Q1 2014

Leisureworld
SENIOR CARE CORPORATION

Report to Shareholders

Q1 2014

Leisureworld
SENIOR CARE CORPORATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

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

Leisureworld is listed on the Toronto Stock Exchange (the "**TSX**"), under the trading symbol LW. As of May 13, 2014, the following securities of LSCC were outstanding: 36,264,822 common shares and $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

Additional Information

Additional information relating to Leisureworld is available on System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com, on Leisureworld's website at www.leisureworld.ca, or by calling Tim McSorley, Chief Financial Officer (Interim), at 905-477-4006 x2089.

Review and Approval By the Board of Directors

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

Forward-Looking Statements

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

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

Non-IFRS Performance Measures

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

NOI is defined as revenue net of operating expenses.

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

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

AFFO is defined as OFFO plus the principal portion of construction funding received, amounts received from income support arrangements and non-cash deferred share unit compensation expense less maintenance capital expenditures ("**maintenance capex**"). Other adjustments may be made to AFFO as determined by management and the Board of Directors at their discretion. Management believes AFFO is useful in the assessment of Leisureworld's operating cash performance, and is also a relevant measure of the ability of Leisureworld to pay dividends to shareholders.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization and non-recurring items. Other adjustments may be made as determined by management and the Board of Directors at their discretion.

The above measures should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of Leisureworld's performance. Leisureworld's method of calculating these measures may differ from other issuers' methods and accordingly, these measures may not be comparable to measures presented by other issuers.

Key Performance Indicators

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

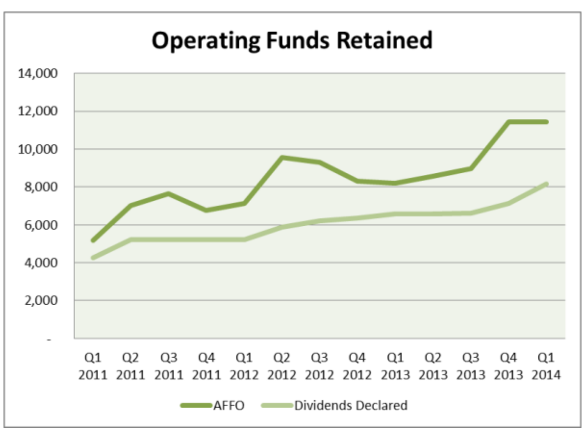
- **Occupancy**: Occupancy is a key driver of Leisureworld's revenues.
- **NOI**: This value represents the underlying performance of the operating business segments. (See "Non-IFRS Measures")
- **OFFO per Share**: Management uses OFFO as an operating and financial performance measure. (See "Non-IFRS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

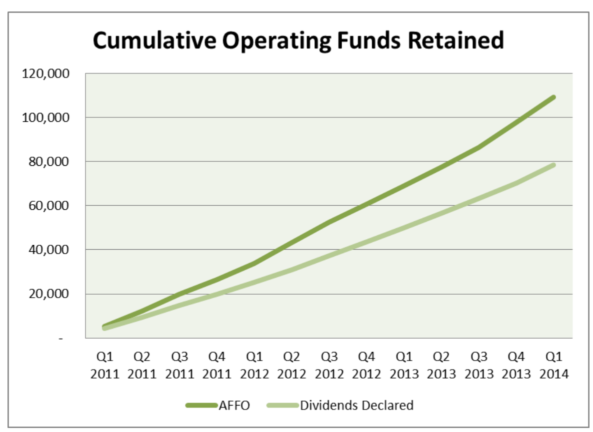
The following table presents the Key Performance Indicators for the periods ended March 31:

Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended 2014	2013	Change
OCCUPANCY			
LTC - Average total occupancy	**98.5%**	98.7%	-0.2%
LTC - Average private occupancy	**98.7%**	98.7%	0.0%
Retirement - Average occupancy	**82.7%**	76.0%	6.7%
Retirement - As at occupancy	**82.5%**	75.1%	7.4%
FINANCIAL			
NOI	**19,528**	13,970	5,558
OFFO	**9,364**	6,226	3,138
AFFO	**11,704**	8,180	3,524
PER SHARE INFORMATION			
OFFO per share, basic	**0.258**	0.213	0.045
OFFO per share, diluted	**0.248**	0.213	0.035
AFFO per share, basic	**0.323**	0.279	0.044
AFFO per share, diluted	**0.308**	0.279	0.029
Dividends per share	**0.225**	0.225	-
Payout ratio (basic AFFO)	**69.7%**	80.5%	10.8%
FINANCIAL RATIOS			
Debt Service Coverage Ratio (1)	**1.9**	2.4	(0.5)
Debt to Gross Book Value as at period end	**57.6%**	51.6%	6.0%
Weighted Average Cost of Debt as at period end	**3.9%**	4.4%	-0.5%
Leverage Ratio	**9.3**	8.2	1.1
Interest Coverage Ratio	**2.7**	2.7	-
Average term to maturity as at period end	**5.5**	2.9	2.6

	2014 v. 2013
SAME PROPERTY PERCENT CHANGE IN NOI	
Long Term Care	3.2%
Retirement	13.4%
Home Care	0.3%
Total	5.1%

Note 1: The Series B Debentures issued on February 3, 2014 require the funding of a principal reserve fund to fund the eventual repayment of the debenture. For the first quarter of 2014, $857 was contributed to the principal reserve fund, which contribution is included in the calculation of the debt service coverage ratio.





Operating funds retained is equal to AFFO less dividends declared.

Corporate Profile

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

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

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

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

Company Objectives

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

Industry Overview

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

Outlook

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

Long Term Care

In 2013, Leisureworld's annual same property LTC home NOI growth was 2.3% and Management expects similar performance in 2014 for the portfolio, which will be driven by disciplined cost management, and the conversion of preferred accommodation to access the new rates. All of Leisureworld's homes have healthy wait lists and Management expects to continue to experience high occupancy rates, given that the provincial wait list is in excess of 21,000 seniors waiting for a long term care bed. In its most recent budget, the Ontario Government announced a commitment to a redevelopment program for B and C class beds. Regardless of the results of the upcoming provincial election, Management will continue to work through the Ontario Long Term Care Association with the government on the details of a viable program which Management expects will provide significant future organic growth opportunity for Leisureworld's long term care homes. Management is currently focused on the detailed planning for key projects which will be the most beneficial to prioritize when a redevelopment program is announced.

Retirement

In the Retirement division, Management expects strong organic growth as occupancy and NOI improves during 2014 in the five residences which are in lease up (Cedarvale, Astoria, Peninsula, Kingston and Kanata). Management expects to continue to improve occupancy and maintain the existing margins in all of the retirement residences. Leisureworld's teams continue to focus on sales and marketing initiatives, managing controllable expenses and implementing care and service options to enable residents to stay longer.

Management expects to strengthen Leisureworld's reputation in this line of business, as a high quality provider of retirement living, in each community where Leisureworld has a presence, given that Leisureworld now has an experienced team with unique programs being implemented across the retirement portfolio.

Home Care

Leisureworld's Home Care division, Preferred Health Care Services, continues to experience growth in personal support contract volumes, as it has been able respond to the demand for additional service volumes and maintain high quality services. In 2013, the annual Home Care NOI increased by 17.8% percent and Management expects that Preferred Health Care Services will continue to experience strong organic growth as the Ontario Government continues to focus on increasing funding to home care, with the goal of keeping seniors at home, for as long as possible.

Management Services

Management is committed to growing Leisureworld's new management services division and will be actively marketing this service and bidding on contracts for management of long term care homes and retirement communities as they become available. Management believes that there is a growth opportunity in the third party management business and that this division will grow over time, given that both the long term care and retirement sectors are highly regulated and require specialized expertise to manage.

General and Administrative Expenses

Although general and administrative expenses have increased as a result of Leisureworld's significant growth and the addition of an experienced team dedicated to the retirement portfolio, Management expects them to remain relatively constant over the duration of the year. There will continue to be some one time transition costs associated with restructuring, strengthening and modernizing our back office, to support the recent and future growth of the company in all four lines of our business. We are currently focused on integrating and harmonizing our systems and processes such as information technology, financial management and payroll.

