenses (2011 - $58, and $183, respectively).

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

	Shares awarded	Weighted average exercise price (dollars)
Balance, January 1, 2011	100,000	N/A
Vested	(33,333)	N/A
Unvested, December 31, 2011	66,667	N/A
Vested	(33,333)	N/A
Unvested, June 30, 2012	33,334	N/A

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

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

12 Key management compensation

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

	Quarter ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
Salaries and short-term employee benefits	**369**	600	**895**	1,113
Share-based payments	**176**	58	**229**	183
	545	658	**1,124**	1,296

13 Related party transactions

A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario, which is related by virtue of common management. The total revenue earned from Spencer House Inc. for the quarter ended June 30, 2012 was $480 (2011 – $464) and six months ended June 30, 2012 was $960 (2011 - $937). Included in accounts receivable and other assets is $61 owing from Spencer House Inc. at June 30, 2012 (December 31, 2011 - $12). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

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As of June 30, 2012, the Company has amounts outstanding from certain key executives of $216 (December 31, 2011 - $Nil) (Note 11) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

14 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the Ministry of Health and Long-Term Care ("MOHLTC") related to these licences. Funding is received on or about the 22nd of each month. During the quarter and six months ended June 30, 2012, the Company received approximately $49,233 and $100,535, respectively in respect of these licences for operating revenues and other MOHLTC funded initiatives (2011 - $48,275 and $97,815, respectively).

15 Expenses by nature

	Quarter ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
Salaries, benefits and people costs	**50,166**	47,909	**100,114**	93,893
Depreciation and amortization	**5,537**	8,355	**13,655**	15,917
Food	**3,083**	2,959	**6,055**	5,635
Property taxes	**2,402**	2,293	**4,865**	4,675
Utilities	**1,556**	1,994	**3,911**	4,644
Other	**8,091**	6,658	**16,554**	13,792
Total expenses	**70,835**	70,168	**145,154**	138,556

16 Segmented information

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

The Company is comprised of the following main business segments:

- LTC business – LTC is the core business of the Company;
- Retirement – Retirement includes the Kingston, Kanata, Astoria, Pacifica and Peninsula retirement residences as well as the Scarborough independent living and the Muskoka retirement residence;
- Health Care – Health care retains its own management team and compiles its own financial information. Health care is an accredited provider of professional nursing, personal support and education services for both community-based home care and LTC homes; and
- Corporate, Eliminations and Other – This segment represents the results of head office and intercompany elimination entities and other items that are not allocatable to the segments.

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

The significant accounting policies of the reportable operating segments are the same as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2011.

	Quarter ended June 30, 2012				
	Long-Term Care	**Retirement**	**Health Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**69,475**	**4,446**	**4,091**	**5,879**	**83,891**
Less: Internal revenue	**1,371**	**-**	**551**	**5,879**	**7,801**
Net revenue	**68,104**	**4,446**	**3,540**	**-**	**76,090**
Income (loss) from operations before the undernoted	**11,562**	**1,838**	**661**	**(3,269)**	**10,792**
Depreciation of property and equipment	**3,538**	**855**	**1**	**-**	**4,394**
Amortization of intangible assets	**25**	**859**	**259**	**-**	**1,143**
Finance costs	**4,197**	**1,000**	**-**	**-**	**5,197**
Finance income	**(779)**	**(104)**	**-**	**-**	**(883)**
Impairment loss	**2,697**	**-**	**-**	**-**	**2,697**
Income tax expense	**-**	**-**	**-**	**3,283**	**3,283**
Net income (loss)	**1,884**	**(772)**	**401**	**(6,552)**	**(5,039)**
Purchase (disposal) of property and equipment	**133**	**48**	**(2)**	**-**	**179**
Purchase of intangible assets	**216**	**-**	**-**	**-**	**216**

	Quarter ended June 30, 2011				
	Long-Term Care	Retirement	Health Care	Corporate, Eliminations and Other	Total
Gross revenue	67,444	1,627	3,150	5,202	77,423
Less: Internal revenue	1,661	-	531	5,202	7,394
Net revenue	65,783	1,627	2,619	-	70,029
Income (loss) from operations before the undernoted	10,589	365	454	(3,192)	8,216
Depreciation of property and equipment	3,740	554	-	-	4,294
Amortization of intangible assets	3,302	500	259	-	4,061
Finance costs	4,244	1,017	-	-	5,261
Finance income	(819)	-	-	(46)	(865)
Income tax recovery	-	-	-	(2,086)	(2,086)
Net income (loss)	122	(1,706)	195	(1,060)	(2,449)
Purchase of property and equipment	166	1,179	8	-	1,353
Purchase of intangible assets	118	-	-	-	118

