

On August 14, 2013, the interim Management Discussion & Analysis for Leisureworld Senior Care Corporation (the “**Company**”) for the interim period ended June 30, 2013 (the “**MD&A**”) was filed on SEDAR. The Company is re-filing the MD&A to correct the following typographical errors:

On page 12 in the chart entitled “Funds From Operations and Adjusted Funds From Operations”:

- the “Diluted FFO per share” year-to-date figure of \$0.4416 ought to have been \$0.4098;
- the “Diluted AFFO per share” year-to-date figure of \$0.5611 ought to have been \$0.5207; and
- the “Weighted average common shares outstanding – Diluted” year-to-date figure of 30,307,100 ought to have been 32,659,040.

# **Leisureworld Senior Care Corporation**

## **Management's Discussion and Analysis**

**For the Quarter and Six Months Ended June 30, 2013**

(In Canadian Dollars)

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

### Quarter and Six Months Ended June 30, 2013

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The following Management's Discussion and Analysis ("MD&A") for Leisureworld Senior Care Corporation ("LSCC") summarizes the financial results for the second quarter and year to date periods ended June 30, 2013. Unless otherwise indicated or the context otherwise requires, references herein to the "Company" or "Leisureworld" refers to LSCC and its direct and indirect subsidiary entities. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the quarter and year to date periods ended June 30, 2013 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, 2012. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is dated as of August 14, 2013, the date on which this report was approved by the Board of Directors of Leisureworld and reflects all material events up to that date.

Leisureworld is a public company listed on the Toronto Stock Exchange (the "TSX"), under the trading symbol LW. As of August 13, 2013, the following securities of LSCC were outstanding: 29,321,387 common shares; 6,353,750 subscription receipts (TSX symbol: LW.N), each representing the right to receive one common share upon the closing of the Specialty Care transaction described below (the "Subscription Receipts"); and \$46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (the "Convertible Debentures"). The Convertible Debentures have an initial maturity date of January 2, 2014, which will be extended to June 30, 2018 upon the closing of the Specialty Care transaction.

#### **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 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.

#### **Non-IFRS Performance Measures**

Net operating income ("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,

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FFO and AFFO are supplemental measures of a company's performance and Leisureworld believes that NOI, FFO and AFFO are relevant measures of its ability to pay dividends on the Company's common shares. The IFRS measurement most directly comparable to NOI, FFO and AFFO is net income (loss). See "Business Performance" for a reconciliation of NOI, FFO and AFFO to net income (loss).

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

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

AFFO is defined as FFO plus the principal portion of construction funding received, amounts received from income guarantees and non-cash deferred share unit compensation expense less maintenance capital expenditures ("maintenance 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 presented by other issuers.

### Corporate Profile

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

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

Leisureworld and its predecessors have been operating since 1972. Through its subsidiaries, the Company owns and operates 27 long-term care ("LTC") homes (representing an aggregate of 4,498 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates five retirement residences ("RR") (representing 686 suites) and one independent living residence ("IL") (representing 53 apartments) in the Provinces of Ontario and British Columbia. An ancillary business of the Company is Preferred Health Care Services ("Home Care" or "PHCS"), an accredited provider with Exemplary Standing, of professional nursing and personal support services for both community-based home healthcare and LTC homes.

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The objectives of Leisureworld are to: (i) provide excellence in resident care and services; (ii) provide shareholders with stable monthly dividends derived from revenues generated from income-producing LTC homes, seniors' housing investments and community-based services; (iii) enhance the long-term value of the Company's assets and maximize shareholder value; and (iv) 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**

Please refer to the Company's Annual Report for 2012 as well as the Annual Information Form ("AIF") available on SEDAR or, [www.leisureworld.ca](http://www.leisureworld.ca), for an in depth discussion of the Industry Overview.

### **Business Overview**

#### *Long-term care*

Leisureworld's LTC portfolio currently generates approximately 88% of the Company's net revenues and approximately 76% of NOI. The Company's LTC portfolio is comprised of homes within the Class A, B and C categories. Leisureworld's Class A homes contain approximately 54% of the Company's LTC beds. Leisureworld's Class B and C homes contain approximately 7% and 39% of the Company's LTC beds, respectively.

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 25% of the NOI (see "Non-IFRS performance measures") from Leisureworld's LTC operations are generated from charging residents the regulated premiums.

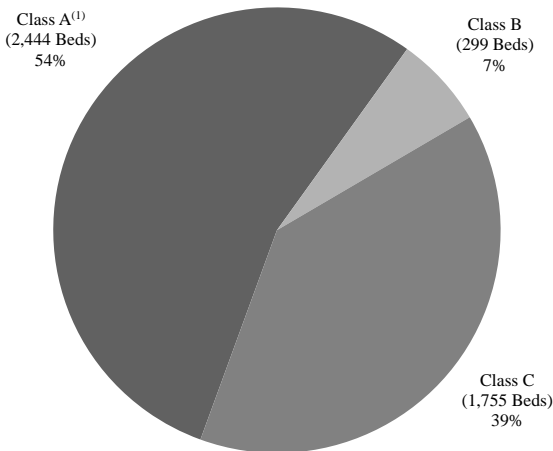
On July 16, 2012, the Company completed the acquisition of the Madonna Long-Term Care Residence ("Madonna") in Orleans, Ontario. Built in 2007, Madonna is a 160 bed Class A home. The total net purchase price was \$3,035, which was net of working capital adjustments and an assumed mortgage of \$15,718.

On April 19, 2013, the Company completed its acquisition of 88 LTC licences from Christie Gardens Apartments and Care Inc. at a cost of \$2,200. These licences are in the Toronto area and, when made operational, will increase the total current number of the Company's LTC beds by approximately 2%.

In April, 2013, the Company's Muskoka property, previously operating as a RR, re-opened and is now operating under the LTC segment. The property consists of 12 interim beds for short stay accommodations, and 12 interim beds for convalescent care.

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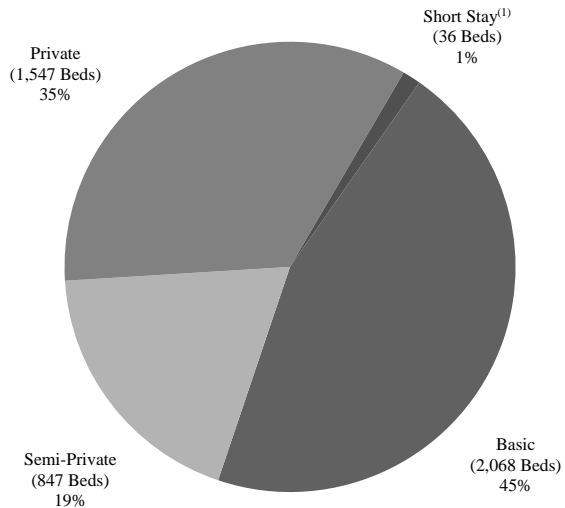
**Summary of LTC Beds in Operation by Class**



Note:

- (1) All of Leisureworld's Class A homes meet or exceed the Ministry of Health and Long Term Care's (the "MOHLTC") 1998 design standards and qualify for capital funding of \$10.35 per day, per bed for a period of 20 years from initial licensing date.

**Summary of LTC Beds by Accommodation Type**



Note:

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

***Retirement and independent living residences***

The Company's retirement portfolio consists of five luxury retirement properties and one independent living community. This segment, while still growing its revenue base, currently generates approximately 8% of net revenues, and approximately 18% of the NOI for the Company.

On April 27, 2011, Leisureworld acquired two RRs comprising 294 suites located in Kingston and Kanata, Ontario, (the "Ontario Portfolio"). These residences are new luxury retirement living properties featuring top quality amenities and services. Leisureworld has branded these properties as 'The Royale'. Occupancy rates as at June 30, 2013 were 76.5% at Kingston and 69.0% at Kanata.

