Leisureworld Senior Care Corporation

Financial Report
For the Period from Incorporation,
February 10, 2010, to
March 31, 2010

This is the initial report for Leisureworld Senior Care Corporation ("Leisureworld" or the "Company") for the period from February 10, 2010 to March 31, 2010. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the period ended March 31, 2010 should be read in conjunction with the unaudited interim consolidated financial statements and related notes contained in this financial report. Additional information relating to the Company is available on SEDAR at www.sedar.com. The information contained in this report reflects all material events up to May 6, 2010, the date on which this report was approved by the Board of Directors of Leisureworld.

The discussion and analysis of the operating results for the period compare the unaudited consolidated operations of Leisureworld for the period from March 23, 2010 to March 31, 2010 (the period for which the results of the acquired business are included in the results of the Company) to the estimated results of the prior period from March 23, 2009 to March 31, 2009 for Leisureworld Senior Care LP ("LSCLP"), the acquired business. All financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts have been expressed in thousands of Canadian dollars.

Forward-looking statements

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

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

Introduction

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

Corporate overview

Leisureworld and its predecessors have been operating since 1972. Leisureworld is the third largest licensed LTC provider in the Province of Ontario and the largest participant in the Canadian seniors housing sector that has focused almost exclusively on Ontario LTC. Leisureworld owns and operates 26 LTC homes (representing an aggregate of 4,314 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates one retirement home ("RH") (representing 29 beds) and one independent living ("IL") home (representing 53 apartments) in the Province of Ontario. Ancillary businesses of the Company include: (1) Preferred Health Care Services ("PHCS"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes; (2) Ontario Long Term Care ("OLTC"), a provider of purchasing services, as well as dietary, social work, and other regulated health professional services to Leisureworld homes; and (3) Tealwood Developments ("Tealwood"), a provider of laundry services to the Leisureworld homes.

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

Industry overview

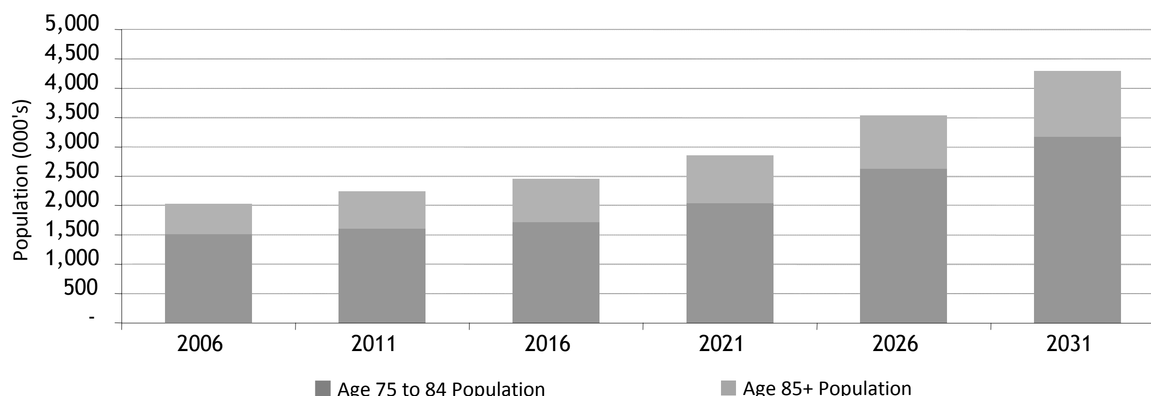
LTC homes are designed to accommodate seniors who require 24-hour per day care and suffer from cognitive or physical impairment. LTC homes offer higher levels of personal care and support than those typically offered by independent living facilities or retirement homes. All Ontario LTC homes must be licensed by the Ministry of Health and Long-Term Care ("MOHLTC"), are eligible for occupancy-based government funding and are subject to government regulation and care standards. Residents of LTC homes are directly charged only for accommodation costs and, in the event these amounts are unaffordable for the residents, government subsidies are available to reduce the basic accommodation charge. Residents of LTC homes can pay a higher accommodation rate for private and semi-private accommodation ("preferred occupancy"). Retirement homes accommodate seniors who require minimal to moderate assistance with activities of daily living whereas independent living facilities accommodate seniors who require minimal or no assistance with daily living. Retirement homes and independent living facilities are not yet regulated and generally are not subsidized by the government. The Ontario government has introduced Bill 121, which, if passed, will lead to a new Act known as the "Retirement Homes Act, 2010." The legislation will provide consumer protection and does not provide funding for the provision of care and services in these facilities. Residents are generally responsible for the entire cost of accommodation and care.

Demand and supply

The demand for seniors housing and programs continues to grow in the Province of Ontario. Management believes favourable demographics, increasing life expectancy, increasing seniors' affluence and changing family dynamics have and will continue to have a positive impact on demand for housing for LTC homes in the Province of Ontario.

- **Favourable demographics:** The primary demographic group living in LTC homes are Canadians who are greater than 75 years of age. According to Statistics Canada, the 75-plus and 85-plus age cohorts in Canada are anticipated to be among the fastest growing age cohorts over the next 20 years, with the 85-plus age cohort expected to increase approximately 23% between 2006 and 2011. The same cohorts are expected to more than double in population by 2031.

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



Source: Statistics Canada estimates, as at June 26, 2008.

- **Increasing life expectancy:** Primarily as a result of advances in healthcare, Canada's population is aging. The average life expectancy for Canadians increased to 80.4 years in 2005 from 77.8 years in 1991, according to Statistics Canada. Additionally, the population of the Province of Ontario has one of the highest life expectancies in the developed world. The segment of the population aged 65 years and older is expected to more than double in size by 2031, further exacerbating problems with respect to the availability of LTC accommodation.

- **Increasing seniors' affluence:** Increases in net worth (largely as a result of the many seniors who now own their homes debt-free), combined with increased household incomes, allow seniors to afford a much higher quality housing product with greater amenities than at any time in the past. Seniors housing is now more upscale and residential, compared to the institutional feel that previously characterized such facilities. And, instead of having to settle for multi-bed ward rooms, seniors can now choose to live in private or semi-private accommodation that more resembles hotel-style living than nursing homes of a previous generation. This arrangement also affords greater dignity and privacy to the senior receiving care and services.

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

- **Demand for cost effective alternatives:** Rising healthcare costs have resulted in a reduction in the length of hospital stays and enhanced home healthcare services and, in turn, are a predominant factor in growing wait-list numbers. This has resulted in LTC homes increasingly being filled by residents with higher care requirements, leading to higher occupancy levels in LTC homes.

- **Recession stability:** The LTC industry has historically been largely insulated from economic cycles. This can be attributed to several factors: (i) seniors are generally retired and receiving stable, fixed and predictable income from private and public pensions, RRSPs and other fixed income investment securities; (ii) demand for LTC housing is not usually discretionary but driven by need, which does not fluctuate during economic cycles; (iii) stability of tenure,

as seniors, once having moved into a facility, are reluctant or unable to move to alternative accommodation; (iv) the continual increase in the demand for seniors accommodation with skilled nursing due to the demographics of the aging population; and (v) a high level of government funding and subsidization of fees.

Industry characteristics

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

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

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

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

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

LTC funding model

Ontario LTC homes are funded through a well-defined funding model. Licensed operators of Ontario LTC homes are entitled to operating subsidies (subject to annual reconciliation), as well as various capital renewal program payments. Provincial support for the Ontario LTC sector has been demonstrated by increased funding commitments to the sector. Operational funding of LTC homes

in the Province of Ontario is currently paid monthly and is divided into three "envelopes." Total operational funding received by operators includes a provincial government component and a direct charge to residents in respect of accommodation services. Each envelope is structured as a fixed amount per resident per day, or "rate." If an LTC home's average annual occupancy level meets or exceeds 97%, it is the MOHLTC's policy to provide funding based on 100% occupancy. The three envelopes include Nursing and Personal Care ("NPC"), Programs and Support Services ("PSS") and accommodation, which includes raw food.

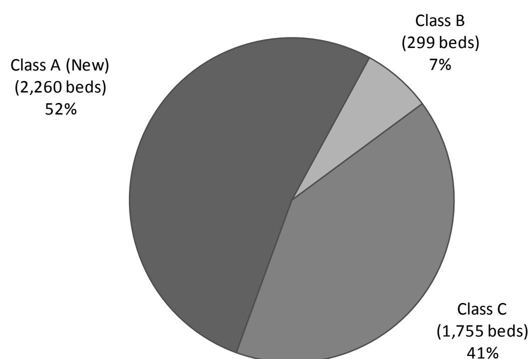
The MOHLTC categorizes and provides structural compliance and capital funding for homes according to four bed classes: Class A, which includes New, Class B, Class C and Class D. Capital funding is available to operators of LTC homes through Structural Compliance Premiums, Capital Cost Funding for New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

Business overview

LTC homes

Leisureworld's portfolio is comprised largely of New homes within the Class A category, which represent approximately 52% of Leisureworld's beds. Class B and C homes represent 7% and 41% of the portfolio, respectively. In addition, Leisureworld is well positioned to capitalize on the Capital Renewal Initiatives, which will provide funding to upgrade Class B and C homes.