Acquisitions

In December 2013 Leisureworld completed a large acquisition of 10 residences in Ontario for approximately $254 million (the "**Specialty Care Acquisition**") and will benefit from a full year of the additional NOI. Although the company is currently focused on numerous internal initiatives to support this recent growth and the further expansion into retirement living (refer to discussion on Transaction Costs), Management will pursue strategic acquisition opportunities, focused in Ontario and British Columbia.

Management is very excited about the future and confident in its outlook.

Significant Events

Completed the Issuance of Series B Senior Secured Debentures

On February 3, 2014, Leisureworld Senior Care LP ("**LSCLP**"), a wholly-owned subsidiary of LSCC, issued $322.0 million of aggregate principal amount of 3.474% Series B Senior Secured Debentures with a maturity date of February 3, 2021 (the "**Series B Debentures**").

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

This refinancing extended the weighted average term to maturity of Leisureworld's long-term debt (including the Convertible Debentures) from 3.1 to 5.5 years, and reduced its weighted average interest rate from 4.53% to 3.86%. Due to the redemption notice period required, the Series A Debentures were redeemed after the issuance of the Series B Debentures, resulting in a short term inefficiency.

The Series B Debentures, which bear interest at 3.474% per year payable semi-annually, were issued by LSCLP under a supplement to its existing master trust indenture. The terms of the Series B Debentures include covenants to maintain a principal reserve fund to be used for debenture repayment. The principal reserve fund will be funded by LSCLP at least semi-annually to a predetermined minimum balance of $45.5 million to be available for principal repayment by the maturity date of the Series B Debentures.

DBRS Inc. ("**DBRS**") has assigned a rating of A (low), with a Stable trend, to the Series B Debentures.

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

Further, the redemption premium results in a positive impact for tax purposes due to the tax shelter provided by the payment. This tax impact has a positive result on the net income for the period, but has no impact to OFFO or AFFO.

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

Quarterly Financial Information

	2014	2013				2012		
Thousands of Dollars, except occupancy and per share data	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**112,340**	99,815	86,575	83,229	83,704	85,516	82,939	76,090
Income before other expenses and the provision for (recovery of) income taxes	**15,304**	13,512	13,467	11,761	10,801	11,529	12,050	11,372
Net loss	**(18,064)**	(6,348)	(706)	(968)	(1,362)	(1,347)	(139)	(5,039)
Per share and diluted per share	**(0.50)**	(0.20)	(0.02)	(0.03)	(0.05)	(0.05)	(0.00)	(0.19)
OFFO - Basic	**9,364**	9,812	8,019	6,901	6,226	6,882	7,164	7,261
Per share	**0.26**	0.31	0.27	0.24	0.21	0.24	0.25	0.27
Per share diluted - excluding subscription receipts	**0.25**	0.30	0.26	0.23	0.21	0.24	0.24	0.27
Per share diluted - including subscription receipts	**n/a**	0.27	0.22	0.20	n/a	n/a	n/a	n/a
AFFO - Basic	**11,704**	11,429	8,957	8,568	8,180	8,289	9,289	9,563
Per share	**0.32**	0.36	0.31	0.29	0.28	0.28	0.32	0.36
Per share diluted - excluding subscription receipts	**0.31**	0.35	0.29	0.28	0.28	0.28	0.32	0.36
Per share diluted - including subscription receipts	**n/a**	0.31	0.25	0.25	n/a	n/a	n/a	n/a
Dividends declared	**8,158**	7,116	6,598	6,594	6,587	6,341	6,217	5,879
Per share	**0.23**	0.23	0.23	0.23	0.23	0.22	0.21	0.21
Occupancy								
LTC - Average total occupancy	**98.5%**	98.7%	99.0%	99.0%	98.7%	99.1%	99.1%	98.5%
LTC - Average private occupancy	**98.7%**	99.4%	99.6%	99.4%	98.7%	99.2%	99.0%	98.1%
Retirement - Average occupancy	**82.7%**	81.8%	78.5%	76.0%	76.0%	76.7%	74.8%	73.3%
Retirement - As at occupancy	**82.5%**	82.9%	79.4%	76.3%	75.1%	75.5%	75.4%	76.3%
Total assets	**969,355**	977,024	826,498	844,362	744,868	744,067	762,601	762,073
Total debt [(1)]	**624,837**	598,703	440,880	460,667	425,543	425,225	429,157	433,110

Notes:
(1) Total debt includes the convertible debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

The quarterly financial results of Leisureworld are impacted by 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, and capital market and financing activities. During the quarter, $322.0 million of Series B Debentures were issued to provide proceeds to redeem the Series A Debenture in full resulting in the payment of an $18.4 million redemption premium and associated expenses. The Series A Debentures and Series B Debentures were both outstanding for a 21 day period during the quarter. In December 2013, Leisureworld completed the Specialty Care Acquisition, which contributed approximately $1,783 to NOI for the one month. In the fourth quarter of 2012, Leisureworld paid a one-time redemption premium of $1,095 relating to the partial repurchase and cancellation of Series A Debentures with a face value of

$15,674. This premium was included in the financing costs. 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.

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

Business Overview

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

Operating Results

The following are the Operating Results for the period ended March 31:

	Three Months Ended		
Thousands of Dollars	**2014**	2013	Change
Revenue	**112,340**	83,704	28,636
Expenses			
Operating	**92,812**	69,734	23,078
Administrative	**4,224**	3,169	1,055
	97,036	72,903	24,133
Income before other expenses and the provision for (recovery of) income taxes	**15,304**	10,801	4,503
Other expenses			
Depreciation and amortization	**9,827**	7,100	2,727
Net finance charges	**29,393**	4,384	25,009
Transaction costs	**550**	999	(449)
	39,770	12,483	27,287
Loss before income taxes	**(24,466)**	(1,682)	(22,784)
Provision for (recovery of) income taxes			
Current	**(1,707)**	455	(2,162)
Deferred	**(4,695)**	(775)	(3,920)
	(6,402)	(320)	(6,082)
Net loss	**(18,064)**	(1,362)	(16,702)
Total assets	**969,355**	744,067	225,288
Total debt (net of principal reserve fund)	**624,837**	425,225	199,612

Revenue Breakdown

Thousands of Dollars	Three Months Ended 2014	2013	Change
Long Term Care			
Same property	**75,957**	73,416	2,541
Transactions	**21,700**	-	21,700
Total Long Term Care Revenue	**97,657**	73,416	24,241
Retirement			
Same property	**6,846**	6,529	317
Transactions	**3,145**	-	3,145
Total Retirement Revenue	**9,991**	6,529	3,462
Home Care			
Same property	**4,391**	4,155	236
Transactions	**-**	245	(245)
Total Home Care Revenue	**4,391**	4,400	(9)
Management Services			
Same property	**-**	-	-
Transactions	**621**	-	621
Total Other Revenue	**621**	-	621
Total Revenue			
Same property	**87,194**	84,100	3,094
Transactions	**25,466**	245	25,221
Intersegment eliminations	**(320)**	(641)	321
Total Revenue	**112,340**	83,704	28,636

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

Operating Expense Breakdown

Thousands of Dollars	Three Months Ended 2014	2013	Change
Long Term Care			
Same property	**65,184**	62,982	2,202
Transaction	**18,394**	-	18,394
Total Long Term Care Expenses	**83,578**	62,982	20,596
Retirement			
Same property	**3,766**	3,813	(47)
Transaction	**1,971**	-	1,971
Total Retirement Expenses	**5,737**	3,813	1,924
Home Care			
Same property	**3,700**	3,466	234
Transaction	**-**	114	(114)
Total Home Care Expenses	**3,700**	3,580	120
Management Services			
Same property	**-**	-	-
Transaction	**117**	-	117
Total Other Expenses	**117**	-	117
Total Operating Expenses			
Same property	**72,650**	70,261	2,389
Transactions	**20,482**	114	20,368
Intersegment eliminations	**(320)**	(641)	321
Total Expenses	**92,812**	69,734	23,078

