LOCATIONS

LONG-TERM CARE

Altamont
92 Island Road
West Hill, ON M1C 2P5

Barrie
130 Owen Street
Barrie, ON L4M 3H7

Brampton Meadows
215 Sunny Meadows Boulevard
Brampton, ON L6R 3B5

Brampton Woods
9257 Goreway Drive
Brampton, ON L6P 0N5

Brantford
389 West Street
Brantford, ON N3R 3V9

Cheltenham
5935 Bathurst Street
Toronto, ON M2R 1Y8

Creedan Valley
143 Mary Street
Creemore, ON L0M 1G0

Ellesmere
1000 Ellesmere Road
Scarborough, ON M1P 5G2

Elmira
120 Barnswallow Drive
Elmira, ON N3B 2Y9

Etobicoke
70 Humberline Drive
Etobicoke, ON M9W 7H3

Lawrence
2005 Lawrence Avenue West
Toronto, ON M9N 3V4

Madonna
1541 St. Joseph Boulevard
Orleans, ON K1C 7L3

Mississauga
2250 Hurontario Street
Mississauga, ON L5B 1M8

Muskoka
200 Kelly Drive
Gravenhurst, ON P1P 1P3

Norfinch
22 Norfinch Drive
North York, ON M3N 1X1

North Bay
401 William Street
North Bay, ON P1A 1X5

O'Connor Court
1800 O'Connor Drive
Toronto, ON M4A 1W7

O'Connor Gate
1800 O'Connor Drive
Toronto, ON M4A 1W7

Oxford
263 Wonham Street South
Ingersoll, ON N5C 3P6

Richmond Hill
170 Red Maple Road
Richmond Hill, ON L4B 4T8

Rockcliffe
3015 Lawrence Avenue East
Scarborough, ON M1P 2V7

Scarborough
130 Midland Avenue
Scarborough, ON M1N 4B2

Spencer House
835 West Ridge Boulevard
Orillia, ON L3V 8B3

St. George
225 St. George Street
Toronto, ON M5R 2M2

Streetsville
1742 Bristol Road West
Mississauga, ON L5M 1X9

Tullamore
133 Kennedy Road South
Brampton, ON L6W 3G3

Vaughan
5400 Steeles Avenue West
Woodbridge, ON L4L 9S1

RETIREMENT/INDEPENDENT LIVING

The Royale Kanata
3501 Campeau Drive
Kanata, ON K2K 0C1

The Royale Kingston
2485 Princess Street
Kingston, ON K7M 3G1

The Royale Astoria
2245 Kelly Avenue
Port Coquitlam, BC V3C 0B1

The Royale Pacifica
2525 King George Boulevard
Surrey, BC V4P 0C8

The Royale Peninsula
2088 152nd Street
Surrey, BC V4A 9Z4

Midland Gardens
130 Midland Avenue
Scarborough, ON M1N 4E6

LEISUREWORLD SENIOR CARE CORPORATION
302 TOWN CENTRE BLVD., SUITE 200,
MARKHAM, ONTARIO L3R 0E8
T 905.477.4006 **F** 905.415.7623
www.leisureworld.ca

Leisureworld
SENIOR CARE CORPORATION

LEISUREWORLD SENIOR CARE CORPORATION ANNUAL REPORT 2012

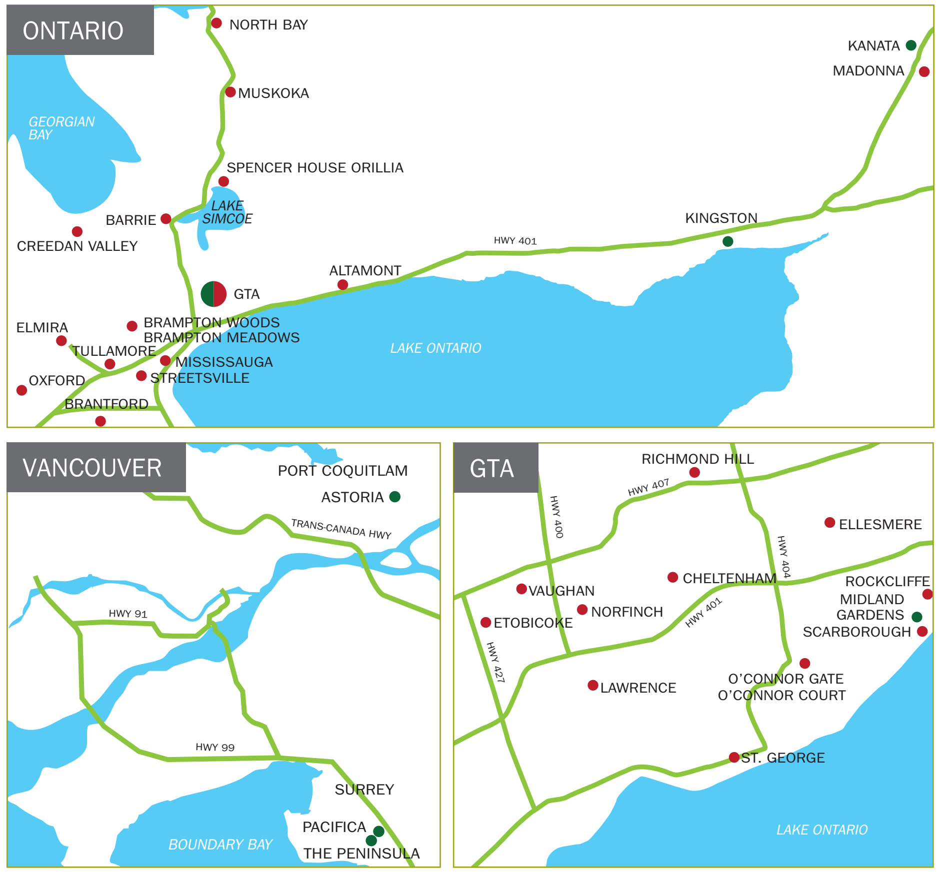
An Emerging Leader in Canadian Seniors' Living and Care

LEISUREWORLD SENIOR CARE CORPORATION
ANNUAL REPORT
2012

Leisureworld
SENIOR CARE CORPORATION

Leisureworld is Ontario's third largest long-term care (LTC) provider and the fifth largest operator of seniors' housing in Canada.

Leisureworld owns and operates 27 LTC homes across Ontario with 4,474 beds. The Company also operates five retirement residences and one independent living residence, representing 739 suites, in Ontario and British Columbia. Leisureworld subsidiaries include: Preferred Health Care Services, an accredited provider of professional nursing and personal support services; and Ontario Long Term Care, a provider of purchasing services and dietary, social work and other regulated health professional services.