Summary of LTC Beds by Class

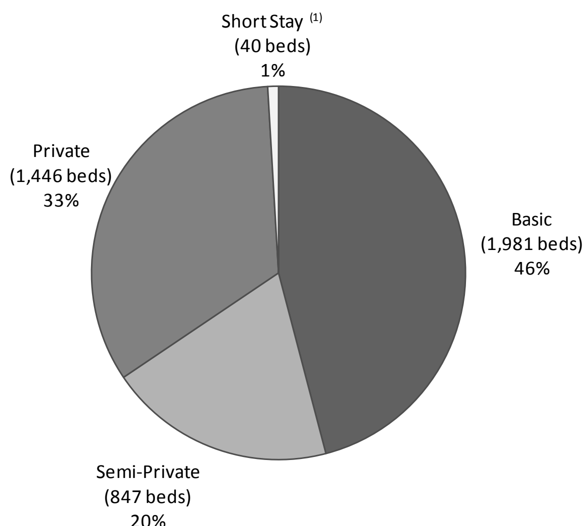


Note:

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

A significant proportion of Leisureworld's LTC beds are designated as preferred accommodation with approximately 53% of beds designated as private or semi-private accommodation. Approximately 4% of the revenues and 23% of the Net Operating Income ("NOI") from Leisureworld's LTC operations are generated from charging residents the regulated premium of $18.00 per day per bed and $8.00 per day per bed for private and semi-private accommodation, respectively.

Summary of LTC Beds by Accommodation Type



Note:

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

Retirement and independent living homes

Leisureworld owns and operates one RH consisting of 29 beds that adjoins the Muskoka LTC home, and one IL home comprising 53 apartments that is attached to the Scarborough LTC home. These two homes have consistently maintained occupancy levels above 90% and are integral to seniors services provided within their local communities. The Muskoka RH will have to comply with the requirements of the proposed Retirement Homes Act, once proclaimed.

Preferred Health Care Services

PHCS offers homecare, education, training and relief staffing services. These services either complement or support the core nursing home operations of Leisureworld. PHCS effectively broadens Leisureworld's presence across the continuum of care. PHCS has been providing professional nursing and personal support services in the community and LTC homes since 1987. Employees of PHCS include registered nurses, registered practical nurses, and personal support workers who work on a call or elect-to-work basis and are not guaranteed any minimal amount of work. Employees are non-unionized and salaries are dictated by the market.

Ontario Long Term Care and Tealwood
OLTC acts as a central purchasing agent for all of the Leisureworld homes. OLTC negotiates purchasing agreements with third party providers on behalf of Leisureworld's LTC homes. It is also the employer of specialized personnel, which include contracted dieticians, social workers and other professional consultants.

Tealwood is an affiliate company of Leisureworld, which provides laundry services for certain Leisureworld homes.

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

Government funding ensures stability of cash flow
Ontario's LTC sector is regulated by the MOHLTC according to a defined funding model. This model contributes to the stability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: nursing and personal care ("NPC"); program and support services ("PSS"); and basic accommodation. Approximately 70% of revenue from Leisureworld's LTC homes is received from the MOHLTC. Over the past ten years, government funding of Leisureworld's LTC homes has increased in excess of the consumer price index. Leisureworld also receives capital cost funding of up to $10.35 per bed, per day from the MOHLTC for Class A homes, as well as payments from residents for both basic and private accommodation. Leisureworld also receives structural compliance premiums from the MOHLTC, on a per resident per day basis, for Class B and C homes. Additionally, the MOHLTC provides funding to LTC homes that have been accredited by Accreditation Canada and reimburses up to 85% of property tax costs.

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

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

Occupancy levels enhance cash flow
Occupancy is a key driver of Leisureworld's performance. A LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Leisureworld has a strong record of increasing capacity and occupancy. In addition, the supply of LTC beds is controlled and regulated by the government, which ensures barriers to entry. For the quarter ended March 31, 2010, Leisureworld's average occupancy was 98.2% (quarter ended March 31, 2009 – 98.1%).

In addition, the demand for LTC homes is dictated by a need for care, driven by demographic trends rather than changes in the economy. According to the Ontario Ministry of Finance, the number of people aged 65 years and older will nearly double to about 3.5 million, or 21.4% of the province's population, in 2031, up from 1.6 million, or 12.9% of the population currently. Across the province, the average occupancy of long-term care homes is approximately 99%. Moreover, there are currently approximately 26,000 individuals on the waiting list for entrance to LTC homes.

Optimization of private accommodation mix increases operating profitability
An LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private accommodation at a regulated premium. The LTC home operator retains the premiums collected for such accommodation, which typically increases revenue and enhances profitability. The premium for a private room is currently $18 per day. At March 31, 2010, approximately 33.5% of the beds in Leisureworld's portfolio were designated as private accommodation. Private bed average total occupancy for the quarter ended March 31, 2010 was 96.9% (quarter ended March 31, 2009 – 94.4%).

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

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

Providing professional on-site administration of well-operated Leisureworld homes
Each home has its own on-site management team that is supported through regional and corporate staff who have areas of more focused expertise. Management of each Leisureworld home is supported by networking with other homes through internal conferences, home comparative management reports and involvement in project teams.

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

Growth strategies of Leisureworld Senior Care Corporation
Management has identified both internal and external growth opportunities. Organic growth opportunities include project development under the Capital Renewal Initiatives, as well as an increase in the number of home healthcare contracts. External growth strategies include LTC acquisitions, expansion across the continuum of care, and geographic extension.

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

External
Management believes a large number of LTC acquisition targets exist as a result of the fragmented nature of the LTC industry. Additionally, Leisureworld intends to target older LTC homes with

limited redevelopment opportunities and implement the transportation of licensed capacity from those homes to Leisureworld's existing portfolio. Opportunities also exist for Leisureworld to expand in the RH and IL home segment of senior housing through acquisition and development. Finally, management anticipates opportunities to diversify Leisureworld's portfolio into other regions of Canada through acquisitions.

Non-GAAP performance measures

Funds from operations ("FFO"), adjusted funds from operations ("AFFO") and net operating income ("NOI") are not measures recognized under Canadian generally accepted accounting principles ("GAAP") and do not have standardized meanings prescribed by GAAP. FFO, AFFO and NOI are supplemental measures of a company's performance and Leisureworld believes that FFO, AFFO and NOI are relevant measures of its ability to pay dividends on the Company's common shares. The GAAP measurement most directly comparable to FFO, AFFO and NOI is Income From Operations Before the Undernoted. See "Business Performance" for a reconciliation of NOI, FFO and AFFO to Income From Operations Before the Undernoted.

"FFO" is defined as net income computed in accordance with GAAP, excluding gains or losses from sale of depreciable real estate and extraordinary items, plus the interest portion of capital subsidy receivables, plus amortization, plus future income taxes and after adjustments for equity accounted entities and joint ventures and non-controlling interests. Adjustments for equity accounted entities and joint ventures and non-controlling interests are calculated to reflect FFO on the same basis as the consolidated properties. In the opinion of management, the use of FFO, combined with the required primary GAAP presentations, is fundamentally beneficial to the users of the financial information, and improves their understanding of the operating results of Leisureworld. Management generally considers FFO to be a useful measure for reviewing Leisureworld's operating and financial performance because, by excluding real estate asset amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one to compare the operating performance of Leisureworld's real estate portfolio between financial reporting periods.

"AFFO" is defined as FFO plus the principal portion of capital subsidy receivables, less maintenance capital expenditures ("capex"). Other adjustments may be made to AFFO and determined by the Board at its discretion. Management believes AFFO is useful in the assessment of Leisureworld's operating performance for valuation purposes, and is also a relevant measure of the ability of Leisureworld to earn cash and pay dividends to shareholders.

"NOI" is defined as operating revenues after direct operating expenses have been deducted, but before deducting net head office expenses, net interest expense, amortization expenses, general and administrative expenses, income taxes, leasehold improvement and leasing costs, and unrecoverable capital costs.

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

Business performance

Leisureworld achieved improved results in its key performance measures for the nine-day period following its IPO as did the acquired Leisureworld LTC business and related businesses in the quarter ended March 31, 2010.

In the period from March 23, 2010 to March 31, 2010, income from operations after adjusting for Human Resources Information System ("HRIS") expenses and non-cash stock-based compensation increased by $235 or 37.4% and NOI increased by $244 or 27.8% driven by government funding

increases to enhance resident care and reduced operating costs. NOI at PHCS was in line with the same period in the prior year. FFO of $397 increased by $204 from the same period in the prior year with the improvement in NOI and lower interest expense being partly offset by current income taxes and increased administration expenses. AFFO for the period was $398, which was $209 or 110.6% higher than the same period in 2009.

During the quarter ended March 31, 2010, income from operations after adjusting for HRIS expenses and non-cash stock-based compensation increased by $978 or 15.6% and NOI by $967 or 11.0% due to government funding increases to enhance resident care and cost containment measures across the portfolio. NOI for PHCS was $175 lower than the comparable quarter in the previous year, mainly due to a reduction in relief staffing services and the homecare margins in the quarter ended March 31, 2009 being positively impacted by an adjustment to reduce the sick allowance. FFO increased by $817 or 28.3% due to the increase in NOI being partly offset by additional interest expense, current income taxes and lower construction funding interest income. AFFO increased by $469 with the increase in FFO and higher construction funding principal being partly offset by an increase in maintenance capex.