On May 24, 2012, the Company completed the purchase of three luxury retirement properties in the Greater Vancouver Area of British Columbia, which have been added to the 'The Royale' branded properties and operate as The Royale Astoria ("Astoria"), The Royale Pacifica ("Pacifica") and The Royale Peninsula ("Peninsula") (together, the "BC Portfolio"). Occupancy rates as at June 30, 2013 were 59.3% for Astoria, 93.1% for Pacifica and 78.0% for Peninsula. The Astoria property was the most recent property to open in the BC Portfolio and is currently in its lease-up period.

In conjunction with the acquisition of Astoria, the Company put in place a \$2,030 three-year income support agreement with the vendor which is held in escrow. As at June 30, 2013, the Company had drawn down \$1,983 of the income support funds.

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## Management's Discussion and Analysis

### Quarter and Six Months Ended June 30, 2013

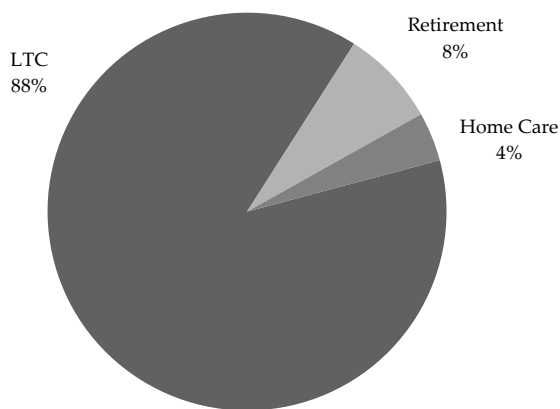
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Leisureworld's IL residence, located in Scarborough, Ontario, is comprised of 53 apartments that are attached to the Scarborough LTC home. This IL residence had occupancy of 96.2% as at June 30, 2013.

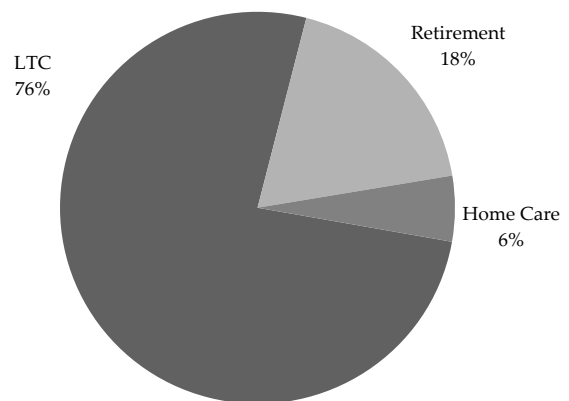
#### *Home Care services*

PHCS operates the Company's Home Care segment. PHCS offers home care, education and training, and relief staffing services. PHCS broadens Leisureworld's presence across the continuum of seniors' care. PHCS has been providing professional nursing and personal support services in Ontario since 1987. The Company's Home Care segment contributes approximately 4% of its revenue and approximately 6% of its NOI.

**Revenue Contribution by Segment**



**NOI Contribution by Segment**



#### **Key Performance Drivers**

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

##### *Government funding*

Ontario's LTC sector is regulated and funded 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 Accommodations. Approximately 70% of LTC revenue is received from the MOHLTC. Leisureworld also receives capital cost funding of \$10.35 per bed, per day from the MOHLTC for Class A homes, as well as co-payments from residents for both basic and preferred accommodation. Leisureworld also receives structural compliance premiums from the MOHLTC of \$2.50 and \$1.00, on a per resident per day basis, for Class B and C homes, respectively. Additionally, the MOHLTC provides funding to LTC homes that have been accredited and reimburses up to 85% of property tax costs.

In 2007, the MOHLTC announced plans to establish a capital renewal program that was to provide operators with additional funding to upgrade Ontario'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 in regard to funding construction costs for the redevelopment of Class B and C LTC homes. The funding for these redevelopment projects will be in the form

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of a 25-year commitment from the MOHLTC, to pay a specific amount per bed, per day, which is still to be determined.

PHCS provides home care services that help individuals remain independent and active in their homes. Funding for such services is provided through the Ontario Community Care Access Centres ("CCACs"). 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. In addition, the supply of LTC bed licences is controlled and regulated by the MOHLTC, which results in significant barriers to entry. For the quarter and six month periods ended June 30, 2013, Leisureworld's average occupancy for LTC homes was 99.0% and 98.9%, respectively (2012 – 98.5% and 98.5%, respectively).

Under current MOHLTC policy, a LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private or semi-private accommodation at a regulated premium. The LTC home operator retains the premiums collected from residents for such accommodation. Effective July 1, 2012, the MOHLTC increased the private room premium to \$19.75 per day and \$9.00 per day for semi-private accommodations for all new admissions in Class A homes. Existing residents were grandfathered at the historic rate of \$18.00 and \$8.00 per day, respectively. Leisureworld has approximately 35% of beds designated as private accommodation and has converted approximately 30% of the resident base from the previous daily rates to the 2012 new prescribed rates. Private bed average total occupancy for the quarter and year to date periods ended June 30, 2013 was 99.4% and 99.0%, respectively (2012 – 98.1% and 97.8%, respectively). Subsequent to the end of the quarter, effective July 1, 2013, the rate for new admissions to private accommodations to Class A homes has increased by a \$1.75 to \$21.50, and by \$1.00 to \$10.00 for semi-private.

Leisureworld's IL attached to its Scarborough LTC home, had an average occupancy for the quarter and year to date period of approximately 97.5% and 97.8%, respectively (2012 – 85.8% and 87.4%, respectively)

For the Ontario retirement portfolio, the combined average occupancy rates for the quarter and year to date periods ended June 30, 2013 were approximately 70.3% and 69.9%, respectively (2012 – 66.7% and 64.0%, respectively).

For Astoria, Pacifica and Peninsula, the average occupancy in the quarter was approximately 58.2%, 94.2% and 80.6%, respectively (2012 – 59.2%, 90.6% and 93.2%, respectively). For the year to date period ended June 30, 2013, the average occupancy achieved was 57.9%, 93.4%, 82.4%, respectively (2012 – 59.2%, 90.6% and 93.2%, respectively). The Company has in place a \$2,030 three-year income support agreement with the vendor which is held in escrow, of which \$1,983 had been drawn to the end of June 30, 2013. With the management and operational changes made, the Pacifica property average occupancy of 94.2% has returned to near stabilized occupancy.

The performance of the retirement home portfolio remains below management's expectations primarily due to slower than expected lease-up rates of the Ontario portfolio and the Astoria property in BC (which were both in lease-up when acquired), and an occupancy level decline at the Peninsula property in BC. While a portion of this underperformance can be attributed to resident attrition due to higher level of care needs, aggressive competitor pricing and local market conditions, management recognizes that operating retirement homes



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### Quarter and Six Months Ended June 30, 2013

requires specific expertise, particularly during the lease-up periods for newer homes. To that end, Leisureworld has now contracted the retirement team at Specialty Care Inc. to complete an Operational Review of both the Ontario and BC retirement communities and direct the implementation of refinements to Leisureworld's retirement home service delivery model, including all areas of operations, lifestyle and leisure, food and beverage, care services, and sales and marketing. One area in the service delivery model that is now being addressed is the shortage of assisted living options at each of the retirement homes in the portfolio. Leisureworld intends to augment the independent living model with assisted living service options. Training of the Company's retirement sales and marketing personnel was completed at the end of the second quarter and continues to be supported by the Specialty Care team. Further recommendations from the operational review conducted by the Specialty Care team will be implemented in the second half of 2013 and advanced throughout 2014.