Net Operating Income Breakdown

Thousands of Dollars	Three Months Ended 2014	2013	Change
Long Term Care			
Same property	**10,773**	10,434	339
Transaction	**3,306**	-	3,306
Total Long Term Care NOI	**14,079**	10,434	3,645
Retirement			
Same property	**3,080**	2,716	364
Transaction	**1,174**	-	1,174
Total Retirement NOI	**4,254**	2,716	1,538
Home Care			
Same property	**691**	689	2
Transaction	**-**	131	(131)
Total Home Care NOI	**691**	820	(129)
Management Services			
Same property	**-**	-	-
Transaction	**504**	-	504
Total Other NOI	**504**	-	504
Total NOI			
Same property	**14,544**	13,839	705
Transactions	**4,984**	131	4,853
Intersegment eliminations	**-**	-	-
Total NOI	**19,528**	13,970	5,558

For the Quarter

Revenue

Revenues for the first quarter of 2014 increased by $28,636, or 34.2%, to $112,340. The increase, principally related to the LTC revenue which increased by $24,241 to $97,657, is due to the following:

- The Specialty Care LTC homes (acquired in December 2013) contributed revenues for the first quarter of 2014 in the amount of $21,578.
- LTC same property revenues increased $2,541, primarily as a result of funding changes and the timing of revenue recognition related to the flow-through envelopes.

The retirement portfolio revenues increased by $3,462 to $9,991 due to the following:

- The Specialty Care RR homes (acquired in December 2013) contributed revenues of $3,145, during the first quarter of 2014.
- The change in the same property retirement revenues is attributable to primarily higher average occupancy generating incremental revenue.

Home Care's revenue was consistent on a period over period basis, on a same property comparison, due to the growth in the provision of personal support contract service volumes. A portion of the professional services that serviced the LTC homes was internally transitioned, along with the related expenses, to LTC for internal management purposes.

Operating Expenses

Operating expenses increased to $92,812 for the quarter compared to $69,734 in the same period last year. Of this $23,078 increase, LTC represented $20,596, which was attributed to:

- The Specialty Care LTC homes (acquired in December 2013) incurred expenses of $18,348 for the first quarter of 2014.
- Same property expenses increased by approximately $2,202, due primarily to higher flow-through expenses, which is consistent with the increased revenues in the flow-through envelopes.
- Other same property expense increases included utility costs of $183 and property maintenance costs of $152. The increases are primarily due to the extreme winter conditions experienced during the first quarter of 2014.

Retirement operating expenses for the quarter were $5,737, compared to $3,813 last year. The increase of $1,924 was related to:

- The Specialty Care RR homes (acquired in December 2013) incurred expenses of $1,971 for the first quarter of 2014.
- Kingston and Kanata RR expenses increased by approximately $85 over the comparable period in 2013 due to variable expense increases caused by increased occupancy.
- The BC RR expenses decreased by approximately $157, which was primarily due to the cancellation of the external management contracts, resulting in a savings of $116.

Home Care's operating expenses increased by $120, which is attributable to the higher volume of personal support contracts associated with the higher revenues, partly offset by expenses which were internally transferred to the LTC segment as previously described, under Revenues.

Administrative Expenses

Administrative expenses increased 33.3% to $4,224, during the first quarter of 2014, compared to $3,169 for the first quarter of 2013. The increase of $1,055 was primarily the result of:

- Higher people related costs of approximately $881 mainly as a result of the Specialty Care Acquisition in December 2013, due to the increase in staffing of the head office team to support the significant growth of the company and to strengthen our retirement home management expertise.
- Incremental rental costs of $83 primarily associated with assuming an office lease resulting from the Specialty Care Acquisition.
- Higher travel and related expenses of $67 as a result of increased visits to all properties to improve retirement home operations and support the integration of the acquired properties.
- Increased public company costs of $64, primarily due to a mark to market adjustment of the deferred share unit compensation liability for the Board of Directors.

Depreciation and Amortization

Depreciation and amortization increased to $9,827 for the quarter, from $7,100 for the same period last year. The increase was principally related to the incremental depreciation and amortization of the acquired assets.

Net Finance Charges

Net finance charges for the first quarter of 2014 were $29,393, compared to $4,384, for the same period last year. The increase of $25,009 was principally the result of:

- The redemption of the Series A Debentures resulted in incremental finance charges of approximately $23,353, explained as follows:
  - Redemption premium of $18,392.
  - Duplicate interest on the Series A Debentures and Series B Debentures, due to the notice period required on the redemption of the Series A Debentures, of approximately $815.
  - Write-off of the remaining portion of the fair value increment on the Series A Debenture (recorded at the time of the initial public offering) of approximately $3,835.
  - Amortization of the remaining deferred financing charges of $537 related to the Series A Debentures
  - This was partly offset by approximately $226 of interest earned on the Series B Debenture proceeds which were held in escrow until final settlement of the Series A Debentures.
- Finance charges related to the homes acquired in December 2013 totaled $1,415.
- The convertible debentures incurred incremental interest of $644, as they were not issued until the second quarter of the prior year.

- There was a loss on the mark to market adjustment of the interest rate swaps where hedge accounting has not been applied, of $560 compared to gain of $299 in the comparable period of 2013.
- The incremental charges were partly offset by lower interest incurred on the Series B Debenture of approximately $253 for the month of March compared to the prior year and $289 higher interest income on construction funding, mainly attributable to the Specialty Care Acquisition in December 2013.

Transaction Costs

For the first quarter of 2014, transaction costs were $550, and were related to restructuring charge associated with the Specialty Care Acquisition.

Income Taxes

The income tax recovery for the first quarter of 2014 was $6,402 compared to $320 in the comparable period last year. The current tax recovery of $1,707 was the result of the tax shield created by the redemption premium on the Series A Debentures and the settlement of a bond-lock hedge. Without these items, current tax expense would be approximately $217. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. The deferred tax recovery of $4,695 in the quarter is an increase of $3,920 over last year primarily as result of the tax shields discussed above.

NOI

Leisureworld generated NOI of $19,528 for the first quarter ended March 31, 2014. This represented an increase of $5,558 over the first quarter of 2013.

LTC NOI increased by $3,645 for the quarter, due primarily to Specialty Care Acquisition in December 2013 and a 3.2% improvement in same property performance.

The retirement segment generated NOI of $4,254, an increase of $1,538 from the same period last year due primarily to the Specialty Care Acquisition in December 2013 and a 13.4% improvement in same property performance.

Home Care’s NOI of $691 reflects a decrease of $129, or 15.7%, over the comparable period. The decrease was the result of transitioning intercompany business and related costs to the LTC segment for internal management and presentation. Same property NOI in home care was consistent with the same period of the prior year as the transition of services was offset by increased support services contract volumes.

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

Business Performance

Adjusted Funds from Operations

The following is a reconciliation of net loss to FFO, OFFO and AFFO for the period ended March 31.