Thousands of dollars	LSCC Period of March 23 to March 31, 2010	LSCLP Period of March 23 to March 31, 2009	LSCC and LSCLP Quarter Ended March 31, 2010	LSCLP Quarter Ended March 31, 2009
Income from Operations Before the Undernoted	**537**	**627**	**6,861**	**6,272**
Adjustments to income from operations [1]	326 [2]	1	400 [2]	11
General and administrative expenses [3]	260 [4]	251	2,485 [4]	2,496
Net Operating Income (NOI)	**1,123**	**879**	**9,746**	**8,779**
Accretion interest on construction funding receivable	-	-	916	971
Net interest expense [5]	(379)	(435)	(4,386)	(4,366)
Income taxes expense	(86)	-	(86)	-
General and administrative expenses	(260) [4]	(251)	(2,485) [4]	(2,496)
Funds from Operations (FFO)	**397**	**193**	**3,705**	**2,888**
Construction funding (principal)	-	-	1,217	1,162
Maintenance capex [6]	1	(4)	(443)	(40)
Adjusted Funds from Operations (AFFO)	**398**	**189**	**4,479**	**4,010**

Notes:

(1) Income from Operations before the undernoted has been decreased by $4 and increased by $1, $70 and $11, respectively, for expenses related to the implementation of the new HRIS.

(2) Income from Operations has been increased by $330 related to stock-based compensation.

(3) General and Administrative Expenses have been increased by $4 and decreased by $1, $70 and $11, respectively, for expenses related to the implementation of the new HRIS.

(4) General and Administrative Expenses have been decreased by $330 related to stock-based compensation expense.

(5) Net Interest Expense is comprised of interest expense on the 2015 Notes, Term Loan, Revolver and Swap Contract.

(6) Maintenance Capex has been decreased by $74, $8, $303 and $93, respectively, for expenditures related to the implementation of the new HRIS.

Selected consolidated financial and operating information

Thousands of dollars, unless otherwise noted

	LSCC Period of March 23 to March 31, 2010	LSCLP Period of March 23 to March 31, 2009[1]	**LSCC and LSCLP Quarter Ended March 31, 2010[2]**	LSCLP Quarter Ended March 31, 2009
Revenue	**6,410**	6,433	**65,152**	64,328
Expenses				
Operating expenses	**5,287**	5,555	**55,407**	55,549
General and administrative expenses	**586**	251	**2,885**	2,507
	5,873	5,806	**58,291**	58,056
Income from operations before the undernoted	**537**	627	**6,861**	6,272
Other expenses				
Amortization	**614**	399	**3,422**	3,986
Interest, net	**351**	338	**3,506**	3,382
Loss (gain) on interest rate swap contract	**(101)**	75	**(86)**	75
Total other expenses	**864**	812	**6,842**	7,443
Income (loss) before income taxes	**(327)**	(185)	**19**	(1,171)
Provision for (recovery of) income taxes				
Current	**86**	-	**86**	-
Future	**(160)**	-	**(160)**	-
	(74)	-	**(74)**	-
Net income (loss)	**(253)**	(185)	**93**	(1,171)
Total assets	**595,778**	541,068	**595,778**	541,068
Long-term debt	**296,987**	367,768	**296,987**	367,768
Average occupancy	**98.2%**	98.0%	**98.2%**	**98.1%**
Average private occupancy	**97.1%**	94.7%	**96.9%**	**94.4%**

Notes:

(1) The nine days for the period ended March 31, 2009 are based on 9/ 90ths proration of the full quarter results, except for the Loss on interest rate swap contracts, as this amount is recorded as part of the quarter-end close entries.

(2) The Quarter Ended March 31, 2010 presentation is the total of LSCLP results of operations pre-initial public offering for the period from January 1, 2010 to March 22, 2010 added to the results of the Company for the post-initial public offering period of March 23, 2010 to March 31, 2010.

Revenue: For the period from March 23, 2010 to March 31, 2010 compared to the same period of the prior year

For the period from March 23, 2010 to March 31, 2010, Leisureworld generated revenue of $6,410 compared to $6,433 for the same period ended March 31, 2009. The decrease of $23 or 0.4% resulted from increases in government funding of 3.7% being offset by a reduction in revenues due to the timing of revenue recognition to match spending under the flow-through envelopes. PHCS's external revenue at $249 was $22 or 9.7% higher than the same period in the previous year due to an increase in personal support contract revenues.

Revenue: For quarter ended March 31, 2010 compared to the same period of the prior year
For the quarter ended March 31, 2010, Leisureworld generated revenue of $65,152 compared to $64,328 in the quarter ended March 31, 2009. The increase of $824 or 1.3% was primarily due to an increase of 3.7% in government funding rates which provided $1,892, including $579 relating to an accommodation funding increase effective April 1, 2009 to March 31, 2010. Preferred accommodation revenues increased by $66 driven by private occupancy increasing to 96.9% in the quarter (Q1 2009 – 94.4%). These increases were partly offset by reduced revenues of $637 due to the timing of revenue recognition to match spending under the flow-through envelopes and reduced special initiative revenues of $462. PHCS's external revenue at $2,255 was $18 or 0.8% lower than the quarter ended March 31, 2009 due to a slight decrease in personal support contract revenues.

Operating Expenses: For the period March 23, 2010 to March 31, 2010 compared to the same period of the prior year
Operating expenses for the period March 23, 2010 to March 31, 2010 were $5,287, compared to $5,555 in the previous period, a decrease of $268 or 4.8%. The decrease is primarily attributable to a reduction in expenses funded by the flow-through envelopes, primarily due to timing. PHCS's expenses decreased by $22 from the same period in the prior year primarily due to a reduction in relief staffing services provided to the homes.

Operating Expenses: For the quarter ended March 31, 2010 compared to the same period of the prior year
Operating expenses for the quarter ended March 31, 2010 were $55,407, which was $142 or 0.3% lower than the quarter ended March 31, 2009. Expenses funded by the flow-through envelopes were $97 lower than in the quarter ended March 31, 2009 largely due to timing. PHCS's expenses were $192 or 7.4% lower than the quarter ended March 31, 2009 largely due to a reduction in relief staffing services provided to the homes. These decreases were partly offset by increases in clinical professional service costs of $120 and other property operating costs of $46, primarily driven by higher utility expenses.

General and Administrative Expenses: For the period from March 23, 2010 to March 31, 2010 compared to the same period of the prior year
General and Administrative expenses for the period from March 23, 2010 to March 31, 2010 were $586, which was a $335 increase from the same period in the prior year. The increase was primarily due to stock-based employee compensation of $330 in conjunction with the IPO.

General and Administrative Expenses: For the quarter ended March 31, 2010 compared to the same period of the prior year
General and Administrative expenses for the quarter ended March 31, 2010 were $2,885, which was a $378 increase from the quarter ended March 31, 2009. The increase was due to stock-based employee compensation of $330 and an increase in legal and consulting fees.

Amortization: For the period from March 23, 2010 to March 31, 2010 compared to the same period of the prior year
For the period from March 23, 2010 to March 31, 2010, amortization increased by $215 or 53.9%, from $399 in the previous year. The increase was primarily attributable to higher amortization of resident relationships of $194, and service contract amortization of $25. The main components of the amortization charge relate to property and equipment, $264, and resident relationships, $323.

Amortization: For the quarter ended March 31, 2010 compared to the same period of the prior year
For the quarter ended March 31, 2010, amortization decreased by $564 or 14.1% from $3,986 for the quarter ended March 31, 2009. The decrease was driven by a $535 reduction in amortization related to the resident relationships for the seven homes acquired by LSCLP on January 2008, which were fully amortized as of January 2010 and a $64 reduction in depreciation on property and equipment. The main components of the period's amortization charge related to resident relationships, $752, and property and equipment, $2,626.

Financial Expenses: For the period from March 23, 2010 to March 31, 2010 compared to the same period of the prior year
For the period from March 23, 2010 to March 31, 2010, net interest expense amounted to $351, an increase of $13 or 3.8%. The increase was attributable to higher interest expense of $45 on the 2015 Notes due to the accretion of the fair value increments from the acquisition. As well, there was an increase in net interest expense of $10 from net settlement on an interest rate swap contract, and a decrease of $17 in interest income from the construction funding receivable. The prior year benefited from an $11 gain related to another interest rate swap contract that was repaid with the proceeds of the IPO. This was partly offset by the reduced interest expense of $68 related to the repayment of a term loan with the proceeds of the IPO.

Financial Expenses: For the quarter ended March 31, 2010 compared to the same period of the prior year
For the quarter ended March 31, 2010, net interest expense amounted to $3,506, an increase of $124 or 3.7% from the prior year. This increase was primarily due to a net settlement on an interest rate swap contract of $103 and $45 in additional interest expense due to the fair value increment on the 2015 Notes being partly offset by a $128 reduction in interest expense on the Term Loan. Interest income decreased by $75 including a reduction in construction funding interest income of $55. Interest on the 2015 Notes expensed in the quarter was $3,725, interest expensed on the Term Loan was $568 and interest income on construction funding was $916.