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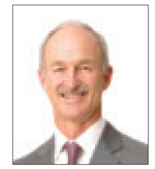
BOARD OF DIRECTORS

Dino Chiesa – Chairman & Director

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



David Cutler – Director

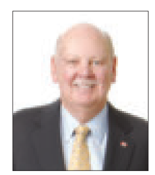
Mr. Cutler is the President and CEO of Centric Health, Canada's leading diversified healthcare company, which is a publicly traded company on the Toronto Stock Exchange. Prior to joining Centric Health, Mr. Cutler was the President and CEO of Leisureworld Senior Care Corporation from 2010 to September 2012 and oversaw Leisureworld's rapid growth which quadrupled in size during his leadership. Mr. Cutler has served as Director of Leisureworld Senior Care Corporation from 2010. He has been involved in the Long-Term Care sector since 1990 when he joined Leisureworld as Vice President of Operations and became Chief Operating Officer in 1999 until 2004. He served as CEO and Director of LSCLP (a wholly owned subsidiary of Leisureworld) from 2005 to 2009. Prior to joining Leisureworld, Mr. Cutler was Managing Partner at Civin Winer & Cutler, a law practice in South Africa where he practiced law for 10 years as a senior litigant, handling litigation involving commercial, contract and bankruptcy of major clients of the practice. Mr. Cutler earned a diploma in Business Administration from Damelin Business School and a Baccalaureus Procurationis, as well as an Honours Diploma in Company Law and Tax Law from the University of Witwatersrand, both located in Johannesburg, South Africa. Mr. Cutler served on the Board of Directors of the Ontario Long Term Care Association for 20 years in various capacities including Vice President at Large for three years, Vice President of Government Relations for 11 years and President for six years. Mr. Cutler also served on the Board of Directors of Futuremed Healthcare Products Corporation from May 2010 to March 2012.

Janet Graham – Director[1, 2, 3]

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

John McLaughlin – Director[1, 2, 4]

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



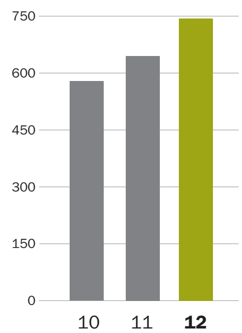
Jack C. MacDonald – Director[1, 2]

Mr. MacDonald served as Chair and CEO of Compass Group Canada & ESS North America from 1996 to 2012. During this period of time he was also an Officer of Compass Group North America, a $10.0 billion company operating in the hospitality sector. One of Mr. MacDonald's primary responsibilities was to grow the company in Canada. This he did successfully, leading it from $47 million to $1.6 billion. Compass Group provides hospitality services such as plant operations and maintenance; housekeeping and food services to the institutional sector (hospitals, retirement homes, etc.). Previous management roles have included President, MDS Communicare (1991 to 1996); President, Marriott Canadian Management Services (1984 to 1991); and Vice-President Sales and Retail Operations, Clearwater Seafood (1980 to 1984). Previous Board roles include Chair, Canadian Aboriginal Business Hall of Fame; Chair, Canadian Foundation for Dietetic Research; Chair, President's Advisory Council for Humber College; Director, Colorectal Cancer Screening Initiative Foundation and Director, Canadian Physiotherapy Association. Mr. MacDonald is currently an Honourary Chair of the Toronto Zoo Campaign – 'Wild for Life' and a member of the Province of Ontario Investment and Trade Advisory Council. In 2007 he was awarded an Honourary Bachelor of Applied Studies degree from Humber College and in 2010 he successfully completed the Institute of Corporate Directors Program at the University of Toronto's Rotman School of Management. It is Mr. MacDonald's extensive senior management experience, his focus on successfully assimilating growth into a company and culture, his knowledge of the health care sector and his understanding of the legislative process that is of value to Leisureworld Senior Care Corporation as the Company pursues growth in the seniors market.

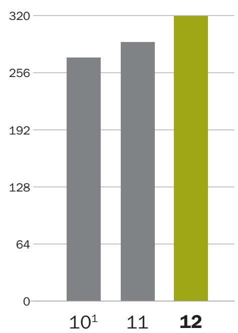
[1] Member of Audit Committee [2] Member of Compensation Committee [3] Chair of Audit Committee [4] Chair of Compensation Committee

Performance Dash Board

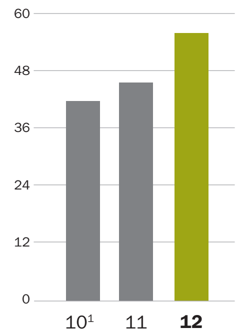
Total Assets
(C$ millions)



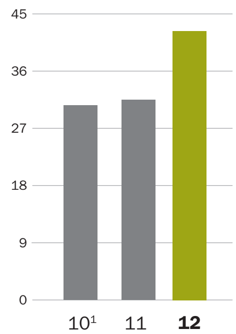
Revenue
(C$ millions)



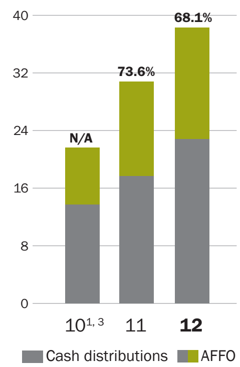
Net Operating Income
(C$ millions)



EBITDA[2]
(C$ millions)



AFFO
(C$ millions/Payout ratio %)

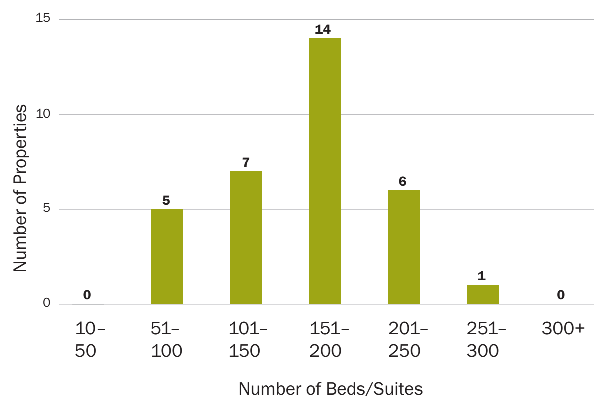


Occupancy

	2012	2011	2010
Average total occupancy (LTC)	**98.8%**	98.5%	98.5%
Average private occupancy (LTC)	**98.5%**	96.7%	97.1%
Average occupancy (retirement and independent living)*	**73.9%**	64.2%	94.3%

* The 2011 retirement and independent living occupancy rates include the addition of the Kingston and Kanata properties as of April 27, 2011, which are currently in lease-up and not yet at stabilized occupancy. The 2012 retirement and independent living occupancy rates include the addition of the BC retirement properties as of May 24, 2012, with one of the properties (The Royale Astoria) currently in lease-up and not yet at stabilized occupancy. The 2012 figure includes occupancy at Muskoka up until September 30, 2012, when the facility was temporarily closed for renovations.