	Three Months Ended		
Thousands of Dollars, except share and per share data	**2014**	2013	Change
Net loss	**(18,064)**	(1,362)	(16,702)
Deferred income tax recovery	**(4,695)**	(775)	(3,920)
Depreciation and amortization	**9,827**	7,100	2,727
Transaction costs	**550**	999	(449)
Loss on interest rate swap settlements	**93**	220	(127)
Loss (gain) on interest rate swap contracts	**560**	(299)	859
Funds from operations (FFO)	**(11,729)**	5,883	(17,612)
Accretion of fair value increment on long term debt	**3,795**	424	3,371
Amortization of deferred financing charges	**801**	134	667
Amortization of loss on bond forward contract	**122**	-	122
Loss on interest rate swap settlements	**(93)**	(220)	127
Redemption premium on Series A Debentures	**18,392**	-	18,392
Tax shield due to redemption premium on Series A Debentures	**(274)**	-	(274)
Tax shield due to the settlement of the bond-lock hedge	**(1,650)**	-	(1,650)
One-time share based compensation	**-**	5	(5)
Operating funds from operations (OFFO)	**9,364**	6,226	3,138
Deferred share unit compensation earned	**174**	428	(254)
Deferred share unit settlement	**(73)**	-	(73)
Income support	**344**	338	6
Construction funding principal	**2,224**	1,527	697
Maintenance capex	**(329)**	(339)	10
Adjusted funds from operations (AFFO)	**11,704**	8,180	3,524
Adjusted funds from operations (AFFO)	**11,704**	8,180	3,524
Dividends declared	**(8,158)**	(6,587)	(1,571)
Operating cash flow retained	**3,546**	1,593	1,953
Basic FFO per share	**(0.324)**	0.201	(0.525)
Basic OFFO per share	**0.258**	0.213	0.045
Basic AFFO per share	**0.323**	0.279	0.044
Weighted average common shares outstanding - Basic	**36,250,882**	29,269,949	
Diluted FFO per share	**(0.290)**	0.201	(0.491)
Diluted OFFO per share	**0.248**	0.213	0.035
Diluted AFFO per share	**0.308**	0.279	0.029
Weighted average common shares outstanding - Diluted	**38,997,151**	29,274,671	
Reconciliation of diluted FFO, OFFO and AFFO			
FFO, Basic	**(11,729)**	5,883	(17,612)
Interest expense on convertible debt	545	-	545
Current income tax expense adjustment	(144)	-	(144)
FFO, Diluted	**(11,328)**	5,883	(17,211)
OFFO, Basic	**9,364**	6,226	3,138
FFO dilutive adjustment, net	401	-	401
Amortization of deferred financing charges on convertible debt	(99)	-	(99)
OFFO, Diluted	**9,666**	6,226	3,440
AFFO, Basic	**11,704**	8,180	3,524
OFFO dilutive adjustment, net	302	-	302
AFFO, Diluted	**12,006**	8,180	3,826

For the Quarter

FFO

FFO was ($11,729) during the first quarter of 2014, compared to $5,883 in the same quarter of 2013. The change of $17,612 was primarily due to the costs incurred for the redemption of the Series A Debentures (the impacts of which are not adjusted as per the REALpac definition) and increased administrative expenses. This was offset by contributions from transactional activity and the improved NOI contributions from the same property activities.

OFFO

OFFO, which reflects the company's historical presentation of FFO, totaled $9,364, an increase of $3,138 over the same quarter last year. The increase was principally related to transaction activities and the improved NOI performance from same property activities, partly offset by the increase in administrative expenses.

AFFO

AFFO totaled $11,704, an increase of $3,524 over the first quarter of 2013. The increase was principally related to the improved OFFO performance noted above in addition to the incremental construction funding received as a result of the Specialty Care Acquisition in December 2013.

Liquidity and Capital Resources

Financial Position Analysis

The following is a summary of cash flows for the period ended March 31.

	Three Months Ended		
Thousands of Dollars	**2014**	2013	Change
Cash flow from operations before non-cash working capital items	**15,002**	10,280	4,722
Non-cash changes in working capital	**1,953**	8,253	(6,300)
Bond forward settlement, redemption premium, interest paid and other items	**(31,257)**	(1,808)	(29,449)
Cash provided by (used in):			
Operating activities	**(14,302)**	16,725	(31,027)
Investing activities	**2,324**	(635)	2,959
Financing activities	**14,215**	(6,812)	21,027
Increase in cash	**2,237**	9,278	(7,041)
Cash	**17,860**	18,521	(661)

For the Quarter

Operating Activities

For the current quarter ended March 31, 2014, operating activities used $14,302 of cash due to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $15,002.
- Change in net balances of government funding provided $1,997 due to timing.

- Increase in accounts payable and accrued liabilities of $905, primarily related to the timing of wage and benefit accruals, partly offset by payments related to working capital adjustments associated with the Specialty Care Acquisition and by decreases in trade payables and accrued liabilities.
- Increase in accounts receivables and other assets of $595 due to the timing of receipts.
- Settlement of the bond forward contracts utilized $6,234 of cash.
- The redemption premium on the settlement of the Series A Debentures used $18,392 of cash.
- Interest paid on long-term debt of $6,080.

For the first quarter of 2013, operating activities provided $16,725 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $10,280.
- Accounts receivable and other assets decreased by $1,552 primarily related to the timing of receivable collections.
- Increases in prepaid expense and deposit balances were a result of the timing of expense recognition.
- Interest paid used $1,178 of cash.
- Accounts payable and accrued liabilities increased by $3,681, primarily related to the timing of trade payables and payroll related accruals.
- The change in net government funding balances of $2,941 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.

Investing Activities

Investing activities for the quarter provided $2,324 of cash. The principal source of cash is related to construction funding in the amount of $3,270. This was partly offset by cash used for the funding of the Series B Debenture principal reserve fund in the amount of $857 and the purchase of property and equipment of $329.

For the comparable quarter of 2013, investing activities used cash of $635, primarily as a result of a $2,000 deposit associated with the Specialty Care Acquisition and the purchase of equipment of $940. This was offset by the receipt of construction funding of $2,284.

Financing Activities

Financing activities in the quarter provided $14,215 of cash. This was primarily related to the following:

- Proceeds of issuance of the Series B Debentures provided cash of $322,000, which was offset with the repayment of long-term debt, principally related to the Series A Debentures.
- Other offsets included dividends paid in the quarter of $8,156.
- Financing costs related to the Series B Debentures used $3,598 of cash.

For the comparable period last year, financing activities used $6,812 of cash primarily as a result of dividend payments in the amount of $6,587.

Capital Resources

Leisureworld's total debt as at March 31, 2014 was $624,837, excluding the Series B Debentures principal reserve fund of $857, compared to $598,703 as at December 31, 2013. The increase of $26,134 relates to the issuance of the Series B Debentures. As at March 31, 2014, Leisureworld had committed and undrawn facilities of $26,000.

As of March 31, 2014, Leisureworld had negative working capital of $44,136 primarily arising from short term debt of $27,240 assumed in connection with the Specialty Care Acquisition maturing in the fourth quarter of the current year. Management is anticipating settling part of the short term debt in cash provided by operations and refinancing the remaining components. To support Leisureworld's working capital deficiency, Leisureworld will use its operating cash flows and, if necessary, undrawn credit facilities.

Liquidity and Capital Commitments

Liquidity

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

Capital Commitments

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

Debt Strategy

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

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

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

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

Interest Coverage Ratio

Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations. In general, higher ratios indicate a lower risk of default.

	Three Months Ended	
Thousands of Dollars, except ratio	**2014**	2013
Net finance charges	**29,393**	4,384
Add (deduct):		
Net accretion of fair value adjustments on long-term debt	**(3,795)**	(424)
Amortization of deferred financing charges	**(801)**	(134)
Amortization of loss on bond forward contracts	**(122)**	-
Redemption premium on Series A Debentures	**(18,392)**	-
Interest income on construction funding receivable	**1,046**	757
Other interest income	**240**	21
Gain (loss) on interest rate swap contracts	**(560)**	299
Net finance charges, adjusted	**7,009**	4,903
EBITDA	**18,574**	13,085
Interest coverage ratio	**2.7**	2.7

The net finance charges have not been adjusted for the 21 days duplicate interest on the Series A Debentures and Series B Debentures. If this were adjusted, the interest coverage ratio for the first quarter of 2014 would have been 3.0.

The following is the reconciliation of Net loss to EBITDA:

	Three Months Ended	
Thousands of Dollars	**2014**	2013
Net loss	**(18,064)**	(1,362)
Net finance charges	**29,393**	4,384
Recovery of income taxes	**(6,402)**	(320)
Depreciation and amortization	**9,827**	7,100
Transaction costs	**550**	999
Proceeds from construction funding	**3,270**	2,284
EBITDA	**18,574**	13,085

Debt Service Coverage Ratio

Debt service coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations; as well, maintaining the debt service coverage ratio forms part of Leisureworld's debt covenant requirements. In general, higher ratios indicate a lower risk of default. The following calculation takes into consideration the payments into the Series B Debenture principal reserve fund as part of the debt service costs. EBITDA adjusted, as referenced below, is presented per defined terms in certain covenant calculations.