Income Taxes: For the period from March 23, 2010 to March 31, 2010 and quarter ended March 31, 2010 compared to the same periods of the prior year
Current income taxes of $86 have been calculated at the combined corporate tax rates of 31% based on taxable income for the period from March 23, 2010 to March 31, 2010. A future income tax recovery of $160 relates to the reversal of temporary differences during the period from March 23 to March 31, 2010 at the effective rate of 31%. LSCLP is not subject to income taxes, and therefore had no income tax expense for the comparative period.

Net Income (Loss): For the period from March 23, 2010 to March 31, 2010 compared to the same period of the prior year
For the period from March 23, 2010 to March 31, 2010 net loss was $253, compared to $185 for the same period ended March 31, 2009. The increase in the net loss was partly attributable to a non-cash stock-based compensation expense of $330, as well as, higher amortization of $215 and higher interest expense of $13. This was partly offset by a gain on the interest rate swap contract of $101, in comparison to a loss of $75 in the prior year period, and an income tax recovery of $74.

Net Income (Loss): For the quarter ended March 31, 2010 compared to the same period of the prior year
Net income for the quarter ended March 31, 2010 was $93, compared to a net loss of $1,171 for the quarter ended March 31, 2009. The improvement in net income was partly due to higher income from operations of $589 resulting from increases in government funding and lower operating expenses, reduced amortization of resident relationships, an $86 gain on an interest swap contract and an income tax recovery of $74. These increases were partly offset by higher net interest expense of $124.

Liquidity and Capital Resources

Leisureworld reported a cash balance of $13,175 as at March 31, 2010. The changes in cash for the period from March 23, 2010 to March 31, 2010 are as follows:

Cash flow from operations before non-cash working capital items	402
Non-cash changes in working capital	(6,467)
Cash provided by (used in):	
Operating activities	(6,065)
Investing activities	(98,145)
Financing activities	117,385
Increase in cash	**13,175**

Operating activities: For the period from March 23, 2010 to March 31, 2010

For the period from March 23, 2010 to March 31, 2010, cash flow from operations before non-cash changes to working capital items totalled $402. Non-cash changes to working capital utilized $6,467 of operating cash. Accounts receivable and other assets decreased by $414, mainly due to collections in the period, and prepaid expenses reduced by $35. Income taxes payable increased by $86 and accounts payable and accrued liabilities decreased by $2,507, mainly the result of reduced wage accruals of $1,907. The net government funding payable decreased by $4,495, primarily due to the recognition of the nine days of revenue that was deferred at March 22, 2010.

Investing activities: For the period from March 23, 2010 to March 31, 2010

For the period from March 23, 2010 to March 31, 2010, capital expenditures totalled $69 and $98,076 was paid for the acquisition of Leisureworld Senior Care LP.

Financing activities: For the period from March 23, 2010 to March 31, 2010

Financing activities provided cash of $117,385. $179,264 was generated by the issuance of common shares on the IPO and immediately following the receipt of the proceeds, Leisureworld repaid the $60,000 term loan and settled a related interest rate swap contract for $1,879.

Capital resources

Leisureworld's debt as at March 31, 2010 was $296,987. As at March 31, 2010 Leisureworld had a committed, but unutilized, revolving credit facility of $15,000 with a Canadian chartered bank.

Capital commitments

Leisureworld monitors all of its LTC facilities to assess the maintenance of its capital requirements. As part of the monitoring exercise, items are assessed and prioritized based on the urgency and necessity of the expenditure. As at March 31, 2010, total capital commitments outstanding were $184 related to the purchase of software.

Leisureworld expects to meet its operating cash requirements through 2010, including required working capital investments, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed borrowing capacity.

Outlook

Following its IPO, Leisureworld's key focus will continue to be enhancing the quality of care and accommodation for residents. Leisureworld expects to benefit from excellent industry fundamentals and maintain full occupancy which serves as a reliable platform for shareholder dividends and disciplined long-term growth. Leisureworld expects to pay a dividend of $0.85 per common share on an annualized basis in 2010, to be paid on a monthly basis from the IPO date of March 23, 2010.

Leisureworld is well positioned to capitalize on complementary acquisition opportunities and to execute its strategy to deliver high quality care and accommodation to seniors.

Contractual obligations and other commitments

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

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

Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year. Interest expensed on the 2015 Notes in the period from March 23, 2010 to March 31, 2010 was $414 (March 23, 2009 to March 31, 2009 - $386), which includes the accretion of the fair value increment from the purchase price allocation of $50. Interest expensed in the quarter ended March 31, 2010 was $3,725 (2009 - $3,680).

Following the acquisition of LSCLP on March 23, 2010, Leisureworld used proceeds of its IPO to repay a $60,000 Term Loan and settle a related interest swap contract for $1,879.

Leisureworld has a $15,000 revolving credit facility with a Canadian chartered bank, collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships, which it can access for working capital purposes. The facility bears interest on cash advances at 250 basis points per annum over the floating bankers' acceptance ("BA") rate (30, 60 or 90 days), at 150 basis points per annum over the prime rate and on letters of credit at 250 basis points per annum. On October 16, 2009, LSCLP entered into an amending agreement to extend the maturity of the facility to October 15, 2010. At March 31, 2010, $68 had been drawn against the facility in the form of letters of credit.

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

	Operating leases	Long-term debt	Total
2010	354	-	354
2011	466	-	466
2012	376	-	376
2013	348	-	348
2014	302	-	302
Thereafter	300	310,000	310,300
	2,146	310,000	312,146

Related party transactions

For the period from March 23, 2010 to March 31, 2010, Leisureworld earned revenue from Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia. A subsidiary of LSCLP has been contracted to manage the operations of Spencer House Inc. Total

revenue for the period from March 23, 2010 to March 31, 2010 was $34. Included in accounts receivable was $51 owed by Spencer House Inc. at March 31, 2010. These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties.

Critical accounting estimates

The preparation of these interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management estimates are used primarily in determining the fair value of assets and liabilities acquired, the estimated useful lives of property and equipment and net recoverable amounts for properties, and the fair value of financial instruments, goodwill and intangible assets.

Management makes significant accounting estimates that could be material to the consolidated financial statements in the application of the following accounting policies:

Fair value measurements

Estimates of fair value are made in the valuation of certain financial instruments and also in determining the fair value of net assets acquired in a business combination.

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

Revenue recognition

Consolidated revenues include revenues generated from the operation of LTC homes, retirement homes and independent living facilities, PHCS and management fees associated with the operation of Spencer House Inc. A significant portion of the revenues are funded by the provincial government. Revenue is recognized in the period for which the services and products are rendered.

Long-term Care Revenue

Revenue for accommodation fees is recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the government. Revenue for each LTC facility is recognized based on full occupancy, unless there is an indication the annualized occupancy rate will fall below the 97% level. If occupancy is below 97%, then revenue is recognized based on actual occupancy data. Revenue from ancillary services is recognized when the services are rendered. Other LTC revenues paid by the residents relating to accommodation fees and ancillary services are recognized in the period in which the services were rendered. LSCC also receives government funding for various other operational items, including funding for property taxes, which is recognized when the services or products are provided.

Retirement Home and Independent Living Revenue

Residents pay accommodation rates on a monthly basis and revenue is recorded when the service is rendered.

PHCS Revenue

Revenue associated with PHCS is recognized when the nursing services are rendered. Revenue generated from providing services to other operating segments of the Company is eliminated on consolidation.

Spencer House Inc. Revenue
Spencer House Inc. is a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario. A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc. The Company earns rental income from leasing the property to Spencer House Inc. as well as a management fee based on a percentage of gross revenues of the operations. Revenue is recognized when the services are rendered.

Property and equipment
Property and equipment are recorded at cost less accumulated amortization. The Company provides for amortization at rates designed to amortize the cost of the property and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Buildings	4 - 40 years straight-line
Furniture and fixtures	10 years straight-line
Computer hardware	5 years straight-line

Circulating equipment is comprised of china, linen, glass and silver in circulation, which is valued at cost. The cost of acquiring a basic inventory of these items is capitalized and any replacements incurred thereafter are expensed.

The Company evaluates its long-lived assets for potential impairment whenever events or changes in circumstances indicate the net carrying amount of an asset exceeds its net recoverable amount. Any impairment determined by a comparison of the estimated discounted future operating cash flows to be generated by the asset with its net carrying value is written off at the time of impairment.

Maintenance and repairs completed on property and equipment are expensed as incurred. Any renovations or improvements that extend the useful life of the asset are capitalized and amortized over its useful life.

Construction funding
The MOHLTC provides funding to new homes constructed after April 1, 1998. Under the development agreements, these new homes receive a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed, depending on actual construction costs. The construction funding receivable is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Intangible assets
Intangible assets include bed licences, PHCS service contracts, resident relationships and computer software that is not integral to property and equipment. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment. The evaluation of impairment is based on a comparison of the carrying amount of the estimated undiscounted future net cash flows expected to be generated by the asset. If estimated undiscounted future net cash flows are less than the carrying amount of the asset, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period. PHCS service contracts are amortized over the contract duration, which approximates three years. The resident relationships are amortized over the average length of stay, which is two years. Licences renew annually and are only revoked in rare circumstances. As such, licences are considered to have indefinite lives and are not amortized, but tested for impairment in the second quarter of each fiscal year or as indicators of impairment arise. Impairment would be recognized when the estimated fair value of the intangible asset is less than its carrying value. Software is amortized over a five-year period, on a straight-line basis, from the date the software is put into service.