Property	Location	Suites	Acquisition Date	Occupancy at Acquisition	Occupancy at Quarter End								
					Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Scarborough IL	Scarborough, ON	53	--	--	98.1%	90.6%	88.7%	88.7%	84.9%	98.1%	98.1%	98.1%	96.2%
The Royale Kanata	Kanata, ON	158	April 27, 2011	41.8%	45.6%	52.5%	60.1%	58.9%	66.5%	68.4%	71.5%	68.4%	69.0%
The Royale Kingston	Kingston, ON	136	April 27, 2011	52.9%	52.9%	57.4%	64.7%	65.4%	72.8%	71.3%	69.9%	68.4%	76.5%
The Royale Astoria	Port Coquitlam, BC	135	May 24, 2012	59.3%	--	--	--	--	59.3%	58.5%	57.0%	55.6%	59.3%
The Royale Pacifica	Surrey, BC	130	May 24, 2012	94.6%	--	--	--	--	90.0%	88.5%	89.2%	93.1%	93.1%
The Royale Peninsula	Surrey, BC	127	May 24, 2012	94.5%	--	--	--	--	92.9%	83.5%	82.7%	83.5%	78.0%

#### *Disciplined cost management is key to operating profitability*

Leisureworld enjoys economies of scale in areas such as hiring, purchasing and administration. LTC operators in Ontario receive funding from the provincial government. Operators must return any funding that is not spent for the NPC, PSS, and Raw Food ("RF") envelopes to the government. Any spending in excess of the government funding is paid by the LTC operator. Leisureworld prudently manages its costs in line with the established funding levels for NPC, PSS and RF and it continues to provide quality accommodation and services to residents, while maximizing operating profit. Effective for 2013, the MOHLTC has provided the ability to balance between the funding envelopes with the exception of the RF envelope, which will not have a significant impact on financial results.

#### *Ensuring high-quality care and services to all residents*

A culture of quality is fostered throughout the Company under the leadership of a Quality Council that measures, monitors and audits Leisureworld's performance in care and services, and resident satisfaction. Employees at all levels are engaged in quality improvement initiatives aimed at improving the resident and family experience. The outcome of this information exchange supports the establishment of best practices, revisions to benchmarks and is used to develop educational initiatives.

#### *Providing professional on-site administration of well-operated Leisureworld homes*

Management of each home is supported by education, orientation, programs developed by regional teams and networking, with other homes through internal conferences, home comparative management reports and involvement in project teams.

#### *Ensuring continued maintenance and upgrade of properties*

Five year capital forecasts, annual capital budgets, and regular operational and equipment/building service contract reviews are used by management in the planning, monitoring and maintenance of Leisureworld's physical assets. Leisureworld has established an active, ongoing preventative maintenance program, which helps ensure all building assets are well maintained and operate efficiently and competitively.

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### **Growth Strategies of Leisureworld Senior Care Corporation**

Management has identified both organic and external growth opportunities for the Company.

#### *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 redevelopment to the new Class A standard. For each home redeveloped to the new Class A standard, the current program will provide per diem construction funding for a 25 year license term and will increase Leisureworld's private accommodation capacity.

Leisureworld's PHCS business stands to benefit from the stated intention by the Government of Ontario to increase investment in community-based health services, which includes home care services.

With the implementation of improvements to the retirement home operating platform, the expected improvements in the retirement occupancy will positively contribute to the Company's organic growth.

#### *External*

External growth strategies include the completion and integration of the Specialty Care acquisition in 2013. Through disciplined and accretive future acquisitions, the Company will focus on opportunities in Ontario and BC in Retirement, Home Care and Long-Term Care that align with Leisureworld's growth strategy.

### **Business Performance for the Quarter**

#### *NOI - Net Operating Income*

For the second quarter ended June 30, 2013, the Company had NOI of \$15,555, compared to \$14,061 last year, representing an increase of \$1,494 or 10.6%. The LTC portfolio contributed \$504 of the incremental NOI. In the quarter, LTC generated \$12,066 of NOI compared to \$11,562 in the prior year. Of the 4.4% increase, approximately half was attributed to the timing of the Madonna acquisition and its NOI in the period of \$245, while the remaining increase was from improved same property NOI.

The retirement portfolio generated NOI of \$2,714, an increase of \$876 from the same period a year ago. The BC Portfolio contributed \$825 of the increase due to the timing of the acquisition, while the Ontario Portfolio NOI was consistent with the comparable period. The remaining increase was the result of the favourable savings associated with the winding down of the Muskoka retirement property in the prior year. There is underperformance in the BC and Ontario retirement portfolios primarily driven from the occupancy and the non-alignment of the costs base in relation to these levels. This is resulting in a negative impact on NOI for the quarter and year to date periods.

Home Care's NOI increased by \$114 to \$775 in the period. The increase was the result of increased contributions from personal support contract volumes.

#### *FFO - Funds from Operations*

FFO for the second quarter of 2013 totaled \$6,901, compared to \$7,261 in the second quarter a year ago, a decrease of \$360, or 5.0%. The decline in FFO resulted primarily from higher administrative expenses (excluding transaction costs), net finance charges and income tax expense. Higher administrative expenses, excluding transactions costs, of \$1,127 in the quarter included a one-time cost totaling \$275 related to additional fees, in the form of deferred share units, issued to the Chair of the Board for performing the functions of acting President and CEO, a \$560 prior year's comparable quarter reversal adjustment related to executive

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compensation in order to align with the Company's long-term incentive plan, and approximately \$188 for consulting related costs. The \$641 increase in financing costs principally resulted from a \$393 increase related to the Convertible Debentures, \$200 incremental interest on the Madonna property, and \$351 of higher interest on the BC Portfolio. The higher interest on the Madonna property and BC Portfolio were the result of the timing of the acquisitions in the prior year. This was partly offset by other minor items including \$172 of reduced interest charges on the 2015 Notes as a result of the partial repurchase in the fourth quarter last year.

### *AFFO – Adjusted Funds from Operations*

AFFO for the quarter totaled \$8,568, a decrease of \$995, compared to the second quarter a year ago. The decline in AFFO resulted from lower FFO; reduced income support, as the Ontario Portfolio's draws were substantially completed in the second quarter of last year; and a \$359 increase in maintenance capex, whereas in 2012, a majority of the maintenance capex occurred in the second half of the year. Management expects annualized maintenance capex to be in line with 2012 levels on a percentage of revenue basis. The aforementioned factors that resulted in a decline to the Company's AFFO for the second quarter of 2013 were partly offset by the \$279 increase in the add-back for deferred share unit compensation.

### **Business Performance for the Year to Date**

#### *NOI - Net Operating Income*

The Company had NOI of \$29,525, an increase of \$3,553, compared to \$25,972 last year. The LTC portfolio NOI of \$22,500 was an increase of \$737 year over year primarily the result of the inclusion of the NOI related to the Madonna acquisition which contributed \$386. The remaining increase was primarily attributable to higher NOI from same property operations.

The retirement portfolio generated NOI of \$5,430, an increase of \$2,581 over the same period last year. The BC Portfolio contributed \$2,275 of the increase, primarily as a result of the timing of the acquisition last year. The Ontario Portfolio had a year over year increase in NOI of \$149 as a result of increased occupancy.

Home Care's NOI was \$1,595 which represents an increase of \$235, or 17.3%, compared to the same period a year ago. The increase was the result of increased contributions from educational services and sales and increased personal support contract volumes.

#### *FFO – Funds from Operations*

FFO increased to \$13,127, compared to \$12,210 a year ago. This increase of \$917, or 7.5%, was due to the higher NOI which was partly offset by the increase in net finance charges of \$1,223 and higher administrative expenses, excluding transaction costs, of \$1,273. The increase in net finance charges primarily relates to \$1,034 of incremental interest on the debt related to the BC portfolio, and \$400 of additional interest related to the Madonna mortgage. The higher administrative expenses were primarily the result of a prior year's reversal adjustment related to executive compensation, and the interim CEO costs including related one-time charges incurred in the second quarter of 2013, as previously discussed.