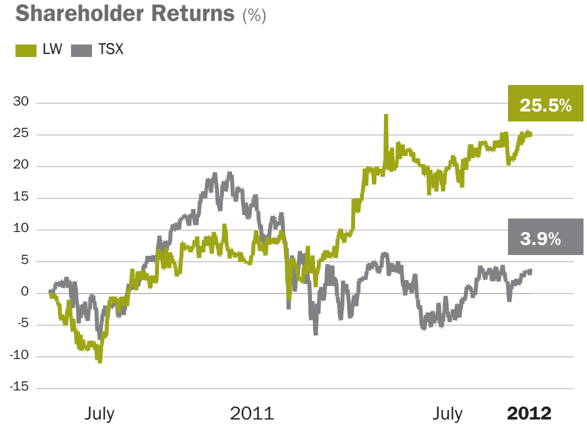
Total Properties and Beds/Suites



Adjusted Funds from Operations (AFFO)
(Years ended December 31)

(C$ thousands)	2012	2011	2010[1]
Net Operating Income (NOI)	**$ 56,337**	45,939	42,013
Construction funding (interest)	**3,060**	3,111	3,624
Net finance charges	**(19,997)**	(16,615)	(15,866)
One-time bond redemption premium	**1,095**	–	–
Current income taxes	**(1,826)**	(1,185)	(1,922)
Administrative expenses	**(13,861)**	(14,134)	(10,740)
Transaction costs	**1,448**	2,465	35
Funds from Operations (FFO)	**$ 26,256**	19,581	17,144
Income tax to book filing adjustment	–	(739)	–
HRIS expense	**52**	76	(72)
Deferred share unit plan compensation	**506**	–	–
Income support	**3,188**	3,105	–
Construction funding (principal)	**5,696**	5,421	4,908
Maintenance capex	**(1,416)**	(864)	(1,400)
Adjusted Funds from Operations (AFFO)	**$ 34,282**	26,580	20,580

Shareholder Returns (%)



Since Leisureworld's IPO in March 2010 up until December 31, 2012, the Company's common shares have outperformed the TSX Composite Index. LW common shares have appreciated in price by 25.5% over this time period, compared to 3.9% for the TSX Composite Index, with a total overall shareholder return of 54.8%, including dividends.

[1] LSCLP's results until March 22, corporation's results thereafter
[2] EBITDA is defined as income from operations, before unusual items
[3] Represents cash distributions post-IPO

To our shareholders,

On behalf of everyone at Leisureworld Senior Care Corporation, we are pleased to present our 2012 Annual Report. Leisureworld achieved another year of strong performance.

2012 Performance Highlights

- Acquisition of three luxury retirement residences in the Greater Vancouver Area
- Successful completion of $56.4 million equity offering
- Acquisition of a Class A, 160-bed, long-term care home located in Orleans, Ontario
- NOI increased 23%
- AFFO increased 29%
- Monthly shareholder dividend increased 5.9% to $0.075 per share, or $0.90 per share (annualized)
- Annualized payout ratio of 68.1%, significantly outperforming the Company's targeted maximum annualized payout ratio of 80%
- New VP of Retirement appointed to oversee our Royale portfolio
- Preferred Health Care Services ("PHCS") subsidiary accredited with "exemplary standing" by Accreditation Canada

Performance

Compared to 2011, Leisureworld generated a 23% increase in Net Operating Income (NOI) and a 29% increase in Adjusted Funds from Operations (AFFO). AFFO is a key measure for Leisureworld shareholders as it indicates the amount of cash being generated that is available to fund shareholder dividends. Our AFFO payout ratio for the year was 68.1%, an improvement from 73.6% last year, and well below our maximum target payout ratio of 80%. Our continued strong financial performance enabled us to increase our monthly shareholder dividend by 5.9% this past December, resulting in a current annualized dividend rate of $0.90 per share.

In 2012, we grew our business with the acquisitions of three luxury retirement residences in the Greater Vancouver Area, and the acquisition of a Class A long-term care facility in Orleans, Ontario. These growth initiatives were complemented by increased government funding in our LTC portfolio, our continued focus on disciplined cost management, peak occupancy rates in our LTC homes, and increasing occupancy rates in our expanding retirement portfolio.

The properties we acquired in the Greater Vancouver Area, which include the Pacifica and Peninsula retirement resorts in South Surrey, and the Astoria Resort in Port Coquitlam, comprise 392 suites in aggregate. The properties are all recently developed and feature top quality amenities, similar to our Royale properties in Kanata and Kingston, Ontario, which we acquired in April 2011. The BC properties have been added to our Royale brand portfolio, thereby establishing our luxury retirement brand in the attractive, lower mainland market in British Columbia. Concurrent with the acquisition, we completed a $56.4 million equity offering, which partially funded the transaction. The offering was oversubscribed.

While pleased with our overall performance in 2012, the lease-up of our new retirement properties has been slower than anticipated. In order to improve lease-up and performance in this segment, we appointed a new Vice President of Retirement in the fourth quarter of 2012 to oversee the management of

Dino Chiesa
Chair of the Board

our Royale portfolio and implement a new plan to improve occupancy, including community-based marketing initiatives and move-in incentives.

Leadership

Our Board of Directors is committed to the highest standards in corporate governance. This commitment supports the best interests of the Company's shareholders and other stakeholders, by ensuring: effective implementation and execution of business strategy, risk management and financial controls; transparency of operational and financial performance; and the Company's overall adherence to ethical business practices; and, by defining the roles and responsibilities of senior management and assessing their performance.

During 2012, after 21 years with Leisureworld, David Cutler tendered his resignation as President and CEO, to pursue another opportunity in a non-competing sector of our industry. David brought Leisureworld to the public market and was instrumental in the disciplined, strategic growth of Leisureworld. He also instilled within our organization a culture that emphasizes resident-oriented top-quality care and services – a culture that remains today and will endure into the future. Our Board completed a comprehensive executive search for a new President and CEO and selected its preferred candidate.