Goodwill
Goodwill is not amortized but tested for impairment in the second quarter of each fiscal year or as indicators of impairment arise. The evaluation is based on a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The fair values used in this evaluation are estimated based on discounted future cash flow projections for the reporting unit. These cash flow projections are based on a number of estimates and assumptions.

Derivatives
Derivative instruments are used to reduce interest rate risk on the Company's debt. The Company does not enter into derivative instruments for trading or speculative purposes. Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. GAAP specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. The change in fair value of an instrument that is determined to be an effective hedge is recognized in other comprehensive income (loss). The ineffective portion of the change in fair value is recorded in the consolidated statement of operations.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Company determined it does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Transaction costs
Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability. LSCC incurs transaction costs primarily through the issuance of debt and classifies these costs with the related debt. These costs are amortized using the effective interest rate method over the life of the related debt instrument.

Income taxes
The Company follows the liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Use of estimates
The preparation of interim consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management estimates are used primarily in determining the fair value of assets and liabilities acquired, the estimated useful lives of property and equipment and net recoverable amounts for properties, and the fair value of financial instruments, goodwill and intangible assets.

Change in accounting policies

Future accounting policy changes
In 2005, the Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to be converged with IFRS. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required by January 1, 2011 with appropriate comparative data from the prior year for all Canadian

publicly accountable enterprises. Under IFRS, there are significantly more disclosure requirements, especially for quarterly reporting. Furthermore, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be addressed.

LSCLP commenced its IFRS conversion in 2008 by establishing a formal project governance structure and a detailed conversion plan, which the Company will perpetuate. The governance structure includes a steering committee consisting of senior management, finance, operations, as well as external consultants and a working group. Progress reports are to be provided to senior management and the board of directors of the Company on a regular basis.

The Company's conversion plan consists of three phases: diagnostic, design, and implementation. Management completed the diagnostic phase, which involved reviewing the major differences between Canadian GAAP and IFRS relevant to the Company, and identifying accounting policy choices permitted under IFRS and making preliminary implementation decisions. In this phase, the Company also made an initial assessment of the impact of the required changes on the existing accounting systems and internal controls, and the potential magnitude of financial statement adjustments.

At this time, the Company has determined that the differences with the highest potential impact on the consolidated financial statements include property and equipment, and the initial adoption of IFRS under the provision of IFRS 1, *First-time Adoption of IFRS*. The impact on existing accounting systems and internal controls is expected to be minimal.

The Company is now in the second phase of the conversion project, which involves the selection of IFRS policies and transition elections, and the quantification of the impact of IFRS on the Company's consolidated financial statements. In doing so, the Company's objective is not only to be IFRS compliant, but to provide the most meaningful and transparent information to its shareholders.

The Company will continue to review all proposed and continuing projects of the IASB to determine their impact on the Company and will continue to invest in training and resources throughout the transition period to facilitate a timely and meaningful conversion.

Capital disclosure

Leisureworld defines its capital as its long-term debt, shareholders' equity and cash.

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

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 common shares, issue additional debt, convertible debentures or preferred shares, issue debt to replace existing debt with similar or different characteristics, and adjust the amount of dividends paid to shareholders. Leisureworld's financing and refinancing decisions are made on a specific transaction basis and depend on such things as Leisureworld's needs and market and economic conditions at the time of the transaction.

The Board of Directors of Leisureworld will review the level of dividends paid to shareholders on a quarterly basis. Leisureworld is in compliance with all financial covenants on its borrowings. The 2015 Notes are collateralized by the assets of LSCLP and the subsidiary partnerships and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain

financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

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

Financial instruments
Financial instruments consist of cash, accounts receivable, construction funding receivable, annuity, accounts payable and accrued liabilities, government funding payable, long-term debt, and swap contracts.

Cash
Cash includes deposits held with Canadian chartered banks. Cash is classified as held-for-trading. The carrying value of cash approximates fair value as it is immediately available-for-use.

Accounts receivable
Accounts receivable are classified as loans and receivables. Accounts receivable are recognized at amortized cost. The carrying value of accounts receivable, after consideration of collectability for doubtful accounts, approximates their fair value due to the short-term maturity of these instruments.

Construction funding receivable
The construction funding receivable is classified as loans and receivables. The construction funding receivable is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Annuity
The annuity is classified as loans and receivables. The annuity is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities are classified as other liabilities. The carrying value of accounts payable and accrued liabilities are recognized at cost. This approximates their fair value due to the short-term maturity of the instruments.

Note payable
Note payable is classified as other liabilities. The carrying value of note payable is recognized at amortized cost, which approximates their fair value due to the short-term maturity of the instrument.

Long-term debt
The Company's senior secured debentures, including capitalized transaction costs, are recorded at amortized cost using the effective interest method and are classified as other liabilities. The fair value of the Company's long-term debt ($310,000 Series A Senior Secured Notes) is subject to changes in interest rates and the Company's credit rating. The Company's long-term debt is collateralized by the assets of the Company and its subsidiaries.

Government funding payable/receivable
The government funding balances are classified as either other liabilities or other assets and are carried at amortized cost. The carrying value of the government funding approximates its fair value due to the short-term maturity of the instrument for the current portion. The difference between the carrying value and the fair value of the long-term portion is insignificant. The difference between the amounts approved and those received from the MOHLTC are recorded as government funding payable or receivable in the consolidated balance sheet.

Interest rate swap contract
The Company has an interest rate swap contract that does not qualify for hedge accounting. Therefore, the change in fair value is recorded through the consolidated statement of operations.

Fair value of financial instruments
The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined using valuation techniques that refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Fair values of long-term debt, construction funding receivable and annuity are calculated by discounted cash flow analysis based on current market rates for loans and investments with similar terms, conditions and maturities.

Nature and extent of risks arising from financial instruments
The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under Section 3862. The Company's normal operating, investing and financing activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk. Leisureworld is not exposed to foreign currency risk as all operations are in Canada and all purchases are contracted in Canadian dollars. The Company does not have significant exposure to price risk as most of its revenues are regulated by the government. The Company's overall risk management process is designed to identify, manage and mitigate business risk, which includes financial risk.

Interest rate risk
Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. Leisureworld is exposed to interest rate risk arising from fluctuations in interest rates in connection with its interest rate swap contract. This interest rate swap contract was purchased as part of the LSCLP acquisition and related to a hedge on anticipated borrowings for a transaction that did not occur. Interest rates, maturities and security affecting the interest and credit risk of Leisureworld's financial assets and liabilities have been disclosed in the Notes to the Consolidated Financial Statements in Notes 8 and 9.

Credit risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, accounts receivable, construction funding receivable, government funding receivable, annuity and swap contract. The Company deposits its cash with reputable financial institutions and therefore management believes the risk of loss to be remote. The Company is exposed to credit risk from its residents and customers. However, the Company has a significant number of residents and customers, which minimizes concentration of credit risk. Also, funding from the provincial government covers a significant amount of the monthly charges to residents, which further reduces this risk. A provision for impairment of accounts receivable is established when there is objective evidence the Company will not be able to collect all amounts due. The Company assesses collectability of specific accounts receivable and also assesses the requirement for a general provision based on historical experience of accounts receivable impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of operations within operating expenses. When a receivable is uncollectible,

it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of operations.

At March 31, 2010, the Company had an annuity with a Canadian chartered bank that makes semi-annual payments until November 24, 2010 and loans receivable from MOHLTC related to construction costs of LTC homes. The Company believes the credit risk associated with the loans receivable is low as it is receivable from the government. The counterparty to the Company's interest rate swap contract and annuity is a major financial institution that has been accorded investment grade ratings by a primary rating agency, therefore management believes any credit risks associated with its swap contract and annuity are low.

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The Company has a credit agreement in place for a 4.814% Series A Senior Secured Notes, due in 2015. This credit agreement contains a number of standard financial and other covenants and a failure by the Company to comply with their obligations in this credit agreement could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

There can be no assurance that the Company could:

- generate sufficient cash flow from operations to pay outstanding indebtedness, or to fund any other liquidity needs; or
- refinance this credit agreement or obtain additional financing on commercially reasonable terms, if at all. The Company's credit facility is, and future borrowings may be, at variable rates of interest, which exposes the Company to the risk of increased interest rates.

The Company maintains a capital structure, which helps to manage the risk of default under these credit agreements.