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

	Six months ended June 30, 2012				
	Long-Term Care	**Retirement**	**Health Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**139,466**	**7,247**	**7,910**	**11,081**	**165,704**
Less: Internal revenue	**2,742**	**-**	**1,053**	**11,081**	**14,876**
Net revenue	**136,724**	**7,247**	**6,857**	**-**	**150,828**
Income (loss) from operations before the undernoted	**21,763**	**2,849**	**1,360**	**(6,643)**	**19,329**
Depreciation of property and equipment	**7,270**	**1,619**	**1**	**-**	**8,890**
Amortization of intangible assets	**2,989**	**1,257**	**519**	**-**	**4,765**
Finance costs	**8,470**	**1,665**	**-**	**-**	**10,135**
Finance income	**(1,588)**	**(355)**	**-**	**(64)**	**(2,007)**
Impairment loss	**2,697**	**-**	**-**	**-**	**2,697**
Income tax expense	**-**	**-**	**-**	**2,497**	**2,497**
Net income (loss)	**1,925**	**(1,337)**	**840**	**(9,076)**	**(7,648)**
Purchase of property and equipment	**304**	**64**	**-**	**-**	**368**
Purchase of intangible assets	**435**	**-**	**-**	**-**	**435**

	Six months ended June 30, 2011				
	Long-Term Care	Retirement	Health Care	Corporate, Eliminations and Other	Total
Gross revenue	134,164	1,906	6,038	9,473	151,581
Less: Internal revenue	3,323	-	1,016	9,473	13,812
Net revenue	130,841	1,906	5,022	-	137,769
Income (loss) from operations before the undernoted	20,184	469	861	(6,384)	15,130
Depreciation of property and equipment	7,486	809	-	-	8,295
Amortization of intangible assets	6,604	500	518	-	7,622
Finance costs	8,442	1,090	-	-	9,532
Finance income	(1,628)	-	-	(90)	(1,718)
Income tax recovery	-	-	-	(3,288)	(3,288)
Net income (loss)	(720)	(1,930)	343	(3,006)	(5,313)
Purchase of property and equipment	505	1,179	8	-	1,692
Purchase of intangible assets	244	-	-	-	244

	As at June 30, 2012				
	Long-Term Care	**Retirement**	**Health Care**	**Corporate, Eliminations and Other**	**Total**
Total assets	**517,758**	**223,591**	**8,860**	**11,864**	**762,073**
Goodwill	**84,603**	**342**	**6,521**	**-**	**91,466**
Intangible assets	**76,126**	**19,049**	**763**	**-**	**95,938**

	As at December 31, 2011				
	Long-Term Care	Retirement	Health Care	Corporate, Eliminations and Other	Total
Total assets	528,928	105,601	9,669	353	644,551
Goodwill	84,603	342	6,521	-	91,466
Intangible assets	81,377	3,715	1,281	-	86,373

17 Subsequent events

Madonna

On July 16, 2012, the Company closed the previously announced acquisition of the Madonna Long-Term Care Residence in Orleans, Ontario, following the receipt of regulatory approvals by the MOHLTC and the Local Health Integration Network.

The purchase consideration for the transaction was $19,900, comprised of $13,400 for the operating assets and approximately $6,500 of construction funding. Incremental expenses for the transaction and land transfer costs were approximately $1,100. Leisureworld financed the acquisition with a combination of $5,300 in cash and working capital and the assumption of $15,700 in debt at an all-in rate of 5.2%. Management is in the process of determining the preliminary purchase price allocation.

Credit facility payment

On July 30, 2012, the Company made a cash payment of $20,000 to reduce the amount outstanding on the $61,500 credit facility related to the acquisition of the Ontario Portfolio. After this payment, the outstanding balance is $35,000. Management is currently in the process of re-financing and extending the maturity dates of all credit facilities coming due within a year.

18 Comparative figures

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation adopted in the current year. These reclassifications had no impact on the reported net loss.