#### *AFFO – Adjusted Funds from Operations*

The Company generated AFFO of \$16,748, consistent with levels achieved last year. The FFO increase was offset by the decrease of income support of \$1,281, as the Ontario income support draws were substantially completed in the second quarter of 2012. Also, maintenance capex increased by \$509 compared to the prior year as a result of management's proactive activity in the first half of the year. AFFO was also impacted by the

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offset of the \$707 incremental add-back for deferred share unit compensation and higher construction funding received.

**Net Operating Income**

Thousands of dollars

	Quarter		Year to Date	
	2013	2012	2013	2012
<b>Net loss</b>	<b>(968)</b>	(5,039)	<b>(2,330)</b>	(7,648)
Expense (recovery) of income taxes	<b>(267)</b>	3,283	<b>(587)</b>	2,497
<b>Loss before income taxes</b>	<b>(1,235)</b>	(1,756)	<b>(2,917)</b>	(5,151)
Depreciation and amortization	<b>6,862</b>	5,537	<b>13,962</b>	13,655
Net finance charges	<b>5,386</b>	4,314	<b>9,770</b>	8,128
Impairment loss	-	2,697	-	2,697
<b>Income from operations before the undernoted</b>	<b>11,013</b>	10,792	<b>20,815</b>	19,329
Administrative expenses	<b>4,542</b>	3,269	<b>8,710</b>	6,643
<b>Net Operating Income (NOI)</b>	<b>15,555</b>	14,061	<b>29,525</b>	25,972

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**Funds from Operations and Adjusted Funds from Operations**

Thousands of dollars, except share and per share data

	Quarter		Year to Date	
	2013	2012	2013	2012
<b>Net Operating Income (NOI)</b>	<b>15,555</b>	<b>14,061</b>	<b>29,525</b>	<b>25,972</b>
Interest income on construction funding receivable	751	730	1,508	1,491
Net finance charges <sup>(1)</sup>	(5,190)	(4,549)	(10,072)	(8,849)
Current income taxes	(421)	(314)	(876)	(719)
Administrative expenses <sup>(2)</sup>	(4,542)	(3,247)	(8,705)	(6,568)
Transaction costs	748	580	1,747	883
<b>Funds from Operations (FFO)</b>	<b>6,901</b>	<b>7,261</b>	<b>13,127</b>	<b>12,210</b>
HRIS expense	-	63	-	52
Deferred share unit plan compensation	347	68	775	68
Income support	325	947	663	1,944
Construction funding principal	1,533	1,403	3,060	2,798
Maintenance capex <sup>(3), (4)</sup>	(538)	(179)	(877)	(368)
<b>Adjusted Funds from Operations (AFFO)</b>	<b>8,568</b>	<b>9,563</b>	<b>16,748</b>	<b>16,704</b>
<b>Basic FFO per share</b>	<b>\$0.2355</b>	<b>\$0.2745</b>	<b>\$0.4483</b>	<b>\$0.4799</b>
<b>Basic AFFO per share</b>	<b>\$0.2924</b>	<b>\$0.3615</b>	<b>\$0.5719</b>	<b>\$0.6565</b>
<b>Weighted average common shares outstanding - Basic</b>	<b>29,298,636</b>	<b>26,454,216</b>	<b>29,284,372</b>	<b>25,442,695</b>
<b>Diluted FFO per share<sup>(5)</sup></b>	<b>\$0.1988</b>	<b>\$0.2741</b>	<b>\$0.4098</b>	<b>\$0.4790</b>
<b>Diluted AFFO per share<sup>(5)</sup></b>	<b>\$0.2451</b>	<b>\$0.3610</b>	<b>\$0.5207</b>	<b>\$0.6553</b>
<b>Weighted average common shares outstanding - Diluted<sup>(5)</sup></b>	<b>35,998,650</b>	<b>26,487,549</b>	<b>32,659,040</b>	<b>25,488,849</b>

Notes:

(1) Net finance charges is reconciled as follows:

<b>Reported Net Finance Charges per Statement of Operations</b>	<b>5,386</b>	<b>4,314</b>	<b>9,770</b>	<b>8,128</b>
Net accretion of fair value adjustments on long-term debt	(430)	(560)	(854)	(1,112)
Dividend equivalents accrued on subscription receipts	(1,429)	-	(1,429)	-
Interest income on subscription receipt funds held in escrow	158	-	158	-
Interest income on construction funding receivable	751	730	1,508	1,491
Gain on the interest rate swap contracts	945	104	1,244	419
Amortization of deferred financing charges	(191)	(39)	(325)	(77)
<b>Net Finance Charges for FFO</b>	<b>5,190</b>	<b>4,549</b>	<b>10,072</b>	<b>8,849</b>

(2) The presented administrative expenses have been decreased by \$nil, \$22, \$5, and \$75 respectively for share-based compensation expense related to stock issued to senior management in relation to the IPO, the effect being a reduction in proceeds to the seller.

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

(4) Maintenance capex for the quarter and six month periods excludes redevelopment costs related to the Muskoka property of \$36 and \$632.

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

<b>FFO, Basic</b>	<b>6,901</b>	<b>7,261</b>	<b>13,127</b>	<b>12,210</b>
Interest expense on convertible debt	393	-	393	-
Current income tax expense adjustment	(137)	-	(137)	-
<b>FFO, Diluted</b>	<b>7,157</b>	<b>7,261</b>	<b>13,383</b>	<b>12,210</b>
<b>AFFO, Basic</b>	<b>8,568</b>	<b>9,563</b>	<b>16,748</b>	<b>16,704</b>
FFO dilutive adjustments above, net	256	-	256	-
<b>AFFO, Diluted</b>	<b>8,824</b>	<b>9,563</b>	<b>17,004</b>	<b>16,704</b>

Leisureworld Senior Care Corporation  
Management's Discussion and Analysis  
Quarter and Six Months Ended June 30, 2013

**Quarterly Financial Information**

Thousands of dollars, except per share data

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	83,229	83,704	85,516	82,939	76,090	74,738	79,028	73,310
Operating expenses (excluding depreciation and amortization)	67,674	69,734	70,544	67,546	62,029	62,827	66,961	60,952
Administrative expenses	4,542	4,168	3,479	3,872	3,269	3,374	4,682	3,364
Income from operations before the undernoted	11,013	9,802	11,493	11,521	10,792	8,537	7,385	8,994
Net loss	(968)	(1,362)	(1,347)	(139)	(5,039)	(2,609)	(3,344)	(3,320)
Per share and diluted per share	(0.03)	(0.05)	(0.05)	(0.00)	(0.19)	(0.11)	(0.14)	(0.14)
Dividends declared <sup>(1)</sup>	6,594	6,587	6,341	6,217	5,879	5,202	5,202	5,202
Per share	0.23	0.23	0.22	0.21	0.21	0.21	0.21	0.21
AFFO <sup>(2)</sup>	8,568	8,180	8,289	9,289	9,563	7,141	6,754	7,657
Per share - basic	0.29	0.28	0.28	0.32	0.36	0.29	0.28	0.31
Per share - diluted	0.25	0.28	0.28	0.32	0.36	0.29	0.28	0.31

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 for 2012 has been adjusted to include the add-back for deferred share unit plan compensation paid to the Board of Directors. The amount added back to each quarter for 2012 for Q1 to Q4 is \$0, \$68, \$194 and \$244, respectively. This amount has also been adjusted in the Basic and Diluted AFFO per share presentation.

The quarterly results of the Company are subject to various factors including, but not limited to the timing of acquisitions, the seasonality of utility expenses, the timing of government funding rate increases and the timing of revenue recognition to match spending within the flow-through envelopes. As well, the second quarter of 2012 was affected by a one-time charge for the impairment loss associated with a Human Resource Information System ("HRIS") project. In the fourth quarter of 2012, the Company paid a one-time bond redemption premium of \$1,095 relating to the repurchase and cancellation of bonds with a face value of \$15,674 of the Company's outstanding 4.814% Series A Senior Secured Notes due November 24, 2015 (the "2015 Notes").

A discussion of the results for the quarter and year to date periods ended June 30, 2013 compared to the same periods in the prior year is provided under the section "Selected Consolidated Financial and Operating Information".