Growth

We are committed to positioning Leisureworld as a leading provider of quality care and services across the continuum of seniors' living, a market that has highly attractive fundamentals. Favourable demographics are driving: strong and growing demand, government funding support for long-term care and home care services, and attractive growth opportunities in retirement, independent and assisted living residences, as well as professional home care. By building our business in a range of seniors' living segments in Canada, we have opportunities to leverage our operational and financial strengths, grow revenue in less regulated businesses, and improve operating margins. These factors all contribute to supporting consistent shareholder dividends. The long-term care market will remain our primary business focus and we will ensure that it represents the dominant share of our revenue going forward, but given the higher potential margins in the related, less regulated seniors' living segments, an increasing portion of our NOI will be generated by non-LTC operations as we advance our growth plans.

Looking ahead, with our new CEO on board, our growth strategy will remain focused on:

- ensuring exceptional quality seniors' care and services,
- supporting and increasing our occupancy rates,
- maintaining disciplined cost management,
- attracting and retaining talented and dedicated employees,
- building our presence across the continuum of seniors' living in Canada, and
- maintaining a strong balance sheet and reliable shareholder dividends.

Outlook

With Canada's rapidly aging population, increasing life expectancies and increased wealth among seniors, we believe proven operators in seniors' care and living have significant potential to deliver attractive shareholder returns over a long period by offering high quality care, services and lifestyle solutions. As an emerging leader in Canadian seniors' living and care, we are committed to meeting or exceeding the highest industry standards for our residents.

On behalf of our Board of Directors and senior management team, we thank each of our dedicated employees for ensuring the quality of care, services and lifestyle options that Leisureworld residents, home care clients and their family members have come to expect. Finally, to our shareholders, we thank you for your continued support.

Dino Chiesa
Chair of the Board

Long-term care

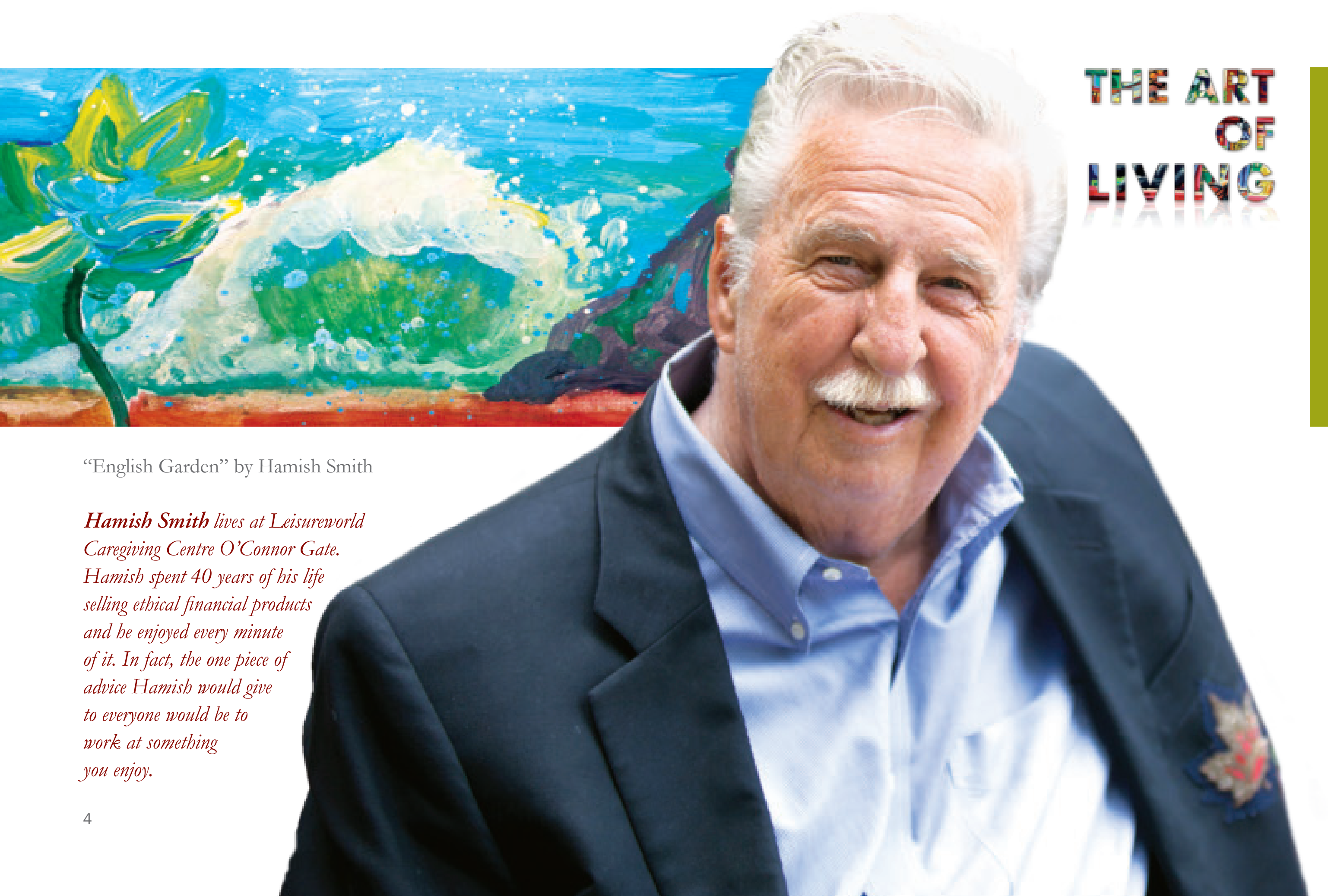
According to Statistics Canada, the number of Canadians aged 75 and older will increase from a current level of approximately 2.35 million to 5.35 million in 2035, representing an increase of 128%.

A Higher Standard of Care

Leisureworld owns and operates accredited long-term care (LTC) homes across Ontario designed to accommodate vulnerable seniors living with cognitive or physical impairments who require secure, 24-hour per day care. Experienced registered nurses, registered practical nurses, and personal support workers are on duty around the clock, seven days a week. This high level of care distinguishes the LTC segment from retirement and independent living homes. Leisureworld currently provides nursing care, programming, supervision and support for more than 4,450 residents. Approximately 54% of our LTC beds are Class A or "new homes," as they were built post-1998, when new industry standards came into effect. Class B and C homes (built to pre-1998 standards) comprise 7% and 39% of our LTC portfolio, respectively. In 2012, we implemented new clinical software that enhances our ability to measure, monitor and improve resident care. We are pleased to report that we exceeded Health Quality Ontario requirements in many of the key performance categories in 2012, including resident restraints and falls.