Thousands of Dollars, except ratio	Three Months Ended 2014	2013
Net finance charges	**29,393**	4,384
Add (deduct):		
Net accretion of fair value adjustments on long-term debt	**(3,795)**	(424)
Amortization of deferred financing charges	**(801)**	(134)
Amortization of loss on bond forward contracts	**(122)**	-
Redemption premium on Series A Debentures	**(18,392)**	-
Interest income on construction funding receivable	**1,046**	757
Other interest income	**240**	21
Gain (loss) on interest rate swap contracts	**(560)**	299
Net finance charges, adjusted	**7,009**	4,903
Principal repayments	**1,705**	225
Principal reserve fund	**857**	-
Total debt service	**9,571**	5,128
EBITDA	**18,574**	13,085
Add (deduct):		
Maintenance capex	**(329)**	(339)
Cash income taxes	**(458)**	(450)
EBITDA, adjusted	**17,787**	12,296
Debt service coverage ratio	**1.9**	2.4

The net finance charges have not been adjusted for the 21 days duplicate interest on the Series A Debentures and Series B Debentures. If this were adjusted, the debt service coverage ratio for the first quarter of 2014 would have been 2.0.

Leverage Ratio

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

Thousands of Dollars, except ratio	Three Months Ended 2014	2013
Weighted average debt		
Series A Senior Secured Debentures	**203,933**	294,326
Series B Senior Secured Debentures	**179,866**	-
Series B Senior Secured Debentures - Principal Reserve Fund	**(57)**	-
Credit facilities	**73,000**	98,100
Mortgages	**175,531**	38,003
Construction loan	**13,351**	-
Convertible debentures	**46,000**	-
	691,624	430,429
EBITDA (Quarterly Annualized)	**74,296**	52,340
Debt to EBITDA	**9.3**	8.2

If the weighted average debt excluded the Series B Debenture and the Series A Debenture remained outstanding for the duration of the first quarter of 2014, the leverage ratio would have been 8.1.

Debt Profile

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

	Weighted Average Debt for the three months ended			
	2014	**Rate (%)**	2013	Rate (%)
Fixed Rate				
Debenture	**383,799**	**4.10%**	294,326	4.81%
Mortgage	**175,531**	**4.67%**	38,003	5.19%
Convertible Debenture	**46,000**	**4.65%**	-	-%
Total Fixed	**605,330**	**4.31%**	332,329	4.86%
Floating Rate				
Credit Facility	**73,000**	**3.03%**	98,100	3.03%
Construction Loan	**13,351**	**4.25%**	-	-%
Total Floating	**86,351**	**3.22%**	98,100	3.03%
Total Debt	**691,681**	**4.17%**	430,429	4.44%

Debt to Gross Book Value

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

	As at March 31,	
Thousands of Dollars, except ratio	**2014**	2013
Total indebtedness		
Series A Senior Secured Debentures	**-**	294,326
Series B Senior Secured Debentures	**322,000**	-
Series B Senior Secured Debentures - Principal reserve fund	**(857)**	-
Credit facilities	**73,000**	98,100
Mortgages	**175,531**	38,694
Construction loan	**13,351**	-
Convertible debentures	**46,000**	-
	629,025	431,120
Total assets	**969,355**	744,868
Accumulated depreciation on property and equipment	**75,509**	53,885
Accumulated amortization on intangible assets	**47,293**	37,345
Gross book value	**1,092,157**	836,098
Debt to Gross Book Value	**57.6%**	51.6%

Capital Disclosure

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

Leisureworld's objectives when managing capital are to:

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

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

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

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

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

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

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

Contractual Obligations and Other Commitments

Long-Term Debt

Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Construction Loans	Amortizing Debt: Regular Principal Payments	Amortizing Debt: Principal Due at Maturity	Total	% of Total	Weighted Average Interest on Maturing Debt
2014	-	-	-	13,351	5,148	13,243	31,742	5.0%	4.6%
2015	-	73,000	-	-	6,444	-	79,444	12.6%	3.0%
2016	-	-	-	-	6,745	10,020	16,765	2.7%	4.2%
2017	-	-	-	-	26,772	11,329	38,101	6.0%	4.1%
2018	-	-	46,000	-	5,109	22,217	73,326	11.6%	5.0%
2019	-	-	-	-	3,938	37,860	41,798	6.6%	4.3%
2020	-	-	-	-	1,181	-	1,181	0.2%	-%
2021	322,000	-	-	-	1,232	-	323,232	51.3%	3.5%
2022	-	-	-	-	1,284	-	1,284	0.2%	-%
2023	-	-	-	-	953	12,407	13,360	2.1%	3.0%
Thereafter	-	-	-	-	4,172	5,477	9,649	1.5%	5.2%
	322,000	73,000	46,000	13,351	62,978	112,553	629,882	100.0%	
Mark-to-market adjustment arising from acquisition							2,458		
Less: Deferred financing costs							(4,591)		
Less: Deferred financing costs convertible debentures							(1,540)		
Less: Equity component of convertible debentures							(515)		
							625,694		

Convertible Debentures

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

Operating Leases

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

2014	730
2015	921
2016	509
2017	425
2018	377
Thereafter	233
	3,195

Related Party Transactions

A subsidiary of Leisureworld has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the three months ended March 31, 2014 was $473 (2013 - $488). Included in accounts receivable is $94 owing from Spencer House Inc. at March 31, 2014 (December 31, 2013 - $94). These transactions are in the normal course of operations and have been valued in these consolidated interim financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As at March 31, 2014, Leisureworld has amounts outstanding from certain key executives of $297 (December 31, 2013 - $178) in relation to its long-term incentive plan issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, Leisureworld loaned the Chief Executive Officer ("CEO") $500 to purchase Leisureworld common shares. The outstanding loan balance as at March 31, 2014 was $484 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

Key Performance Drivers

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

Government funding

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

Occupancy levels enhance cash flow

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

Under current MOHLTC policy, a LTC home that provides basic accommodation for at least 40% of residents in Class A homes may offer the remaining residents private or semi-private accommodation at a regulated premium. The LTC home operator retains the premiums collected from residents for such accommodation. Effective July 1, 2013, the MOHLTC increased the private room premium to $21.50 per day and $10.00 per day for semi-private accommodations for all new admissions in Class A homes. Existing residents were grandfathered at the historic rates. Leisureworld has approximately 35% of its beds designated as private accommodation and has converted approximately 35% of the resident base from the previous daily rates to the new prescribed rates in the Class A homes.

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

Disciplined cost management

Given its size, Leisureworld is able to realize economies of scale in administration, operations, purchasing and cost controls. The average size of a Leisureworld LTC home (at 167 beds) is greater than the Ontario provincial average of 125 beds, which also enhances our ability to achieve efficiencies and economies of scale. As a very experienced operator, Leisureworld prudently manages its costs in all divisions while providing quality accommodation and services to seniors.

Ensuring continued maintenance and upgrade of properties

Annual capital budgets and regular operational and equipment/building service contract reviews are used by management in the planning, monitoring and maintenance of Leisureworld's physical assets. Leisureworld has established an active, ongoing preventative maintenance program to maintain and operate its properties efficiently.

Significant Judgments and Estimates

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

Financial Instruments

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

Critical Accounting Estimates and Accounting Policies

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

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

Changes in Accounting Policies

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

IAS 32, Financial instruments: presentation and IFRS 7, Financial instruments: disclosures

In December 2011, the IASB amended both IAS 32 - Financial instruments: presentation and IFRS 7 - Financial instruments: disclosures by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. Leisureworld assessed the amendments and determined that the adoption of IAS 32 and IFRS 7 did not have a material impact on the financial statements.

IFRS Interpretation Committee ("IFRIC") 21, Levies

This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, contingent liabilities and contingent assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. The adoption of IFRIC 21 did not require any adjustments in the way Leisureworld accounts for paying a levy.