Leisureworld Senior Care Corporation
Consolidated Balance Sheet
As at March 31, 2010
(Unaudited)

Thousands of dollars	Notes	
ASSETS		
Current assets		
Cash		13,175
Accounts receivable and other assets	18	3,808
Prepaid expenses and deposits		1,245
Government funding receivable		2,021
Construction funding receivable	15	5,269
Future income taxes	10	95
Annuity		1,003
Total current assets		26,616
Government funding receivable		98
Construction funding receivable	15	78,169
Property and equipment	6	299,396
Intangible assets	7	106,164
Goodwill	5	85,260
Total Assets		**595,703**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities		36,084
Government funding payable		4,245
Income taxes payable		86
Note payable	11	9,035
Total current liabilities		49,450
Long-term debt	8	296,987
Future income taxes	10	70,612
Interest rate swap contract		305
Government funding payable		3,478
Total liabilities		420,832
Share capital	12	175,124
Deficit		(253)
Total shareholders' equity		174,871
Total Shareholders' Equity and Liabilities		**595,703**
Acquisition	5	
Commitments and contingencies	14, 21	

See accompanying notes.

Leisureworld Senior Care Corporation
Consolidated Statement of Deficit
For the period from incorporation, February 10, 2010, to March 31, 2010
(Unaudited)

Thousands of dollars	
Retained earnings, beginning of period	-
Net loss	(253)
Deficit, end of period	**(253)**

See accompanying notes.

Leisureworld Senior Care Corporation

Consolidated Statement of Operations and Comprehensive Income

For the period from incorporation, February 10, 2010, to March 31, 2010
(Unaudited)

Thousands of dollars, except share and per share data	Notes	
Revenue		**6,410**
Expenses		
Operating expenses		5,287
General and administrative expenses	13	586
		5,873
Income from operations before the undernoted		**537**
Other expenses		
Amortization of property and equipment		264
Amortization of intangible assets		350
Interest expense, net	8	351
Gain on interest rate swap contract		(101)
Total other expenses		**864**
Loss before income taxes		**(327)**
Provision for (recovery of) income taxes		
Current	10	86
Future	10	(160)
		(74)
Net loss and comprehensive loss		**(253)**
Basic and diluted loss per share		**(0.07)**
Weighted average number of common shares outstanding		**3,436,201**

See accompanying notes.

Leisureworld Senior Care Corporation

Consolidated Statement of Cash Flows

For the period from incorporation, February 10, 2010, to March 31, 2010
(Unaudited)

Thousands of dollars	Notes	
OPERATING ACTIVITIES		
Net loss		**(253)**
Add (deduct) items not affecting cash		
Amortization of property and equipment		264
Amortization of intangible assets		350
Future income taxes		(160)
Stock-based compensation		330
Gain on interest rate swap contract		(101)
Non-cash interest on long-term debt		50
Non-cash interest on annuity		(1)
Non-cash interest on construction funding receivable		(77)
		402
Non-cash changes in working capital		
Accounts receivable and other assets		414
Prepaid expenses		35
Income taxes payable		86
Accounts payable and accrued liabilities		(2,507)
Government funding, net		(4,495)
Cash used in operating activities		**(6,065)**
INVESTING ACTIVITIES		
Purchase of property and equipment		(21)
Purchase of intangible assets		(48)
Acquisition of Leisureworld Senior Care LP, net of cash acquired	5	(98,076)
Cash used in investing activities		**(98,145)**
FINANCING ACTIVITIES		
Repayment of long-term debt		(60,000)
Repayment of interest rate swap contract		(1,879)
Net proceeds from issuance of common shares		179,264
Cash provided by financing activities		**117,385**
Increase in cash during the period		**13,175**
Cash, beginning of period		-
Cash, end of period		**13,175**
Supplemental Information		
Interest paid		81

See accompanying notes.

1 Organization

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

Leisureworld and its predecessors have been operating since 1972. Leisureworld is the third largest licensed Long-Term Care ("LTC") provider in the Province of Ontario and the largest participant in the Canadian seniors housing sector that has focused almost exclusively on Ontario LTC. Leisureworld owns and operates 26 LTC homes (representing an aggregate of 4,314 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates one Retirement Home ("RH") (representing 29 beds) and one Independent Living ("IL") home (representing 53 apartments) in the Province of Ontario. Ancillary businesses of the Company include: (1) Preferred Health Care Services ("PHCS"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes; (2) Ontario Long Term Care ("OLTC"), a provider of purchasing services, as well as dietary, social work, and other regulated health professional services to Leisureworld homes; and (3) Tealwood Developments ("Tealwood"), a provider of laundry services to the Leisureworld homes.

LTC homes are designed to accommodate seniors who require 24-hour per day care and suffer from cognitive or physical impairment. LTC homes offer higher levels of personal care and support than those typically offered by independent living facilities or retirement homes. All Ontario LTC homes must be licensed by the Ministry of Health and Long-Term Care ("MOHLTC"), are eligible for occupancy-based government funding and are subject to government regulation and care standards. Residents of LTC homes are directly charged only for accommodation costs and, in the event these amounts are unaffordable for the residents, government subsidies are available to reduce the basic accommodation charge. Residents of LTC homes can pay a higher accommodation rate for private and semi-private accommodation ("preferred occupancy"). Retirement homes accommodate seniors who require minimal to moderate assistance with activities of daily living whereas independent living facilities accommodate seniors who require minimal or no assistance with daily living. Retirement homes and independent living facilities are not yet regulated and generally not subsidized by the government. The Ontario government has introduced Bill 121, which if passed will lead to a new Act known as the "Retirement Homes Act, 2010." The legislation will provide consumer protection and does not provide funding for the provision of care and services in these facilities. Residents are generally responsible for the entire cost of accommodation and care.

2 Summary of significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated.

Revenue recognition
Consolidated revenues include revenues generated from the operation of LTC homes, retirement homes and independent living facilities, PHCS and management fees associated with the operation of Spencer House Inc. A significant portion of the revenues are funded by the provincial government. Revenue is recognized in the period for which the services and products are rendered.

Long-term care revenue
Revenue for accommodation fees is recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the government. Revenue for each LTC facility is recognized based on full occupancy, unless there is an indication the annualized occupancy rate will fall below the 97% level. If occupancy is below 97%, then revenue is recognized based on actual occupancy data. Revenue from ancillary services is recognized when the services are rendered. Other LTC revenues paid by the residents relating to accommodations fees and ancillary services are recognized in the period in which the services were rendered. LSCC also receives government funding for various other operational items, including funding for property taxes, which is recognized when the services or products are provided.

Retirement home and independent living revenue
Residents pay accommodation rates on a monthly basis and revenue is recorded when the service is rendered.

PHCS revenue
Revenue associated with PHCS is recognized when the nursing services are rendered. Revenue generated from providing services to other operating segments of the Company is eliminated on consolidation.

Spencer House Inc. revenue
Spencer House Inc. is a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario. The Company owns the property where the home is operated and a subsidiary of the Company has been contracted to manage the operations of Spencer House Inc. The Company earns rental income from leasing the property to Spencer House Inc. as well as a management fee based on a percentage of gross revenues of the operation for managing the facility. Revenue is recognized when the services are rendered.

Property and equipment
Property and equipment are recorded at cost less accumulated amortization. The Company provides for amortization at rates designed to amortize the cost of the property and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Buildings	4 - 40 years straight-line
Furniture and fixtures	10 years straight-line
Computer hardware	5 years straight-line

Circulating equipment is comprised of china, linen, glass and silver in circulation, which is valued at cost. The cost of acquiring a basic inventory of these items is capitalized and any replacements incurred thereafter are expensed.

The Company evaluates its long-lived assets for potential impairment whenever events or changes in circumstances indicate the net carrying amount of an asset exceeds its net recoverable amount. Any impairment determined by a comparison of the estimated discounted future operating cash flows to be generated by the asset with its net carrying value is written off at the time of impairment.

Maintenance and repairs completed on property and equipment are expensed as incurred. Any renovations or improvements that extend the useful life of the asset are capitalized and amortized over its useful life.

Construction funding
The MOHLTC provides funding to new homes constructed after April 1, 1998. Under the development agreements, these new homes receive a 20 year commitment from the MOHLTC to

provide per diem funding of up to $10.35 per bed, depending on actual construction costs. The construction funding receivable is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Intangible assets
Intangible assets include bed licences, PHCS service contracts, resident relationships and computer software that is not integral to property and equipment. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment. The evaluation of impairment is based on a comparison of the carrying amount of the estimated undiscounted future net cash flows expected to be generated by the asset. If estimated undiscounted future net cash flows are less than the carrying amount of the asset, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period. PHCS service contracts are amortized over the contract duration, which approximates three years. The resident relationships are amortized over the average length of stay, which is two years. Licences renew annually and are only revoked in rare circumstances. As such, licences are considered to have indefinite lives and are not amortized, but tested for impairment in the second quarter of each fiscal year or as indicators of impairment arise. Impairment would be recognized when the estimated fair value of the intangible asset is less than its carrying value. Computer software is amortized over a five-year period, on a straight-line basis, from the date the software is put into service.

Goodwill
Goodwill is not amortized but tested for impairment in the second quarter of each fiscal year or as indicators of impairment arise. The evaluation is based on a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The fair values used in this evaluation are estimated based on discounted future cash flow projections for the reporting unit. These cash flow projections are based on a number of estimates and assumptions.