Leisureworld Senior Care Corporation  
Management's Discussion and Analysis  
Quarter and Six Months Ended June 30, 2013

**Selected Consolidated Financial and Operating Information**

Thousands of dollars, except occupancy data

	Quarter		Year to Date	
	2013	2012	2013	2012
<b>Revenue</b>	<b>83,229</b>	76,090	<b>166,933</b>	150,828
<b>Expenses</b>				
Operating expenses <sup>(1)</sup>	<b>67,674</b>	62,029	<b>137,408</b>	124,856
Administrative expenses	<b>4,542</b>	3,269	<b>8,710</b>	6,643
	<b>72,216</b>	65,298	<b>146,118</b>	131,499
<b>Income from operations before the undernoted</b>	<b>11,013</b>	10,792	<b>20,815</b>	19,329
<b>Other expenses</b>				
Depreciation and amortization	<b>6,862</b>	5,537	<b>13,962</b>	13,655
Net finance charges	<b>5,386</b>	4,314	<b>9,770</b>	8,128
<b>Total other expenses</b>	<b>12,248</b>	9,851	<b>23,732</b>	21,783
Impairment loss	-	2,697	-	2,697
<b>Loss before income taxes</b>	<b>(1,235)</b>	(1,756)	<b>(2,917)</b>	(5,151)
<b>Provision for (recovery of) income taxes</b>				
Current	<b>421</b>	314	<b>876</b>	719
Deferred	<b>(688)</b>	2,969	<b>(1,463)</b>	1,778
	<b>(267)</b>	3,283	<b>(587)</b>	2,497
<b>Net loss</b>	<b>(968)</b>	(5,039)	<b>(2,330)</b>	(7,648)
<b>Total assets</b>	<b>844,362</b>	762,073	<b>844,362</b>	762,073
<b>Debt</b>	<b>540,883</b>	433,110	<b>540,883</b>	433,110
<b>Average occupancy</b>				
<b>Long-term care</b> <sup>(2)</sup>	<b>99.0%</b>	98.5%	<b>98.9%</b>	98.5%
<b>Long-term care - private accommodations</b> <sup>(2)</sup>	<b>99.4%</b>	98.1%	<b>99.0%</b>	97.8%
<b>Retirement and independent living</b> <sup>(3)</sup>	<b>76.0%</b>	73.3%	<b>73.3%</b>	70.9%

Notes:

(1) Operating expenses excluding depreciation and amortization.

(2) Includes the impact of addition of the Madonna home acquired on July 16, 2012.

(3) Includes the addition of the BC Portfolio which was acquired on May 24, 2012. Muskoka RR occupancy data has been included from the prior year up to September 30, 2012.

**Operating Results for the Quarter**

**Revenue**

Revenue increased by \$7,139, or 9.4%, to \$83,229, compared to \$76,090 in the second quarter of last year. LTC revenue increased by \$4,777 to \$72,881 mainly as a result of the acquisition of the Madonna property, which had total revenues of \$2,839, and an increase of \$1,516 was attributable to incremental same property revenues. Approximately \$680 of the same property increase related to higher government funding, net of the impact related to timing of expenditures for the flow-through envelopes, changes in funding related to high-intensity needs for residents which increased revenues by \$306, and increased preferred accommodation revenues of \$97. Also, \$422 of the increase was related to revenue recognized from the Muskoka property that was redeveloped and transferred to the LTC portfolio in the current year.

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

### Quarter and Six Months Ended June 30, 2013

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The retirement portfolio generated revenues of \$6,489, compared to \$4,446 last year. The increase of \$2,043 was due to the acquisition in May 2012 of the BC Portfolio, which had total revenues for the quarter of \$3,523. The Ontario Portfolio had \$89 of higher revenues compared to the prior year, which was offset as a result of the ramp down of the Muskoka RR in the prior year.

Home Care's net revenue of \$3,859 was \$319 higher than the prior year. Home Care continues to benefit from higher volumes for service contracts.

#### *Operating expenses*

Total operating expenses for the quarter were \$67,674. This represents a \$5,645, or 9.1%, increase compared to the same period last year. LTC expenses increased to \$60,815 for the quarter, compared to \$56,542 last year. Of the \$4,273 increase in LTC expenses, \$2,594 was the result of the inclusion of the Madonna property in the quarter. Same property expenses increased by \$1,334, primarily due to higher flow through expenses of \$529, increased property administration expense of \$325 and higher property maintenance expenses of \$231. The Muskoka property, which has been converted to LTC operations in the current year, incurred total operating expense of \$345 in the quarter.

Retirement operating expenses for the quarter totaled \$3,775, an increase of \$1,167 over the prior year. The incremental expenses related to the BC Portfolio were \$1,217, which was primarily the result of timing of the acquisition in the second quarter of last year. The \$84 increase in operating expenses for the Ontario Portfolio were offset by the reduced operating costs of the Muskoka retirement property which was being wound down last year.

Home Care's operating expenses increased by \$179, which principally related to the higher volume of personal support contracts associated with the higher revenues.

#### *Administrative expenses*

For the quarter, \$4,542 of administrative expenses reflects an increase of \$1,273, compared to the second quarter last year. Contributing to the increase was a one-time cost totaling \$275 relating to additional fees, in the form of deferred share units, issued to the Chair of the Board for performing the functions of acting President and CEO, increased executive compensation costs arising from a prior year's reversal adjustment of \$560, and higher consulting and transaction costs of \$356.

#### *Depreciation and amortization*

Depreciation and amortization increased by \$1,325 to \$6,862, compared to \$5,537 last year. This was the result of the BC Portfolio inclusion for the entire quarter of the current year as it was acquired late in the second quarter of 2012. The related year over year increase in depreciation was \$431 and amortization was \$922. The main components of depreciation and amortization charges are property and equipment of \$5,012 and resident relationships of \$1,832.

#### *Net finance charges*

Net finance charges were \$5,386, compared to \$4,314 for the second quarter last year. The \$1,072 increase was principally due to the inclusion of a finance charge related to the dividend equivalents on the Subscription Receipts of \$1,429, charges incurred on the Convertible Debentures of \$452, incremental interest from the BC Portfolio of \$314 and finance charges relating to the Madonna property of \$200. This was partly offset by lower interest expense resulting from favourability of the mark-to-market adjustments on the interest rate swap



# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

Quarter and Six Months Ended June 30, 2013

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contracts of \$841, lower interest charges on the 2015 Notes of approximately \$173, and interest earned on cash held in escrow of \$158.

### *Impairment loss*

During the quarter ended June 30, 2012, the Company determined that the carrying amount of the HRIS being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a \$2,697 impairment of intangible assets.

### *Income taxes*

Current income taxes have been calculated at the weighted combined corporate tax rate of 26.47%. The total income tax recovery for the quarter was \$267, compared to an income tax expense of \$3,283 in the same quarter last year. Current taxes increased year over year by \$107, which related to the timing of acquisitions, partly offset by the corresponding tax shields. The movement in deferred taxes of \$3,657 was primarily due to the charge of \$3,759 recorded last year relating to the change in corporate tax rates.

### *Net loss*

Net loss totaled \$968 compared to a loss of \$5,039 for the comparable period. The improvement of \$4,071 was attributable to the favourability of the deferred taxes compared to the prior year of \$3,657, the non-recurring prior year impairment charge of \$2,697 related to the termination of the HRIS project, partly offset by increased charges of \$1,325 for depreciation and amortization in the current year and higher finance charges of \$1,072.