Accounting Standards Issued But Not Yet Applied

IFRS 9, Financial Instruments

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

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

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

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

Controls and Procedures

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

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

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

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

Q1 2014

Leisureworld
SENIOR CARE CORPORATION

Consolidated Financial Statements
(in thousands of Canadian Dollars)

Condensed Interim Consolidated Financial Statements

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

	Notes	**March 31, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash		**17,860**	15,623
Accounts receivable and other assets	14	**6,279**	5,670
Bond forward contracts		**-**	1,885
Income support		**956**	1,300
Prepaid expenses and deposits		**4,052**	3,546
Government funding receivable		**6,441**	6,113
Construction funding receivable		**9,051**	8,975
Income taxes receivable		**3,425**	1,260
		48,064	44,372
Government funding receivable		**194**	614
Restricted cash	5	**1,770**	913
Construction funding receivable		**91,573**	93,873
Property and equipment		**592,611**	598,489
Intangible assets		**136,339**	139,959
Goodwill		**98,804**	98,804
Total assets		**969,355**	977,024
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11	**55,330**	53,818
Government funding payable		**1,575**	1,605
Current portion of long-term debt	6	**35,206**	34,079
Interest rate swap contracts		**89**	43
		92,200	89,545
Long-term debt	6	**546,543**	520,796
Convertible debentures	7	**43,945**	43,828
Deferred income taxes	9	**58,346**	65,190
Government funding payable		**5,002**	3,067
Share-based compensation liability	12	**1,754**	1,677
Interest rate swap contracts		**949**	435
Total liabilities		**748,739**	724,538
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**220,616**	252,486
Total liabilities and shareholders' equity		**969,355**	977,024

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Thousands of dollars

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, January 1, 2014		**371,789**	**515**	**27**	**(121,231)**	**1,386**	**252,486**
Issuance of shares	**10**	**154**	**-**	**-**	**-**	**-**	**154**
Net loss		**-**	**-**	**-**	**(18,064)**	**-**	**(18,064)**
Other comprehensive loss		**-**	**-**	**-**	**-**	**(5,848)**	**(5,848)**
Long-term incentive plan	**12**	**9**	**-**	**32**	**-**	**-**	**41**
Share purchase loan	**14**	**5**	**-**	**-**	**-**	**-**	**5**
Dividends	**11**	**-**	**-**	**-**	**(8,158)**	**-**	**(8,158)**
Balance, March 31, 2014		**371,957**	**515**	**59**	**(147,453)**	**(4,462)**	**220,616**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, January 1, 2013		289,098	-	10	(84,952)	-	204,156
Net loss		-	-	-	(1,362)	-	(1,362)
Long-term incentive plan	12	6	-	17	-	-	23
Share-based compensation	12	5	-	-	-	-	5
Dividends	11	-	-	-	(6,587)	-	(6,587)
Balance, March 31, 2013		289,109	-	27	(92,901)	-	196,235

See accompanying notes.

Thousands of dollars

Consolidated Statements of Operations

	Notes	Three months ended March 31 2014	2013
Revenue	14, 15	**112,340**	83,704
Expenses			
Operating		**92,812**	69,734
Administrative		**4,224**	3,169
	16	**97,036**	72,903
Income before other expenses and the provision for (recovery of) income taxes		**15,304**	10,801
Depreciation and amortization		**9,827**	7,100
Net finance charges	8	**29,393**	4,384
Transaction costs		**550**	999
Total other expenses		**39,770**	12,483
Loss before income taxes		**(24,466)**	(1,682)
Provision for (recovery of) income taxes			
Current		**(1,707)**	455
Deferred		**(4,695)**	(775)
	9	**(6,402)**	(320)
Net loss		**(18,064)**	(1,362)
Basic and diluted loss per share		**($0.50)**	($0.05)
Weighted average number of common shares outstanding		**36,250,882**	29,269,949

Consolidated Statements of Comprehensive Loss

	Notes	Three months ended March 31 2014	2013
Net loss		**(18,064)**	(1,362)
Items that may be subsequently reclassified to statement of operations:			
Realized loss on bond forward contracts, net of tax	6	**(5,848)**	-
Total comprehensive loss		**(23,912)**	(1,362)

See accompanying notes.

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

	Notes	Three months ended March 31 2014	2013
OPERATING ACTIVITIES			
Net loss		**(18,064)**	(1,362)
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**6,207**	5,018
Amortization of intangible assets		**3,620**	2,082
Current income taxes		**(1,707)**	455
Deferred income taxes		**(4,695)**	(775)
Share-based compensation	12	**248**	478
Net finance charges	8	**29,393**	4,384
		15,002	10,280
Non-cash changes in working capital			
Accounts receivable and other assets		**(595)**	1,552
Prepaid expenses and deposits		**(698)**	(376)
Accounts payable and accrued liabilities		**905**	3,681
Income support		**344**	455
Government funding, net		**1,997**	2,941
		1,953	8,253
Net settlement payment on bond forward contracts		**(6,234)**	-
Redemption premium paid on long-term debt		**(18,392)**	-
Interest paid on long-term debt		**(6,080)**	(1,178)
Net settlement payment on interest rate swap contracts		**(93)**	(180)
Income taxes paid		**(458)**	(450)
Cash provided by (used in) operating activities		**(14,302)**	16,725
INVESTING ACTIVITIES			
Purchase of property and equipment		**(329)**	(940)
Amounts received from construction funding		**3,270**	2,284
Interest received from cash		**240**	21
Acquisition related deposit		**-**	(2,000)
Change in restricted cash		**(857)**	-
Cash provided by (used in) investing activities		**2,324**	(635)
FINANCING ACTIVITIES			
Repayment of long-term debt		**(296,031)**	(225)
Proceeds from issuance of long-term debt		**322,000**	-
Deferred financing costs		**(3,598)**	-
Dividends paid	11	**(8,156)**	(6,587)
Cash provided by (used in) financing activities		**14,215**	(6,812)
Increase in cash during the period		**2,237**	9,278
Cash, beginning of period		**15,623**	9,243
Cash, end of period		**17,860**	18,521

See accompanying notes.

1 Organization

General information and nature of operations

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

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

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

Leisureworld is listed on the Toronto Stock Exchange (the "TSX") under the trading symbol LW. As of March 31, 2014, the following securities of Leisureworld were outstanding: 36,262,924 common shares; $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (Note 7).

2 Basis of preparation

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

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

3 Summary of significant accounting policies, judgments and estimation uncertainty

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

Changes in accounting policies

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

IAS 32, Financial instruments: presentation and IFRS 7, Financial instruments: disclosures

In December 2011, the IASB amended both IAS 32 - *Financial instruments: presentation* and IFRS 7 - *Financial instruments: disclosures* by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. Leisureworld assessed the amendments and determined that the adoption of IAS 32 and IFRS 7 did not have a material impact on the financial statements except for additional disclosures related to offsetting (see Note 6).

IFRS Interpretation Committee ("IFRIC") 21, Levies

This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, *Provisions, contingent liabilities and contingent assets*. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. The adoption of IFRIC 21 did not require any adjustments in the way Leisureworld accounts for paying a levy.

Significant judgments and estimates

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

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

4 Financial instruments

Fair value of financial instruments

Leisureworld's use of unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3) in the valuation of financial instruments are as follows as at March 31, 2014 and December 31, 2013:

	As at March 31, 2014			
		Fair Value		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Construction funding receivable	**100,624**	**-**	**-**	**104,746**
Financial Liabilities:				
Long-term debt	**581,749**	**-**	**594,359**	**-**
Convertible debentures	**43,945**	**46,460**	**-**	**-**
Interest rate swap contracts	**1,038**	**-**	**1,038**	**-**

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

Liquidity risk

Liquidity risk is the risk Leisureworld may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. Leisureworld has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. Leisureworld was in compliance with all covenants on its borrowings as at March 31, 2014. A failure by Leisureworld to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

Management will commence the process of refinancing and extending the maturity date of mortgages totaling $13,766 and a construction loan totaling $13,351. There can be no assurances that the amounts or terms of any refinancing would be favourable to Leisureworld. Should refinancing be unsuccessful, Leisureworld's alternatives to meet its obligations include utilizing existing cash, drawing on available revolving credit facilities totaling $26,000 and issuing additional debt or equity.