Derivatives
Derivative instruments are used to reduce interest rate risk on the Company's debt. The Company does not enter into derivative instruments for trading or speculative purposes. Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. GAAP specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. The change in fair value of an instrument that is determined to be an effective hedge is recognized in other comprehensive income (loss). The ineffective portion of the change in fair value is recorded in the consolidated statement of operations.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Company determined that it does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Transaction costs
Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability or equity. Leisureworld incurs transaction costs primarily through the issuance of debt or shares, and classifies these costs with the related debt, or as a reduction of the value of the proceeds received for the share issuance. The costs associated with the issuance of debt are amortized using the effective interest rate method over the life of the related debt instrument.

Income taxes
The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Use of estimates
The preparation of interim consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management estimates are used primarily in determining the fair value of assets and liabilities acquired, the estimated useful lives of property and equipment and net recoverable amounts for properties, and the fair value of financial instruments, goodwill and intangible assets.

3 Financial instruments

Financial instruments consist of cash, accounts receivable, construction funding receivable, government funding receivable, annuity, accounts payable and accrued liabilities, government funding payable, long-term debt, and swap contracts.

Cash
Cash includes deposits held with Canadian chartered banks. Cash is classified as held-for-trading. The carrying value of cash approximates fair value as it is immediately available for use.

Accounts receivable
Accounts receivable are classified as loans and receivables. Accounts receivable are recognized at amortized cost. The carrying value of accounts receivable, after consideration of collectability for doubtful accounts, approximates their fair value due to the short-term maturity of these instruments.

Construction funding receivable
The construction funding receivable is classified as loans and receivables. The construction funding receivable is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Annuity
The annuity is classified as loans and receivables. The annuity is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities are classified as other liabilities. The carrying value of accounts payable and accrued liabilities are recognized at amortized cost, which approximates their fair value due to the short-term maturity of the instruments.

Note payable
Note payable is classified as other liabilities. The carrying value of note payable is recognized at amortized cost, which approximates their fair value due to the short-term maturity of the instrument.

Long-term debt
The Company's senior secured debentures, including capitalized transaction costs, are recorded at amortized cost using the effective interest method and are classified as other liabilities. The fair value of the Company's long-term debt ($310,000 Series A Senior Secured Notes) is subject to changes in interest rates and the Company's credit rating. The Company's long-term debt is collateralized by the assets of the Company and its subsidiaries.

Government funding receivable/payable
The government funding balances are classified as either other liabilities or other assets and are carried at amortized cost. The carrying value of the government funding approximates its fair value due to the short-term maturity of the instrument for the current portion. The difference between the carrying value and the fair value of the long-term portion is insignificant. The difference between the amounts approved and those received from the MOHLTC are recorded as government funding payable or receivable in the consolidated balance sheet.

Interest rate swap contract
The Company has an interest rate swap contract that does not qualify for hedge accounting. Therefore, the change in fair value is recorded through the interim consolidated statement of operations.

Fair value of financial instruments
The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined using valuation techniques that refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Fair values of long-term debt, construction funding receivable and annuity are calculated by discounted cash flow analysis based on current market rates for loans and investments with similar terms, conditions and maturities.

The following tables provide a summary of the carrying and fair values for each classification of financial instrument as at March 31, 2010:

	Carrying value				
	Held-for-trading	**Loans and receivables**	**Other liabilities**	**Total carrying value**	**Total fair value**
Financial Assets:					
Cash	13,175	-	-	13,175	13,175
Accounts receivable	-	3,808	-	3,808	3,808
Government funding receivable	-	2,119	-	2,119	2,119
Construction funding receivable	-	83,438	-	83,438	82,904
Annuity	-	1,003	-	1,003	1,006
Financial Liabilities:					
Accounts payable and accrued liabilities	-	-	36,084	36,084	36,084
Government funding payable	-	-	7,723	7,723	7,723
Note payable	-	-	9,035	9,035	9,035
Long-term debt	-	-	296,987	296,987	295,126
Interest rate swap contract	305	-	-	305	305

Impairment charges on accounts receivable are disclosed below. All interest income and expense from financial instruments have been disclosed in Note 8.

Maturities of financial instruments
The Company generally has no financial instruments, maturing beyond one year with the exception of its 2015 Notes as described in Note 8 and its interest rate swap contract. For the years ending December 31, 2010 through 2014, and thereafter, Leisureworld has estimated that the following undiscounted cash flows will arise from its interest rate swap contract based on valuations at the consolidated balance sheet date.

	2010	**2011**	**2012**	**2013**	**2014**	**Thereafter**
Cash inflows	101	243	-	-	-	-
Cash outflows	282	377	-	-	-	-
Net cash outflows	**181**	**134**	**-**	**-**	**-**	**-**

Nature and extent of risks arising from financial instruments
The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under Canadian Institute of Chartered Accounts Handbook Section 3862. The Company's normal operating, investing and financing activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk. Leisureworld is not exposed to foreign currency risk as all operations are in Canada and all purchases are contracted in Canadian dollars. The Company does not have significant exposure to price risk as most of its revenues are regulated by the government. The Company's overall risk management process is designed to identify, manage and mitigate business risk, which includes financial risk.

Interest rate risk
Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. Leisureworld is exposed to interest rate risk arising from fluctuations in interest rates in connection with its interest rate swap contract. This interest rate swap contract was purchased as part of the LSCLP acquisition and related to a hedge on anticipated borrowings for a transaction that did not occur. Interest rates, maturities and security affecting the interest and credit risk of Leisureworld's financial assets and liabilities have been disclosed in Notes 8 and 9.

Credit risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, accounts receivable, construction funding receivable, government funding receivable, annuity and interest rate swap contract. The Company deposits its cash with reputable financial institutions and therefore management believes the risk of loss to be remote. The Company is exposed to credit risk from its residents and customers. However, the Company has a significant number of residents and customers, which minimizes concentration of credit risk. Also, funding from the provincial government covers a significant amount of the monthly charges to residents, which further reduces this risk. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due. The Company assesses collectability of specific accounts receivable and also assesses the requirement for a general provision based on historical experience of accounts receivable impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of operations within operating expenses. When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the interim consolidated statement of operations.

The continuity of the allowance for doubtful accounts is as follows:

Balance, beginning of period	-
Provision for receivables	77
Receivables written-off during the period	-
Balance, end of period	**77**

The provision for accounts receivable represents 50% of the total provision for amounts owed by LTC home residents as the Company is able to recover 50% of actual bad debts from the MOHLTC in the year of write-off. The provision at March 31, 2010 consists of amounts provided at the 100% level of $27 and $50 of amounts provided at the 50% level.

At March 31, 2010, the Company had an annuity with a Canadian chartered bank that makes semi-annual payments until November 24, 2010 and loans receivable from MOHLTC related to construction costs of LTC homes. The Company believes the credit risk associated with the loans receivable is low as it is receivable from the government. The counterparty to the Company's interest rate swap contract and annuity is a major financial institution that has been accorded investment grade ratings by a primary rating agency, therefore management believes any credit risks associated with its swap contracts and annuity are low.

Liquidity risk
Liquidity risk is the risk the Company may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The Company has a credit agreement in

place for the 4.814% Series A Senior Secured Notes, due in 2015. This credit agreement contains a number of standard financial and other covenants. A failure by the Company to comply with their obligations in this credit agreement could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

There can be no assurance that the Company could:

- generate sufficient cash flow from operations to pay outstanding indebtedness, or to fund any other liquidity needs; or
- refinance this credit agreement or obtain additional financing on commercially reasonable terms, if at all. The Company's credit facility is, and future borrowings may be, at variable rates of interest, which exposes the Company to the risk of increased interest rates.

The Company maintains a capital structure, which helps to manage the risk of default under these credit agreements.

Sensitivity analysis

GAAP requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Company's financial position, performance and fair value of cash flows associated with the Company's financial instruments to changes in market variables (i.e. interest rates). The sensitivity analysis provided discloses the effect on profit or loss at March 31, 2010 assuming that a reasonably possible change in the relevant risk variable has occurred at March 31, 2010 and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on March 31, 2010 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivative at March 31, 2010 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments and financial instruments not carried at fair value in the interim consolidated financial statements.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the Company's actual exposure to market rates may change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

		Interest rate risk	
		-1%	+1%
	Carrying value	Income	Income
Financial Assets:			
Cash	13,175	-	2
Financial Liabilities:			
Interest rate swap contract	305	(4)	4

Fair value hierarchy

Financial instruments carried at fair value have been categorized under three levels of fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

This level of the hierarchy includes cash. The fair value of the instrument is quoted prices where the prices represent those at which regularly and recently occurring transactions take place.

Level 2: Inputs that are observable for the assets or liabilities either directly or indirectly

This level of the hierarchy includes the interest rate swap contract. This instrument is recorded at fair value on the settlement date. The fair value of the interest rate swap contract is calculated through discounting future expected cash flows using the bankers' acceptance ("BA") based swap curve. Since the BA based swap curve is an observable input, these financial instruments are considered Level 2.

Level 3: Inputs for assets or liabilities that are not based on observable market data.

The Company does not have any financial instruments in this level.

	Financial instruments at fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
Cash	13,175	-	-	13,175
Financial Liabilities:				
Interest rate swap contract	-	305	-	305

4 Capital disclosure

The Company defines its capital as its long-term debt, shareholders' equity and cash.