Vital Community Infrastructure

LTC is deemed by the Province to be an essential service and a vital part of community infrastructure, and as such is supported by government funding. All the care and basic accommodations are supported by government programs. The government has a strong financial incentive to support LTC, as the cost to fund a senior patient in a hospital acute care bed is approximately $1,000 per day and the cost of a chronic care bed in an Ontario hospital averages $650 a day, while base funding costs for an LTC bed are just $155 per day. The Ontario Ministry of Health and Long-Term Care ("MOHLTC") funding for LTC has consistently increased over time, as the chart on the facing page illustrates. Leisureworld adds to



"English Garden" by Hamish Smith

***Hamish Smith** lives at Leisureworld Caregiving Centre O'Connor Gate. Hamish spent 40 years of his life selling ethical financial products and he enjoyed every minute of it. In fact, the one piece of advice Hamish would give to everyone would be to work at something you enjoy.*

revenue and NOI through resident-paid premiums applicable to private and semi-private beds. Approximately 4% of revenues and 22% of NOI were generated in 2012 through such premiums charged at a rate of $19.75 per day for private and $9.00 per day for semi-private accommodation (for residents admitted after July 1, 2012/$18.00 and $8.00, respectively, prior thereto).

Growing Demand

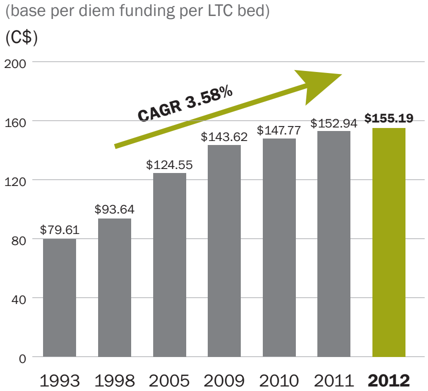
There are currently about 77,500 licensed LTC beds in Ontario and a wait list of approximately 20,000 seniors. Given current demographic trends, demand is expected to continue to increase. According to Statistics Canada, the number of Canadians aged 75 and older will rise from a current level of approximately 2.35 million to 5.35 million in 2035, an increase of 128%. As well, life expectancy continues to increase in Canada as the charts below illustrate. Our LTC portfolio generated 89% of our revenue in 2012 and 80% of our NOI.

Community Health Care Services

Our Preferred Health Care Services (PHCS) subsidiary, which recently achieved the distinction of Accreditation with Exemplary Standing, offers professional home care, education, training and relief staffing services. These services either support or complement our core LTC resident care operations. Employees of PHCS include registered nurses, registered practical nurses, foot care nurses, personal support workers and companions. In addition to providing home care, our PHCS staff can support long-term care homes and retirement residences. In 2012, PHCS contributed $16.0 million to overall revenues and $2.7 million to NOI.

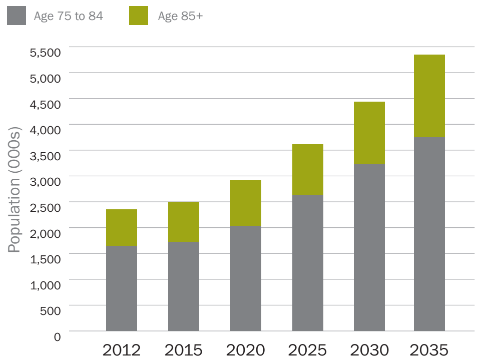
MOHLTC Funding

(base per diem funding per LTC bed)



Favourable Demographics

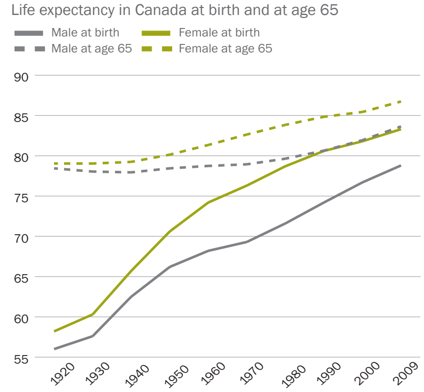
(estimated population in Canada's 75 to 84 and 85+ age cohorts)



Source: Statistics Canada

Increasing Life Expectancy (Age/Years)

Life expectancy in Canada at birth and at age 65



Source: Statistics Canada and Canada Pension Plan

Retirement

Our Royale properties accommodate the active, social lifestyle sought by healthy, affluent seniors with discerning tastes.

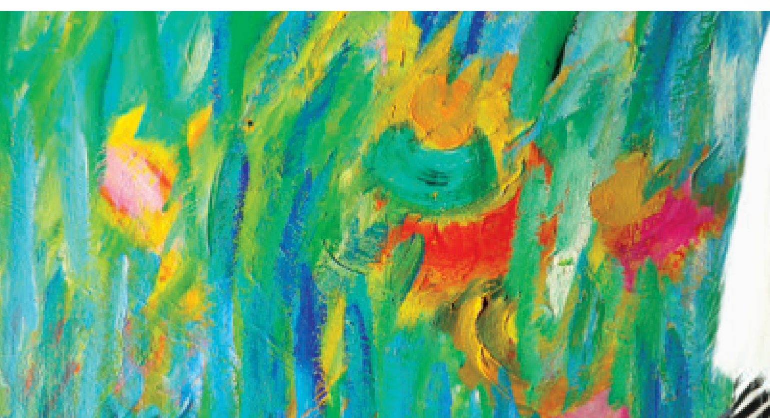
Active Living with Peace of Mind

Seniors living in retirement residences or independent living residences lead active lifestyles and are typically less restricted by health limitations than those living in LTC homes. In our retirement properties residents enjoy services, amenities, camaraderie and security. They also have peace of mind knowing that our dedicated staff are available 24/7. Our Royale retirement portfolio consists of five luxury retirement residences. We also operate one independent living residence.

Retirement and Independent Living Portfolio

In 2011, we entered the luxury retirement residence market with the acquisition of two new properties located in Kingston and Kanata, Ontario, comprising a total of 294 suites. This was the genesis of Leisureworld's luxury retirement brand – The Royale.