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

5 Restricted cash

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

	March 31, 2014	December 31, 2013
Capital Maintenance Reserve	**913**	913
Series B Debenture Principal Reserve Fund	**857**	-
Restricted cash	**1,770**	913

6 Long-term debt

	Interest rate	**Maturity date**	**March 31, 2014**	December 31, 2013
Series A Senior Secured Debentures	4.814%	November 24, 2015	**-**	294,326
Series B Senior Secured Debentures	3.474%	February 3, 2021	**322,000**	-
Credit facilities	Floating	2015	**73,000**	73,000
Mortgages at fixed rates	3.02% - 7.11%	2014 - 2023	**160,492**	162,083
Mortgage at variable rate	Floating	April 16, 2029	**15,039**	15,146
Construction loan	Prime + 1.25%	December 31, 2014	**13,351**	13,351
			583,882	557,906
Mark-to-market adjustments on acquisition			**2,458**	(1,337)
Financing costs			**(4,591)**	(1,694)
Total debt			**581,749**	554,875
Less: current portion			**35,206**	34,079
			546,543	520,796

Series A and B Senior Secured Debentures

On February 3, 2014, Leisureworld Senior Care LP ("LSCLP") issued $322,000 of aggregate principal amount of 3.474% Series B Debentures due February 3, 2021. The net proceeds of $313,657, after financing costs of $2,109 and the settlement of the bond forward contract that resulted in a payment of $6,234 were used on February 24, 2014 to repurchase $294,326 principal amount of its Series A Senior Secured Debentures ("Series A Debentures") for a cash consideration of $312,718, which includes a redemption premium of $18,392. Accrued interest of $3,571 on the Series A Debentures and financing costs of $1,489 on the Series B Debentures were also paid during the three months ended March 31, 2014.

The Series B Debentures, due February 3, 2021, have a face value of $322,000 as at March 31, 2014 (December 31, 2013 - $nil) and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Interest on the Series B Debentures is payable semi-annually in arrears on February 3 and August 3 of each year.

The Series B Debentures may be redeemed in whole or in part at the option of Leisureworld at any time, upon not less than 15 days' and not more than 30 days' notice to the holders of the Series B Debentures. The redemption price is the greater of: (i) the face amount of the Series B Debentures to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such Series B Debentures equal to the Canada Yield Price, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.375%.

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

Series B Debentures - Principal Reserve Fund

As part of the issuance of the Series B Debentures, a principal reserve fund was established by Leisureworld and is controlled by an external third party Trustee for the benefit and security of the holders of the Series B Debenture. Leisureworld is required to fund the principal reserve fund in accordance with a defined schedule over the term of the Series B Debentures. Leisureworld can only use the fund to redeem, purchase or repay principal of the Series B Debentures. Leisureworld, in conjunction with the issuance of the Series B Debentures, entered into an interest rate swap contract, to effectively fix the interest rate earned on the principal reserve fund at 2.820%.

Contributions to the principal reserve fund are as follows:

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

Offsetting of Financial Instruments

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

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

	As at March 31, 2014		
	Gross amount presented in the statement of financial position	Related accounts not set-off in the statement of financial position	Net amount
Financial Liabilities:			
Series B Senior Secured Debentures	322,000	(857)	321,143

Credit facilities

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

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

Mortgages at fixed rates

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

On April 19, 2013, Leisureworld entered into a $17,974 Canada Mortgage and Housing Corporation ("CMHC") insured mortgage on the Pacifica property ("Pacifica Mortgage"). The Pacifica Mortgage bears interest at 3.04%, has a 25-year amortization period and matures on June 1, 2023. The Pacifica Mortgage is secured by a first collateral mortgage on the Pacifica property and a general security agreement providing a first charge on all assets and undertakings, is guaranteed by Leisureworld as to $5,400, and is subject to certain customary financial and non-financial covenants. As part of the Pacifica Mortgage, Leisureworld incurred financing costs of $611 directly associated with obtaining the financing.

On December 2, 2013, Leisureworld completed the acquisition of the Specialty Care Inc. business ("Specialty Care Acquisition"). As part of the Specialty Care Acquisition, Leisureworld assumed mortgages in the amount of $59,229 with a fair value of $61,299. The assumed mortgages bear fixed interest rates ranging from 3.02% to 7.11% with maturity dates through to 2018. The mortgages are secured by a first charge on all assets owned by Leisureworld and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

In addition, to fund the Specialty Care Acquisition, Leisureworld entered into new mortgages totaling $62,540 on December 2, 2013. The new mortgages bear interest rates ranging from 4.30% to 4.60% with maturity dates through to 2019. The mortgages are secured by a first charge on all assets owned by Leisureworld and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

Mortgage at variable rate

As part of the acquisition of the Madonna LTC home, Leisureworld assumed a mortgage in the amount of $15,718, which bears interest at the floating monthly BA rate plus a stamping fee of 1.50% per annum. The mortgage is secured by a first collateral mortgage on the property, is guaranteed by Leisureworld, and is subject to certain customary financial and non-financial covenants. Leisureworld, in conjunction with the mortgage, assumed the interest rate swap contract in the amount of $2,317, to effectively fix the floating BA rate at 3.70%. The swap is collateralized by a second mortgage of the property.

Construction loan

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

7 Convertible debentures

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

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

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

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

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

8 Net finance charges

	Three months ended March 31	
	2014	2013
Finance costs		
Interest expense on long-term debt	**6,352**	4,625
Interest expense on convertible debentures	**545**	-
Interest expense and fees on revolving credit facility	**19**	58
Net accretion of the fair value adjustments on long-term debt	**3,795**	424
Amortization of deferred financing charges	**801**	134
Amortization of loss on bond forward contract	**122**	-
Redemption premium on Series A Debentures (Note 6)	**18,392**	-
Net settlement payment on interest rate swap contracts	**93**	220
Loss on interest rate swap contract	**560**	-
	30,679	5,461
Finance income		
Interest income on construction funding receivable	**1,046**	757
Other interest income	**240**	21
Gain on interest rate swap contracts	**-**	299
	1,286	1,077
Net finance charges	**29,393**	4,384

9 Income taxes

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

	Three months ended March 31	
	2014	2013
Loss before income taxes	**(24,466)**	(1,682)
Canadian combined income tax rate	**26.47%**	26.47%
Income tax recovery	**(6,476)**	(445)
Adjustments to income tax provision:		
Non-deductible items	**28**	125
Other items	**46**	-
Income tax recovery	**(6,402)**	(320)

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

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at December 31, 2013	(65,824)	(8,746)	2,414	7,762	(796)	(65,190)
Credit (charge) to net loss	436	659	(317)	(277)	4,194	4,695
Credit to other comprehensive income	-	-	-	-	2,149	2,149
As at March 31, 2014	**(65,388)**	**(8,087)**	**2,097**	**7,485**	**5,547**	**(58,346)**

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

	March 31, 2014	December 31, 2013
Within one year	**1,238**	(3,409)
One to four years	**(7,030)**	(6,829)
After four years	**(52,554)**	(54,952)
Total	**(58,346)**	(65,190)

10 Share capital

Authorized

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

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2013	29,272,889	289,098
Long-term incentive plan, net of loans receivable	9,435	14
Share-based compensation	-	5
Issued common shares	39,063	12
Common shares issued in exchange of subscription receipts, net of tax and transaction costs	6,353,750	76,157
Common shares issued to vendor	564,516	6,503
Balance, December 31, 2013	36,239,653	371,789
Long-term incentive plan, net of loans receivable	10,396	9
Share-based compensation	-	5
Issued common shares	12,875	154
Balance, March 31, 2014	**36,262,924**	**371,957**

11 Dividends

Leisureworld paid dividends at $0.075 per month per common share totaling $8,156 for the three months ended March 31, 2014 (2013 - $6,587). Dividends of $2,720 are included in accounts payable and accrued liabilities as at March 31, 2014 (December 31, 2013 - $2,718). Subsequent to March 31, 2014, the Board of Directors declared dividends of $0.075 per common share for April 2014 totaling $2,720. These dividends have not been recorded in these condensed interim consolidated financial statements.