## **Operating Results for the Year to Date**

### *Revenue*

Year to date, the Company generated total revenue of \$166,933, compared to \$150,828 in 2012, an increase of \$16,105 or 10.7%. LTC revenue increased 7.0%, or \$9,573, to \$146,297. The higher revenue was mainly attributable to the acquisition of the Madonna property which had total revenues of \$5,585 for the period. Same property revenues increased by \$3,366, primarily due to \$1,207 of funding rate increases, net of timing differences related to revenue recognition of the flow through envelopes. Other increases related to changes in funding for high-intensity needs for residents which increased revenues by \$975, incremental flow-through special initiative funding of \$782, and higher preferred accommodation revenues of \$162. The Muskoka property contributed \$622 of revenues to the LTC portfolio in the current year.

The retirement portfolio revenues were \$13,018, compared to \$7,247 last year. The \$5,771 increase was primarily due to the acquisition in May 2012 of the BC Portfolio, which had incremental revenues of \$5,544. Also, the Ontario Portfolio had increased revenues of \$441 due to higher occupancy levels compared to the prior year. This was partly offset by lower revenues attributable to the winding down of the Muskoka RR property.

Home Care's external revenue increased by \$761, or 11.1%, to \$7,618. Home Care continues to benefit from higher volumes for service contracts, and the current year results also include an increase in revenues from educational services and products.

### *Operating expenses*

Total operating expenses for the first half of 2013 were \$137,408, an increase of \$12,552, or approximately 10.1%, compared to the same period in 2012. LTC expenses totaled \$123,797 compared to \$114,961 last year. The increase of \$8,836 was mainly the result of the acquisition of Madonna in the second half of 2012. The

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

Quarter and Six Months Ended June 30, 2013

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property incurred operating expenses of \$5,200 for the period, while same property operating expenses increased by \$3,039. The same property variances were mainly due to increased expenditures related to the flow-through envelopes of \$1,986. Other increases related to property administration of \$434 and maintenance expenses of \$274. The converted Muskoka property incurred operating expense of \$597 in the period.

The retirement portfolio operating expenses increased to \$7,588 in the period, compared to \$4,398 last year, an increase of \$3,190. The BC Portfolio represented \$3,270 of the increase, principally as a result of the timing of the acquisition in the prior year. The Ontario Portfolio's expenses increased by \$177, which was slightly more than offset by the decrease in costs as a result of the wind down of Muskoka as a retirement property.

Home Care's operating expenses of \$7,189 increased by \$639, primarily related to the higher volume of personal support contracts associated with the higher revenues.

### *Administrative expenses*

For the period, administrative expenses totaled \$8,710, compared to \$6,643 last year. The increase of \$2,067 was primarily due to increased transaction costs of \$864, principally related to the pending Specialty Care acquisition, higher people related costs of \$529 primarily arising from the prior year's reversal of executive compensation expense, incremental consulting expenses of \$413, and one-time related costs associated with the acting CEO position of \$275.

### *Depreciation and amortization*

Depreciation and amortization was \$13,962, consistent with the prior year of \$13,655. The decrease is attributable to LTC resident relationships arising from the IPO which were fully amortized at the end of the first quarter in 2012, were offset by the increases in depreciation and amortization related to the BC Portfolio. The main components of depreciation and amortization charges are property and equipment of \$10,030, resident relationships of \$3,664 and service contracts of \$231.

### *Net finance charges*

Net finance charges totaled \$9,770, compared to \$8,128 for the first half of last year. The \$1,642 increase related to higher net finance charges of \$1,429, a result of the dividend equivalents due on the Subscription Receipts, incremental charges from acquisitions, \$941 related to the BC Portfolio, and \$400 related to the Madonna property, as well as finance charges on the Convertible Debentures of \$452. This was offset by the favourable year over year mark-to-market adjustment on the interest rate swap contracts of \$825, lower finance charges on the 2015 Notes of \$400, as a result of the partial bond redemption late last year, and the interest earned on cash held in escrow related to the Subscription Receipts.

### *Impairment loss*

Refer to the above section, Operating Results for the Quarter, for an explanation of the impairment loss.

### *Income taxes*

Current income taxes have been calculated at the weighted combined corporate tax rate of 26.47%. The total income tax recovery for the period was \$587, compared to an expense of \$2,497 in 2012. Current taxes increased year over year by \$157, which related to the timing of acquisitions. The change in deferred taxes of \$3,241 arose from a charge of \$3,759 recorded last year relating to the change in corporate tax rates and the timing of the reversal of certain tax values, while the remainder of the change is related mainly to the timing of depreciation and amortization compared to capital cost allowance and eligible capital expenditure deductions.

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

Quarter and Six Months Ended June 30, 2013

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### *Net loss*

Net loss totaled \$2,330 compared to \$7,648 for the comparable period. The improvement of \$5,318 was mainly attributable to favourability in taxes of \$3,084, the non-recurring prior year impairment loss of \$2,697, and increased income from operations of \$1,486, net of administration expenses. This was partly offset by higher net finance charges of \$1,642.

### **Liquidity and capital resources**

Leisureworld reported a cash and cash equivalents balance of \$34,592 as at June 30, 2013. The changes in cash and cash equivalents for the quarters and year to date periods ended June 30, 2013 and 2012 are as follows:

	Quarter		Year to Date	
	2013	2012	2013	2012
Cash flow from operations before non-cash working capital items	10,969	10,654	20,794	18,839
Non-cash changes in working capital	(5,893)	(6,994)	2,365	(4,440)
Cash provided by (used in):				
Operating activities	5,076	3,660	23,159	14,399
Investing activities	(8,647)	(89,988)	(9,282)	(88,192)
Financing activities	19,642	91,861	11,472	86,041
Increase in cash and cash equivalents	16,071	5,533	25,349	12,248

### *Operating activities*

For the quarter ended June 30, 2013, cash flow from operations before non-cash changes in working capital totaled \$10,969, an increase of \$315 from last year. Non-cash changes in working capital used cash of \$5,963, compared to \$6,994 in the same period last year. The main components of the \$5,963 utilized were \$962 of an increase in prepaid expenses and deposits. As well, accounts payable and accrued liabilities used \$5,231 of cash primarily as a result of the timing of trade payables and wage and benefit liabilities. Cash of \$443 was provided from the receipt of income support payments associated with the Astoria property.

For the three months ended June 30, 2012, cash flow from operations before non-cash changes in working capital totaled \$10,654. During the quarter, non-cash changes in working capital decreased the cash position by \$6,994. 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 and deposits 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 settled 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 six months ended June 30, 2013, cash flow from operations before non-cash changes in working capital totaled \$20,794 compared to \$18,839 a year ago. Non-cash changes in working capital provided cash of \$2,365. Accounts receivable and other assets provided cash of \$1,789 primarily related to the timing of collections. Increased prepaid expenses and deposit balances were a result of timing of expense recognition. The change in

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

Quarter and Six Months Ended June 30, 2013

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net government funding balances of \$2,685 was primarily the result of the timing of revenue recognition as it relates to expenditures incurred, as the Company has not had significant adjustments relating to the settlement of prior year balances. As well, the Company received \$898 of income support related to the Astoria property. Accounts payable and accrued liabilities decreased, using cash of \$1,550, primarily related to the timing of trade payables and payroll related accruals.

For the year to date period ended June 30, 2012, cash flow from operations before non-cash changes in working capital totaled \$18,839. Non-cash changes in working capital used \$4,440 of cash. Of this decrease, \$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.

### *Investing activities*

For the quarter, investing activities used cash of \$8,647, primarily as a result of the \$8,000 deposit associated with the proposed Specialty Care acquisition, the purchase of the Christie Garden LTC licences for \$2,200 and the purchase of equipment for \$635. This was partly offset by the receipt of construction funding of \$2,284.

For the three months ended June 30, 2012, investing activities utilized \$89,988 of cash. These funds were primarily used for the acquisition of the BC Portfolio totaling \$91,775. This was partly offset by the cash received from construction funding of \$2,133.

For six months ended June 30, 2013, investing activities utilized \$9,282 of cash. This was due to the \$10,000 deposit associated with the proposed Specialty Care acquisition, the purchase of the Christie Garden LTC licences for \$2,200 and the purchase of equipment for \$1,575. This was offset by the receipt of construction funding of \$4,568.