In May 2012, we completed the purchase of three luxury retirement residences, comprising 392 suites, in the Greater Vancouver Area , which now operate as The Royale Astoria ("Astoria"), The Royale Pacifica ("Pacifica") and The Royale Peninsula ("Peninsula"). This acquisition was an important step for us as it expanded our luxury retirement residence portfolio and extended our presence outside Ontario into the attractive lower mainland market in BC. Much like our Royale Ontario



"Do you Remember Me" by Mary Wiksten

THE ART OF LIVING

***Mary Wiksten** is a resident of The Royale Kanata. Her favourite activity is painting. She takes great pleasure in her family, and considers her two wonderful children to be her greatest achievement. Her most treasured possession is her extended family, and her idea of perfect happiness is her great-grandchildren.*

portfolio, these recently acquired properties are newly constructed, spacious, distinctive and secure. They feature one to two bedroom living quarters and a wide range of amenities such as fitness centres, lounges, restaurants, spas, theatres, and wireless internet services. Our Royale properties accommodate the active, social lifestyle sought by healthy, affluent seniors with discerning tastes.

A Growing Segment

Unlike our LTC operations, resident rates in retirement and independent living residences are market rates. Lease rates include both rent and care/services for which the rent is controlled in certain jurisdictions, while care/services are not. This provides greater flexibility in establishing a market rate for the quality of assets and services being provided. The provision of “five star” luxury features and amenities enables us to realize superior operating margins to our long-term care segment. In addition to our luxury accommodations, we also offer à la carte services, such as chauffeured town cars or shuttle vans for day trips, dog walking services, theatre excursions, beauty salons, cooking classes, or gourmet prepared meals, that can further enhance our operating margins. This segment generated approximately 7% of our revenues in 2012, and approximately 15% of NOI.

With the increasing affluence and evolving lifestyle of healthy Canadian seniors, our Royale portfolio positions us to meet the demand of a growing demographic that wants to live life to the fullest.

Our acquisition of three luxury retirement residences in the Greater Vancouver Area increased our asset base by 17%.

THE ROYALE
GROUP OF RETIREMENT RESIDENCES

17%

This acquisition was an important step for us as it expanded our Royale luxury retirement residence portfolio and extended our presence outside Ontario into the attractive lower mainland market in BC.

Growth Strategy

We are positioning Leisureworld as a leading provider of facilities and services across the continuum of seniors' living.

LTC Capital Renewal

The Province of Ontario previously announced a capital renewal program for the refurbishment of approximately 35,000 Class B and C LTC beds in Ontario. Leisureworld owns 2,054 beds that are eligible for the program. This program includes both the downsizing and retrofitting of eligible homes as well as new construction. Benefits of the program to Leisureworld would include extension of licence terms at newly developed homes and increases in preferred accommodation revenues. The Province of Ontario is currently reviewing the previously announced financial incentives it has offered to LTC operators. Similarly to other LTC operators in Ontario, Leisureworld is awaiting the government's position on the potential funding changes in order to assess future participation in the program.

LTC Acquisitions

There are significant acquisition opportunities within the fragmented LTC industry in Ontario. With the regulatory burden becoming more onerous for smaller industry participants, larger companies with scale – like Leisureworld – are well positioned to capitalize. We will also evaluate LTC acquisition opportunities in other provinces in Canada that we believe offer attractive fundamentals.

Expanding Our Presence across the Continuum of Seniors' Living in Canada

Expanding our long-term care business is only one element of our broader growth strategy. We are positioning Leisureworld as a leading provider of facilities and services across the continuum of seniors living. We're constantly evaluating opportunities for growth outside of LTC, in areas of independent living, retirement residences, assisted living centres, and home healthcare.

We made strong progress in advancing this part of our growth strategy with the establishment of our Royale luxury retirement residence portfolio. In future, we intend to focus more on property acquisitions with occupancy levels that are at or near stabilized rates. We are also evaluating retirement residence assets in the mid-market to accommodate a significant population of Canadian seniors. We will target growth



Our strategy is supported by favourable access to capital which provides us with the financial flexibility to pursue value-enhancing, growth opportunities.

opportunities in strategic markets across Canada where we can benefit from favourable local demographics and the opportunity to establish business scale.

We are hopeful that our Preferred Health Care Services subsidiary will experience further growth through additional home care contracts as a result of stated Ontario provincial government initiatives in community care. We will look to capitalize on anticipated growth in this sector through both organic growth and acquisition opportunities.

Increasing Occupancy in Our Royale Portfolio

We have completed an internal review of our sales and marketing strategies with respect to our Royale portfolio, with the involvement of our new Vice President of Retirement. We are now implementing new marketing initiatives to drive traffic through community-based events and move-in incentives. The marketing initiatives will focus on “lifestyle,” relationship building, creating a resident referral program, supported by direct mail, print and other media campaigns.

Strengthening Our Foundation for Growth

Our strategy is supported by favourable access to capital which provides us with the financial flexibility to pursue value-enhancing, growth opportunities. Strong financial credit ratings, including A (Stable) from Dominion Bond Rating Service, and A-minus (Negative) from Standard & Poor’s, reflect the efficiency of our operations and capital structure. We continue to look for ways to improve the efficiency of our operations and capital structure in order to improve our cost of capital.

We have taken initial steps towards refinancing our 4.81% Senior Secured Notes prior to maturity in 2015, with a buy back of $15.7 million of the Notes during our fourth quarter. We expect to completely re-finance the Notes before they become a current liability in 2014, on more favourable terms, which would be accretive to our AFFO.

We can also access growth capital through issuing equity in the current, strong capital market environment, as we did this year with the completion of a non-dilutive $56.4 million secondary offering. Through each equity offering we undertake, we increase the size of our market capitalization, enhance our liquidity, and attract more investors to participate in our growth.

Our Communities

Leisureworld marked two important milestones in 2012 with the celebration of the Company's 40th anniversary and the 25th anniversary of its Preferred Health Care Services division.

Important Milestones in 2012

Leisureworld marked two important milestones in 2012 with the celebration of the Company's 40th anniversary and the 25th anniversary of its Preferred Health Care Services division. Informal celebrations and events were held throughout the year in honour of these milestones such as summer barbecues, a 40th Anniversary employee art contest, and a Company-wide 70s inspired Halloween day. What was evident at the celebrations was that in 2012 Leisureworld was comprised of a much larger team than at its inception in 1972 – now nearly 6,000 strong – who feel passionately about providing quality care and service to seniors in their communities.