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

12 Share-based compensation

Leisureworld has share-based compensation plans described as follows:

LTIP

Certain senior executives ("Participants") may be awarded incentive amounts on an annual basis based on performance targets being achieved. Participants have the option to purchase the number of common shares equal to their eligible incentive amount divided by the weighted average closing price of common shares on the TSX for the five trading days ("Average Closing Price"), prior to date of grant. At most 95% of the eligible incentive amount may be financed by a loan from Leisureworld to the Participant for the purpose of investing into the LTIP and bearing interest at the prime rate per annum, fixed at the time of the loan. The loan and interest are due and payable 10 years (formerly five years) from the grant date. Until the loan has been repaid in full, the related shares will be pledged to Leisureworld as security against the outstanding balance of the loan and any cash dividends declared on such shares will be applied against the outstanding balance of the loan, first to interest then to principal.

On February 25, 2014 incentive amounts entitling Participants to acquire 10,396 shares were awarded under this plan. On the grant date, the Participants paid $6, which represents 5% of their aggregate incentive amounts. This payment was recorded as an increase in share capital. Related to the LTIP in the three months ended March 31, 2014, Leisureworld recorded an increase of $9 in share capital (2013 - $6) and $32 in contributed surplus (2013 - $17). Included as a reduction to shareholders' equity is an outstanding loan balance of $297 (December 31, 2013 - $178). Total expense related to the LTIP for the three months ended March 31, 2014 was $32 (2013 - $17).

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

Valuation date	February 25, 2014
Fair value at grant date	$12.30
Volatility	16.46%
Monthly discrete dividend	$0.075
Risk-free rate	2.83%
Annual interest rate on participant's loan - prime rate	3.00%
Forfeiture rate	0.00%

RSU

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

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

During the three months ended March 31, 2014, 23,730 RSUs were granted to certain Employees under this plan. Total expenses related to the RSU plan for the three months ended March 31, 2014 were $130 (2013 - $28), of which $42 were recognized in administrative expenses and $88 were recognized in transaction costs relating to termination benefits. During the three months ended March 31, 2014, 12,875 RSUs vested and were settled in cash, resulting in a decrease of $154 to share-based compensation liability. The total liability recorded as a part of the share-based compensation liability as at March 31, 2014 was $97 (December 31, 2013 - $121).

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

	Number of RSUs
Outstanding, January 1, 2013	11,489
Granted	20,190
Divdends reinvested	1,207
Settled in cash	(6,859)
Outstanding, December 31, 2013	26,027
Granted	23,730
Dividends reinvested	499
Vested and settled	(12,875)
Outstanding, March 31, 2014	**37,381**

DSU

Eligible members of the Board of Directors (“Members”) can elect on an annual basis to receive their annual retainer fees up to 100% as DSUs, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using the Average Closing Price on the grant date. Leisureworld will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the DSUs, as long as the Member continues to serve on the Board of Directors, as additional notional units under DSU plan. The compensation, nominating and governance committee reserves the right to amend the eligible participants and compensation structure under this plan. The value of each DSU is measured at each reporting date and is equivalent to the fair market value of a common share of Leisureworld at the reporting date. Total expense related to this plan for the three months ended March 31, 2014 was $174 (2013 - $428), which was recognized in administrative expenses. The total liability recorded as a part of the share-based compensation liability as at March 31, 2014 was $1,657 (December 31, 2013 - $1,556).

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

13 Key management compensation

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

	Three months ended March 31	
	2014	2013
Salaries and short-term employee benefits	**688**	127
Termination benefits	**232**	-
Share-based compensation	**243**	478
	1,163	605

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

14 Related party transactions

A subsidiary of Leisureworld has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the three months ended March 31, 2014 was $473 (2013 - $488). Included in accounts receivable is $94 owing from Spencer House Inc. at March 31, 2014 (December 31, 2013 - $94). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As at March 31, 2014, Leisureworld has amounts outstanding from certain key executives of $297 (December 31, 2013 - $178) (Note 12) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, Leisureworld loaned the Chief Executive Officer ("CEO") $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as at March 31, 2014 was $484 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

15 Economic dependence

Leisureworld holds licences related to each of its LTC homes and receives funding from the MOHLTC related to these licences. Funding is received on or about the 22nd of each month. During the three months ended March 31, 2014, Leisureworld received approximately $71,302 (2013 - $54,824) in respect of these licences for operating revenues and other MOHLTC funded initiatives.

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

16 Expenses by nature

	Three months ended March 31	
	2014	2013
Salaries, benefits and people costs	**71,714**	55,456
Food	**4,308**	3,219
Property taxes	**3,451**	2,641
Utilities	**3,883**	2,705
Purchased services and non-medical supplies	**3,876**	3,060
Other	**9,804**	5,822
Total expenses	**97,036**	72,903

17 Segmented information

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

Leisureworld is comprised of the following main business segments:

- LTC business - LTC is the core business of Leisureworld;
- Retirement - Retirement includes 10 retirement residences;
- Home Care - Home Care is an accredited provider of professional nursing, personal support and education services for both community-based home care and LTC homes; and
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations, the management services business and other items that are not allocatable to the segments.

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

	Three months ended March 31, 2014				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**98,965**	**9,991**	**4,391**	**8,778**	**122,125**
Less: Internal revenue	**1,308**	**-**	**-**	**8,477**	**9,785**
Net revenue	**97,657**	**9,991**	**4,391**	**301**	**112,340**
Income (loss) before other expenses and the provision for (recovery of) income taxes	**14,079**	**4,254**	**691**	**(3,720)**	**15,304**
Transaction costs	**-**	**-**	**-**	**550**	**550**
Depreciation of property and equipment	**4,462**	**1,745**	**-**	**-**	**6,207**
Amortization of intangible assets	**550**	**2,894**	**2**	**174**	**3,620**
Finance costs	**28,655**	**1,380**	**-**	**644**	**30,679**
Finance income	**(1,279)**	**-**	**-**	**(7)**	**(1,286)**
Income tax recovery	**-**	**-**	**-**	**(6,402)**	**(6,402)**
Net income (loss)	**(18,309)**	**(1,765)**	**689**	**1,321**	**(18,064)**
Purchase of property and equipment	**263**	**66**	**-**	**-**	**329**

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

	Three months ended March 31, 2013				
	Long-Term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Gross revenue	74,861	6,529	4,400	6,587	92,377
Less: Internal revenue	1,445	-	-	7,228	8,673
Net revenue	73,416	6,529	4,400	(641)	83,704
Income (loss) before other expenses and the provision for (recovery of) income taxes	10,434	2,716	820	(3,169)	10,801
Transaction costs	-	-	-	999	999
Depreciation of property and equipment	3,739	1,278	1	-	5,018
Amortization of intangible assets	68	1,781	233	-	2,082
Finance costs	4,190	1,271	-	-	5,461
Finance income	(952)	(125)	-		(1,077)
Income tax recovery	-	-	-	(320)	(320)
Net income (loss)	3,389	(1,489)	586	(3,848)	(1,362)
Purchase of property and equipment	928	8	-	4	940

	As at March 31, 2014				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Total assets	**695,136**	**256,720**	**8,283**	**9,216**	**969,355**
Goodwill	**89,322**	**2,511**	**6,521**	**450**	**98,804**
Intangible assets	**111,530**	**18,356**	**4**	**6,449**	**136,339**

	As at December 31, 2013				
	Long-Term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Total assets	700,142	260,291	8,161	8,430	977,024
Goodwill	89,322	2,511	6,521	450	98,804
Intangible assets	112,080	21,250	6	6,623	139,959

18 Comparative figures

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

- On the consolidated statements of operations, a new line item has been created for depreciation and amortization, which was previously included in operating expenses. In addition, a new line item has been created for transaction costs, which was previously included in administrative expenses.
- On the consolidated statements of cash flows, interest paid has been reclassified from financing activities to operating activities.
- In the segmented information note, the management services business is now reflected under corporate, eliminations and other, which was previously included under long-term care. In addition, total assets previously reported are now adjusted to exclude intercompany balances.
- In the expenses by nature note, a new line item has been created for purchased services and non-medical supplies, which was previously included in other.

These reclassifications had no impact on the reported net loss.