In the prior year, for the six months ended June 30, 2012, 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.

### *Financing activities*

During the quarter ended June 30, 2013, financing activities provided cash of \$19,642. The sources of cash were comprised of the net proceeds from the issuance of the Subscription Receipts of \$77,211, and issuance of Convertible Debentures of \$44,160 and long-term debt of \$17,974 for the Pacifica mortgage. This was partly offset by \$77,211 of cash placed in escrow related to the Subscription Receipts, \$26,328 of debt repayment, primarily related to the Pacifica credit facility, \$8,046 of interest paid on long-term debt, and \$6,591 of dividends paid. As well, the Company used cash of \$882 for deferred financing costs associated with the debt issuances and \$464 for subscription receipt issuance costs.

During the second quarter of 2012, financing activities provided \$91,861 of cash. The Company raised net debt and equity to complete the acquisition of the BC Portfolio of \$51,919 and \$53,787, net of underwriters and other

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

Quarter and Six Months Ended June 30, 2013

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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 year to date period ended June 30, 2013, financing activities provided \$11,472 of cash. Included in this amount is cash from the issuance of Subscription Receipts of \$77,211 and \$62,134 from the issuance of Convertible Debentures and long-term debt. This was partly offset by \$77,211 of cash placed in escrow related to the Subscription Receipts, \$26,553 of debt repayment, primarily related to the Pacifica credit facility, \$9,224 of interest paid on long-term debt, and \$13,178 of dividends paid. As well, the Company used cash of \$882 for deferred financing costs associated with the debt issuances and \$464 for the Subscription Receipt issuance costs.

For the six months ended June 30, 2012, cash provided by financing activities totaled \$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.

### *Capital resources*

Leisureworld's debt as at June 30, 2013 was \$540,883 compared to \$425,225 as at December 31, 2012. The increase of \$115,658 primarily relates to the issuance of Convertible Debentures in the period which totaled \$43,889, net of issuance related costs, as well as the associated issuance of the Subscription Receipts and the related dividend equivalent accrual of \$80,216. This was partly offset by the conversion of the Pacifica credit facility to a mortgage. The mortgage net proceeds were \$17,363, which was \$8,705 less than the balance of the credit facility outstanding at the end of the previous quarter which included financing on the 15 strata units owned in the adjacent building. The difference was settled in cash. The balance relates to the accretion of the fair value increment on the 2015 Notes related to the IPO and the accretion of deferred financing charges on the debt incurred to acquire the retirement properties. With the completion of the Specialty Care acquisition later this year, \$78,787 of Subscription Receipts will be converted to equity. As at June 30, 2013, Leisureworld had a committed revolving credit facility of \$10,000 with a Canadian chartered bank; the Company had no amounts outstanding under this credit facility.

As of June 30, 2013, the Company had negative working capital of \$70,092 primarily arising from the \$45,954 of revolving credit facility coming due within a year related to the Ontario Portfolio properties. The Company is in discussions with the lender to extend this revolving credit facility until such time as occupancy is stabilized, at which time the Company intends to convert the revolving credit facility to conventional mortgages secured by the individual assets. To support the Company's working capital deficiency, it can use its current leverage ratio and its access to additional equity financing to provide flexibility in meeting its current obligations. There can be no assurances that the amounts or terms of refinancing would be favourable to the Company.

### *Capital commitments*

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

On April 4, 2013, the Company announced an agreement to acquire from Specialty Care Inc. and certain other related parties (collectively "Specialty Care"), a portfolio of 10 properties in Ontario consisting of six LTC homes, two RRs and two properties containing both LTC and RR components (the "Acquisition"). The Acquisition comprises in total 1,235 LTC beds and 326 retirement suites, as well as the third party seniors living management business operated by Specialty Care. The aggregate gross purchase price is approximately

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

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\$254,000, which does not reflect a mark-to-market adjustment on assumed debt as of the closing, currently estimated at \$10,000. The Acquisition is expected to close before the end of 2013. In connection with the Acquisition, the Company completed the public offering (the "Offering") of \$78,787 of Subscription Receipts and \$46,000 of aggregate principal amount of Convertible Debentures. The Offering was completed on April 25, 2013 and included an over-allotment of 15% for both the Subscription Receipts and Convertible Debentures.

Leisureworld expects to meet its operating cash requirements through 2013, 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, Leisureworld Senior Care LP ("LSCLP") issued the 2015 Notes, 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 value 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, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.18%. During the quarter ended December 31, 2012, the Company redeemed \$15,674 of the 2015 Notes for \$16,769 in cash, which included a redemption premium of \$1,095.

On April 27, 2011, the Royale LP entered into a two-year credit facility ("Bridge Loan") for \$55,000 to finance the acquisition of the Ontario Portfolio, which bore interest at 187.5 basis points ("bps") per annum over the floating 30-day bankers acceptance ("BA") rate. The Bridge Loan was secured by the Ontario Portfolio assets and guaranteed by LSCC and was 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% until April 26, 2013. Interest on the Bridge Loan was payable in advance every 30 days beginning on April 30, 2011. In obtaining 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. The Bridge Loan is guaranteed by LSCC and is subject to certain customary financial and non-financial covenants. On September 30, 2012, the Company extended the maturity date on the \$61,500 revolving credit facility to April 26, 2014. As at June 30, 2013, the Company has drawn \$46,000 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 credit facilities are secured by each of the properties' assets, are guaranteed by LSCC and are subject to certain customary financial and non-financial covenants. Interest on the credit facilities is payable in advance each month. In obtaining the

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

### Quarter and Six Months Ended June 30, 2013

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credit facilities, the Company incurred financing costs of \$181. These costs have been recorded as a reduction of the total financing received and are expensed over the term of each loan.

On May 23, 2013, the Company refinanced the Pacifica credit facility in part with a first mortgage on the Pacifica property advanced by MCAP Financial Corporation and insured by the Canadian Housing and Mortgage Corporation. The net proceeds from the mortgage were \$17,363, bearing interest at a rate of 3.04% for a 10-year term and a 25-year amortization period. The difference between the amount settled under the credit facility and the mortgage amount was settled in cash. The mortgage is collateralized by a first collateral mortgage on the Pacifica property and a general security agreement providing a first charge on all assets and undertakings is guaranteed by LSCC up to \$5,400 and is subject to certain customary financial and non-financial covenants. Interest and principal on the mortgage is due on the first day of each month.

On June 28, 2013 the Astoria credit facility was extended to May 23, 2015.

As part of the acquisition of 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 interest at 5.18% per annum and matures on January 1, 2017. The mortgage is collateralized by a first collateral mortgage on the Peninsula property 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.

As part of the acquisition of Madonna, the Company assumed a mortgage in the amount of \$15,718, which bears interest at the floating monthly BA rate plus a stamping fee of 1.5% per annum and matures April 16, 2029. The mortgage is collateralized by a first collateral mortgage on the property, is guaranteed by LSCC and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the assumption of the mortgage, assumed the related interest rate swap contract, in the amount of \$2,317, to effectively fix the floating BA rate at 3.7%. The swap is collateralized by a second mortgage on the property. Interest and principal on the mortgage is payable monthly on the 16th day of each month.

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

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

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

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Company to purchase their debentures at 101% of the principal plus accrued and unpaid interest. If 90% or more of the Convertible Debenture holders do so, the Company has the right, but not obligation, to redeem all the remaining Convertible Debentures.

Upon closing of the Offering on April 25, 2013, the debt and equity components of the Convertible Debentures were bifurcated as the financial instrument is considered a compound instrument with \$45,593 classified as a liability and \$515 classified as equity attributable to the conversion option, which includes the deferred tax impact of \$108. The liability portion of the Convertible Debentures is recorded at amortized cost. The Company incurred financing costs of \$2,111, which are amortized over the term of the Convertible Debentures using the effective interest method and recognized as part of net finance charges.