Honouring Our Residents: Art of Living

Of special note was the fourth "Art of Living" exhibit held at the Toronto Centre for the Arts, which opened with a reception for artists on June 27, 2012 and then to the public from June 28 to June 30, 2012. A record number of residents participated: a total of 71 pieces were entered by 36 residents from 22 of Leisureworld's long-term care homes, one from its retirement residence in Kanata, Ontario, and one from its home care division, Preferred Health Care Services. The exhibit showcased the imagination, creativity and philosophical insights that occur throughout the lifespan of an artist.

Community Involvement: Alzheimer Month

An integral part of Alzheimer Awareness Month in January is the Walk for Memories fundraising events hosted by the Alzheimer Society. The walks are the largest fundraisers in the province dedicated to providing support for those living with Alzheimer's disease and related dementias.

THE ART OF LIVING

"Paris" by Ruth Craig

***Ruth Craig** represented PHCS at the Art of Living. She is a former ballet dancer and a painter. She enjoys watching a picture come to life – if she does it correctly, it holds her attention. Ruth loves smiling and laughing and enjoys friends who have a sense of humour. Ruth has received five awards for her artwork to date.*

Celebrating 40 years

Leisureworld has been a corporate sponsor of the Alzheimer Society of Toronto's Manulife Walk for Memories since 2004. As a corporate sponsor, Leisureworld has provided financial donations and gifts in kind for walkers.

In addition to the Toronto Walk for Memories, funds were raised by residents, families and staff in walks held across the province. A total of $16,000 was raised in 2012 for local Alzheimer Society chapters to be used for research and to provide counselling, support groups and education to people living with Alzheimer's. As an organization that cares for and serves seniors, Leisureworld is proud to be a strong supporter of this important cause.

Award of Excellence

In 2012, 440 Leisureworld employees were nominated for the Company's annual Award of Excellence program which recognizes employees who demonstrate the Company's core values. Award winners in each of the five categories of Respect, Commitment, Teamwork, Communication and Learning received $1,000 and a $500 donation to the charity of their choice, in addition to their statuettes and certificates.

Leisureworld St. George was recognized as this year's Quality Guild Award winner for the collaborative work it does to offer programs that enrich resident's lives, build organizational and community partnerships, and promote quality care by meeting key performance indicators and financial targets.

"The Art of Living" celebrates life through the art of Leisureworld's residents and home care recipients.

***Leisureworld's** fourth "Art of Living" exhibit was held at the Toronto Centre for the Arts in June 2012. A record number of participants showcased their imagination, creativity and inspiration.*

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter and year ended December 31, 2012 (In Canadian Dollars)

The following Management's Discussion and Analysis ("MD&A") for Leisureworld Senior Care Corporation ("Leisureworld," "LSCC" or the "Company") summarizes the financial results for the quarter and year ended December 31, 2012. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the year ended December 31, 2012 should be read in conjunction with the audited 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 February 21, 2013, the date on which this report was approved by the Board of Directors of Leisureworld.

The Company is a public company listed on the Toronto Stock Exchange (the "TSX"), under the symbol LW. As of February 20, 2013, there were 29,272,889 common shares issued and outstanding. No preference shares were outstanding at this time.

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

FORWARD-LOOKING STATEMENTS

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

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

NON-IFRS PERFORMANCE MEASURES

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

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

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

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

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

CORPORATE PROFILE

Leisureworld was incorporated under the laws of the Province of Ontario on February 10, 2010 and 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 interests in Leisureworld Senior Care LP ("LSCLP") and common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP. On April 27, 2011, two additional retirement residences comprising 294 suites located in Kingston and Kanata, Ontario ("Ontario Portfolio") were acquired by the Company's subsidiary, The Royale LP ("Royale"). On May 24, 2012, three additional retirement residences comprising 392 suites located in the Greater Vancouver Area in British Columbia ("BC Portfolio") were acquired by the Company's subsidiaries. Two of the properties, Astoria and Pacifica, were acquired by Royale. The third property, Peninsula, was acquired by The Royale West Coast LP, a newly established subsidiary. On July 16, 2012, an additional long-term care ("LTC") home comprising of 160 beds located in Orleans, Ontario was acquired by the Company's subsidiary, The Royale Development LP.

Leisureworld and its predecessors have been operating since 1972. The Company's head office is located at 302 Town Centre Blvd., Markham, Ontario, L3R 0E8. Leisureworld owns and operates 27 LTC homes (representing an aggregate of 4,474 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates five retirement residences ("RR") (representing 686 suites) and one independent living residence ("IL") (representing 53 apartments) in the Provinces of Ontario and British Columbia. An ancillary business of the Company is Preferred Health Care Services ("Home Care" or "PHCS"), an accredited provider with Exemplary Standing, of professional nursing and personal support services for both community-based home healthcare and LTC homes.

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

INDUSTRY OVERVIEW

Long-term care

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

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

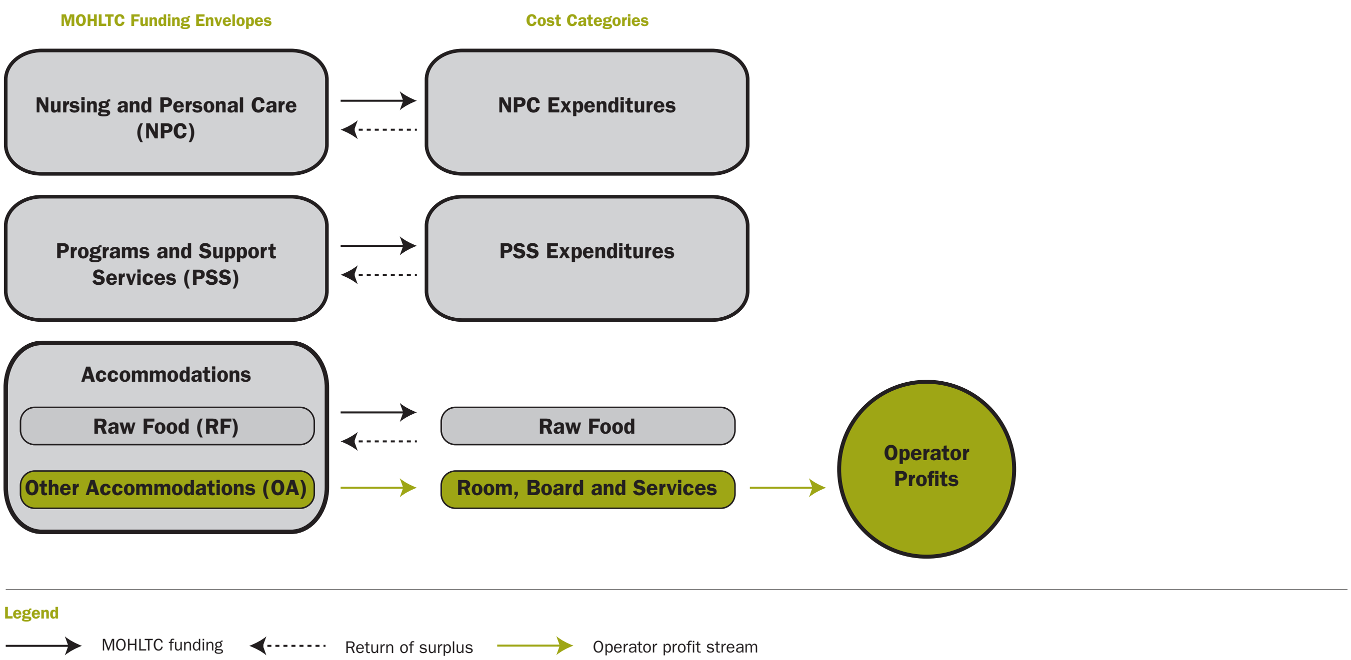
- Provision of an essential service: The Ontario LTC sector provides an essential service to Ontario communities. LTC licenced homes generally provide 24-hour nursing support, daily assistance with personal care and supervision throughout the day to individuals who may otherwise require hospital care.