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

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

The Board of Directors reviews the level of monthly dividends paid on a quarterly basis. The Company is in compliance with all financial covenants on its borrowings. The 2015 Notes are collateralized by all assets of LSCLP and the subsidiary partnerships and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

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

5 Acquisition

The acquisition of LSCLP on March 23, 2010 has been accounted for using the purchase method. Goodwill in the amount of $85,260 was recognized as the difference between the fair value of assets and liabilities acquired and the consideration paid. The total purchase price of $121,873 was allocated to the assets and liabilities on a preliminary basis as follows:

Assets	
Cash	14,762
Accounts receivable and other assets	4,222
Prepaid expenses and deposits	1,280
Due from Leisureworld Senior Care Corporation	4,469
Government funding receivable	2,008
Construction funding receivable	83,567
Annuity	1,002
Property and equipment	299,639
Intangible assets - Licences	76,000
Intangible assets - Resident relationships	26,190
Intangible assets - Service contracts	3,080
Intangible assets - Software	1,196
Goodwill	85,260
Total assets	**602,675**
Liabilities	
Accounts payable and accrued liabilities	38,591
Government funding payable	12,312
Future income tax liabilities, net	70,677
Long-term debt	356,937
Interest rate swap contract	2,285
Total liabilities	**480,802**
Net assets acquired	**121,873**

Cash paid for the acquisition totaled $98,076, net of cash assumed of $14,762, which was paid during the period ended March 31, 2010. Additional consideration in the amount of $9,035 was also provided by way of promissory note and was settled subsequent to March 31, 2010 (Note 11).

6 Property and equipment

	Cost	Accumulated amortization	Net book value
Land	42,271	-	42,271
Buildings	246,782	205	246,577
Furniture and fixtures	9,382	58	9,324
Computer hardware	240	1	239
Circulating equipment	985	-	985
	299,660	**264**	**299,396**

7 Intangible assets

	Cost	Accumulated amortization	Net book value
Licences	76,000	-	76,000
Resident relationships	26,190	323	25,867
Contracts	3,080	25	3,055
Computer software	1,244	2	1,242
	106,514	**350**	**106,164**

8 Long-term debt

	Effective interest rate	Maturity date	
Series A Senior Secured Notes	4.814%	Nov. 24, 2015	296,987

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

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

Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year. Interest expensed on the 2015 Notes in the period ended March 31, 2010 was $414, which includes the accretion of the fair value increment from the purchase price allocation of $50.

The following summarizes the components of interest expense, net, in the interim consolidated statement of operations:

Interest expense:	
2015 Notes	414
Revolving credit facility	5
Swap settlement	10
	429
Interest income:	
Construction funding receivable	77
Annuity	1
	78
Interest expense, net	**351**

9 Revolving credit facility

LSCLP has a $15,000 revolving credit facility with a Canadian chartered bank, collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships, which it can access for working capital purposes. The facility bears interest on cash advances at 250 basis points per annum over the floating BA rate (30, 60 or 90 days), at 150bps per annum over the prime rate and on letters of credit at 250 basis points per annum. At March 31, 2010, $68 had been drawn against the facility in the form of letters of credit (Note 14). During the period ended March 31, 2010, $5 of charges related to standby fees was expensed.

10 Income taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as at March 31, 2010 are:

Future Income Tax Assets	
Cost associated with the initial public offering	4,166
Other items	1,074
	5,240
Future Income Tax Liabilities	
Intangible assets	(17,861)
Property and equipment	(57,896)
Future income tax liability, net	**(70,517)**
Future income taxes are comprised of:	
Future income tax asset - current	95
Future income tax liability - long-term	(70,612)
Future income tax liability, net	**(70,517)**

The income tax provision included in the interim consolidated financial statements differs from amounts that would be obtained by applying the combined Canadian federal and provincial income tax rates to income before income taxes. The differences are reconciled as follows:

Loss before income taxes	(327)
Canadian combined income tax rate	31.0%
Income tax provision	(101)
Adjustments to income tax provision:	
Non-deductible items	102
Future tax rate differential	(26)
Other items	(49)
Income tax recovery	**(74)**

11 Note payable

The purchase consideration for the acquisition of LSCLP from Macquarie Long Term Care LP ("MLTC") included the issuance of a non-interest bearing promissory note by the Company. As part of the IPO, the underwriters were granted an overallotment option which allowed them to purchase an additional 958,649 shares of the Company at $10 per share, less the underwriters' fees, within 30 days from the date of the IPO. The amount and nature of settlement of this promissory note is contingent on whether or not the aforementioned option is exercised in full or in part. If the option is exercised in full, the promissory note would be repaid to MLTC in the amount of net proceeds received. If the option is not exercised, the promissory note will be settled through the issuance of 958,649 shares of the Company to MLTC. If the option is partially exercised, the promissory note will be settled for the net proceeds received on the partial exercise and 958,649 shares less those issued on exercise of the option. The note has been valued in the financial statements at its fair value as at the date of the IPO. Subsequent to March 31, 2010, the promissory note was settled by way of issuance of common shares of the Company as the overallotment option was not exercised within 30 days of the IPO.

12 Share capital

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

Issued and outstanding
Common shares

	Shares	Value
Balance, beginning of period	-	-
Issued common shares	19,150,000	174,794
Stock-based compensation (Note 13)	-	330
Balance, end of period	**19,150,000**	**175,124**

During the quarter, the Company issued 19,150,000 shares for proceeds of $174,794, net of underwriters fees of $10,937 and other IPO related costs of $4,469 (Note 5). Included in the 19,150,000 of issued shares were 100,000 shares that have not fully vested in accordance with the stock-based compensation agreement (Note 13).

13 Stock-based compensation

In relation to the Initial Public Offering, the Company awarded 130,000 shares to key executive employees. Of this amount, 30,000 shares were awarded for nominal value and have trading restrictions imposed on them for a period of six months. The remaining 100,000 shares vest in three equal instalments on the first, second and third anniversary of the grant date and also have trading restrictions imposed. The fair value of these shares was determined to be $1.1 million based on the Black-Scholes Model. In the period, $330 was recognized as stock-based compensation expense in general and administrative expenses.

14 Commitments

As at March 31, 2010, the Company had $68 in letters of credit outstanding. The amount had primarily been issued to a municipality with respect to outstanding obligations of the Company related to the construction of long-term care home.

The Company has a ten-year lease with respect to its corporate office; the lease expires on December 31, 2015. The Company also has various operating leases for office and other equipment. Lease payments in respect of the remaining years of the leases are as follows:

2010	354
2011	466
2012	376
2013	348
2014	302
Thereafter	300
	2,146

15 Construction funding receivable

The Company will receive gross funding from the Ontario government of approximately $108,533 related to the construction costs of long-term care homes. The amounts are non-interest bearing and will be received for certain LTC homes for various periods ending over the next 17 years.

Included in interest expense is interest accretion on the construction funding receivable of $77 for the period ended March 31, 2010.

16 Employee pension plan

The Company contributes to certain of its employees' defined contribution pension plans based on 4% of gross wages. The expense associated with these plans for the period ended March 31, 2010 was $93.

17 Trust funds

The Company maintains separate trust accounts on behalf of its nursing home residents, which are not included in these interim consolidated financial statements. The total balance in the trust bank accounts as at March 31, 2010 was $1,002.

18 Related party transactions

During the period ended March 31, 2010, the Company earned revenue from Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario. A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc. Total revenue for the period ended March 31, 2010 was $34. Included in accounts receivable is $51 owing from Spencer House Inc. at March 31, 2010. 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.

19 Economic dependence

The Company holds licences related to each of its long-term care homes and receives funding from the MOHLTC related to these licences. Funding is received on the 22nd of each month; therefore, during the period from March 23, 2010 to March 31, 2010, the Company received no funding. Generally, approximately 70% of the Company's revenue is received from the MOHLTC.

20 Segmented information

During the period, the Company had two reportable operating segments: the core Leisureworld long-term care facility business; and PHCS. PHCS retains its own management team and compiles its own financial information. PHCS is an accredited provider of professional nursing, personal support and education services for both community-based home care and long-term care homes. The significant accounting policies of the reportable operating segments are the same as those disclosed in Note 2.

	PHCS	LTC	Total
Gross revenue	294	6,386	6,680
Less: Internal revenue	45	225	270
Net revenue	249	6,161	6,410
Income from operations before undernoted	57	480	537
Amortization of property and equipment, and intangibles	26	588	614
Interest expense	-	429	429
Interest income	-	78	78
Purchase of property and equipment	-	21	21
Purchase of intangible assets	-	48	48
Total assets	22,357	573,346	595,703
Goodwill	4,263	80,997	85,260

21 Commitments and contingencies

The former majority owner of Leisureworld is involved in a lawsuit with a former supplier, Corporate Building Services Inc. (the "CBSI Claim"). The CBSI Claim is for $5,860; the outcome cannot be determined at this time. Markham Suites Hotel Limited ("MSHL"), formerly Leisureworld Inc., whose assets were acquired by LSCLP (October 18, 2005), was added as a defendant during 2006. The Company intends to vigorously defend MSHL's position in this action, as this potential liability was assumed by the Company as part of the acquisition. In the Company's opinion, the resolution of this action will not have a material adverse effect on the financial condition of the Company. The defendants will be denying all allegations and asserting the action should be dismissed with costs payable to the defendants.