Concurrent with the Convertible Debenture offering on April 25, 2013, the Company completed a bought deal offering of 6,353,750 Subscription Receipts at a price of \$12.40 per Subscription Receipt for gross proceeds of \$78,787. The purchased Subscription Receipts included 828,750 Subscription Receipts made available for issuance pursuant to the exercise of the over-allotment option granted to the syndicate of underwriters. The Subscription Receipts began trading on the TSX on April 25, 2013 under the ticker symbol "LW.N". The Subscription Receipts, classified as financial liabilities, each represent the right to acquire one common share of LSCC upon closing of the Specialty Care Acquisition. The proceeds, net of transaction costs, are held by an escrow agent pending closing of the Specialty Care Acquisition and are reported on the condensed interim consolidated statements of financial position as subscription receipts funds held in escrow. The Company incurred issuance costs of \$2,040, which includes 50% of total underwriters' fees in the amount of \$1,576 paid out of the gross proceeds of the Subscription Receipts. Each Subscription Receipt is entitled to a dividend equivalent payment equal to the dividend per share paid on the issued and outstanding common shares of the Company for each dividend period that lapses before the completion of the Specialty Care Acquisition. The dividend equivalents on the Subscription Receipts are recognized as part of net finance charges.

Interest expense on long-term debt, Convertible Debentures and Subscription Receipts for the quarter and year to date periods ended June 30, 2013 were \$7,257 and \$12,660, respectively (2012 - \$5,187 and \$10,116, respectively). This includes non-cash interest of \$621 and \$1,179, respectively (2012 - \$599 and \$1,189, respectively).

Leisureworld has an undrawn \$10,000 committed 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 the prime rate and bears interest on letters of credit at 150 bps per annum. As at the quarter end, the Company had no amounts outstanding under this credit facility.

Leisureworld has a 10-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. As at June 30, 2013, payments due for each of the next five years and thereafter, for the leases and the long-term debt are as follows:



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	Operating Leases	Long-Term Debt	Subscription Receipts	Convertible Debentures	Total
2013	344	708	-	-	1,052
2014	601	47,459	78,787	46,000	172,847
2015	522	321,852	-	-	322,374
2016	104	1,592	-	-	1,696
2017	-	22,218	-	-	22,218
Thereafter	-	28,937	-	-	28,937
	1,571	422,766	78,787	46,000	549,124

### Acquisitions

On April 4, 2013, the Company entered into acquisition agreements to acquire from Specialty Care Inc. and certain other related parties (collectively "Specialty Care") a portfolio of 10 properties in Ontario consisting of 6 LTC homes, 2 RRs and 2 properties containing both LTC and RR components ("Specialty Care Acquisition"). The Specialty Care Acquisition comprises in total 1,235 LTC beds and 326 retirement suites, as well as the third party seniors living management businesses operated by Specialty Care Inc. Approval from the MOHLTC and typical lender consents are required to close the transaction. The Company expects the completion of the Specialty Care Acquisition to occur in the fourth quarter of 2013. The Company has entered into a cost sharing arrangement with Specialty Care pursuant to which certain potential costs arising in connection with closing the transaction will be paid by the Company. The Company expects these costs will be significantly less than the maximum amount of \$2,500.

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

The Company also 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, and assumed a mortgage in the amount of \$23,716 with a fair value of \$24,716 as part of the acquisition of the Peninsula property, all as described above under the heading "Contractual Obligations and Other Commitments".

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 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 16, 2012, one of the Company's subsidiaries, The Royale Development LP, completed the acquisition of Madonna, a 160 bed, Class A LTC home in Orleans, Ontario, a suburb of Ottawa. The net purchase price for the

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

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transaction was \$3,035, net of assumed debt of \$15,718. The net purchase price was settled in cash. As part of the acquisition of Madonna, the Company assumed a mortgage in the amount of \$15,718 described above under the heading "Contractual Obligations and Other Commitments".

On April 4, 2013, the Company entered into agreements to complete the Acquisition, described above under the heading "Capital Commitments", which is expected to close before the end of 2013. On April 4, 2013, the Company also announced its intention to complete the Offering, also described above under the heading "Capital Commitments", which was completed on April 25, 2013. Additional details of the Acquisition, including the expected impact of the Acquisition on the Company's business and performance, are included in the short form prospectus filed in connection with the Offering, dated April 17, 2013 and available at [www.sedar.com](http://www.sedar.com).

On April 19, 2013, the Company completed its previously announced acquisition of 88 LTC licences from Christie Gardens Apartments and Care Inc. described above under the heading "Business Overview".

### **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 management. The total revenue earned from Spencer House Inc. for the quarter ended June 30, 2013 was \$500 (2012 - \$480) and six months ended June 30, 2013 was \$988 (2012 - \$960). Included in accounts receivable and other assets is \$113 owing from Spencer House Inc. at June 30, 2013 (December 31, 2012 - \$71). These transactions are in the normal course of operations and have been valued 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, 2013, the Company had amounts owing from certain key executives of \$183 (December 31, 2012 - \$74) which have been recorded as a contra to equity in relation to the Long-Term Incentive Plan issuance. These amounts outstanding bear interest at the prime rate prevailing at the time of the advance.

During the quarter ended June 30, 2013, the Company loaned the CEO \$500 to effect the purchase of the Company's common shares. The outstanding loan balance as of June 30, 2013 was \$499 (December 31, 2012 - \$nil), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

### **Significant Judgments and Estimates**

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, 2012. Please refer to those statements for further detail.

### **Capital Disclosure**

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

# Leisureworld Senior Care Corporation

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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 factors such 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 2015 Notes and the \$10,000 revolving credit facility are collateralized by all assets of LSCLP and its subsidiary entities totaling \$474,732 and guaranteed by the subsidiary partnerships. Under the indenture governing the 2015 Notes, LSCLP is subject to certain financial and non-financial covenants including the maintenance of a certain debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

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

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

### **Financial Instruments**

Financial instruments consist of cash and cash equivalents, subscription receipt funds held in escrow, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, annuity, accounts payable and accrued liabilities, long-term debt, Convertible Debentures, Subscription Receipts, and interest rate swap contracts. For a further discussion on the components of financial instruments and the nature and extent of risks arising from financial instruments, please refer to the Company's AIF dated March 25, 2013, the Management's Discussion and Analysis filed for the year ended December 31, 2012, and the Short Form Prospectus issued April 17, 2013

# Leisureworld Senior Care Corporation

## Management's Discussion and Analysis

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### **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, 2012. Please refer to those statements for further detail.

In preparing the interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2012, except as described below.

### *Changes in accounting policies*

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

#### *IFRS 10, Consolidated Financial Statements*

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

#### *IFRS 13, Fair Value Measurement*

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

### **Accounting Standards Issued But Not Yet Applied**

Other than those disclosed in the audited consolidated financial statements for the year ended December 31, 2012, 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 and Risks Relating to a Public Company and Common Shares**

The Company's AIF dated March 25, 2013, the Management's Discussion and Analysis filed for the year ended December 31, 2012, and the Short-Form Prospectus filed on April 17, 2013, all of which are available at [www.sedar.com](http://www.sedar.com), contain detailed discussions of risks and uncertainties that could affect the Company and holders of its securities.

**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 high occupancy in its LTC portfolio. Management continues to focus on improving occupancy in the retirement portfolio and improving the NOI performance of all business segments. It is expected that the improvements in the management of the retirement home portfolio will be realized over a period commencing in late 2013 and throughout 2014. With its strong balance sheet and operational expertise, Leisureworld is well positioned to capitalize on organic growth and acquisition opportunities in the seniors' services sector to further support a strong platform for reliable shareholder dividends.

Looking ahead, Leisureworld will maintain its strategy of delivering high quality care, service and accommodation for seniors, supporting and increasing occupancy rates, and assessing growth opportunities in the continuum of seniors' living in Canada, which includes accretive acquisitions and redevelopment of its older LTC homes.