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

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

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

LTC FUNDING MODEL



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

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

Retirement and independent living

Retirement communities accommodate seniors who require minimal to moderate assistance with daily activities whereas independent living communities accommodate seniors who require minimal or no assistance with daily living. RR in Ontario are now regulated by the Retirement Homes Act 2010, but generally are not subsidized by the government. This legislation will provide consumer protection and does not provide funding for the provision of care and services in these facilities. There will be a delayed implementation of certain sections of the Act, including licensing provisions. Residents are generally responsible for the entire cost of accommodation and care.

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

Home Care

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

Factors supporting demand

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 LTC, RR and IL accommodations ("seniors' housing") and for professional home healthcare services in the Province of Ontario. The factors driving demand, among others, are described below:

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

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

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

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

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

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

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

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

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

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

- Changing family dynamics: With more and more families having both spouses working full-time outside of the home and changes in lifestyle reducing the ability of adult children to care for their aging parents, seniors' housing facilities are an attractive option. There is also an increasing demand for home healthcare services as wait-lists for medical services and emergency room wait-times increase.
- LTC provides a cost effective alternative: Rising healthcare costs have resulted in a reduction in the length of hospital stays and a greater demand for home healthcare services and, in turn, are a predominant factor in LTC wait-list numbers. This has resulted in LTC homes increasingly being filled by residents with higher care requirements, leading to higher occupancy levels in LTC homes. According to the MOHLTC, there are currently 77,500 LTC beds in Ontario and a wait list of approximately 20,000 individuals. Many of the individuals currently on wait lists for LTC beds are occupying acute care beds in Ontario hospitals. According to the MOHLTC, the average cost for the Ontario government to fund an acute care hospital bed for a senior is approximately $1,000 a day, compared to approximately $150 a day in a LTC home.
- Recession stability: The LTC industry has historically been largely insulated from economic cycles. This can be attributed to several factors: (i) seniors are generally retired and receiving stable, fixed and predictable income from private and public pensions, RRSPs and other fixed-income investment securities; (ii) demand for LTC housing is not usually discretionary but driven by need, which does not fluctuate during economic cycles; (iii) stability of tenure, as seniors, once having moved into a facility, are reluctant or unable to move to alternative accommodation; (iv) the continual increase in the demand for seniors' accommodation with skilled nursing due to the demographics of the aging population; and (v) a high level of government funding and subsidization of fees.

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

BUSINESS OVERVIEW

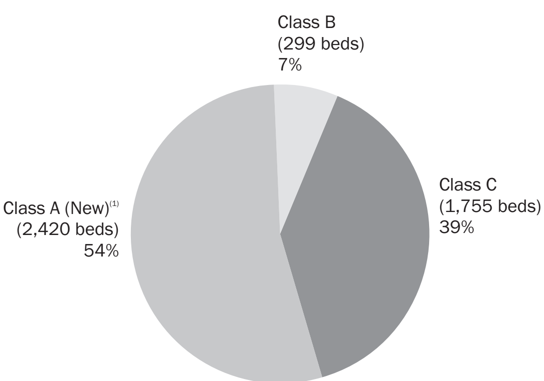
Long-term care

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

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

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

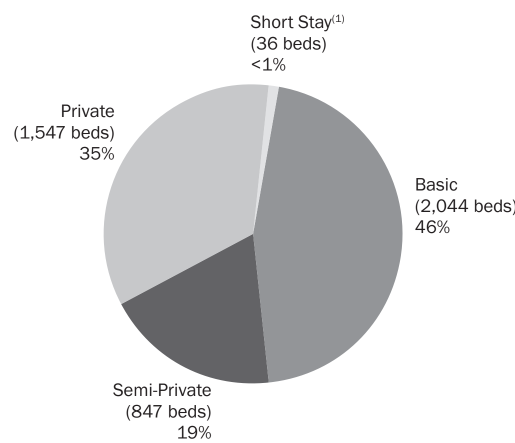
SUMMARY OF LTC BEDS BY CLASS



Note:

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

SUMMARY OF LTC BEDS BY ACCOMMODATION TYPE



Note:

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

Retirement and independent living residences

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

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

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

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

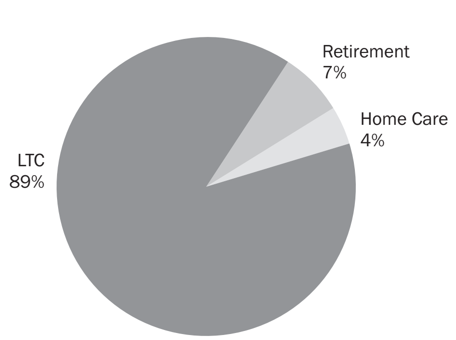
In conjunction with the acquisition of Astoria, the Company put in place a $2.0 million three-year income support agreement with the vendor which is held in escrow. As at December 31, 2012, the Company has drawn down $1.1 million of the income support funds.

Leisureworld's IL residence is comprised of 53 apartments that are attached to the Scarborough LTC home. This IL residence had occupancy of 98.1% as at December 31, 2012. During the year, Leisureworld temporarily closed the Muskoka retirement property for extensive renovations in response to the changing needs of the community it serves.

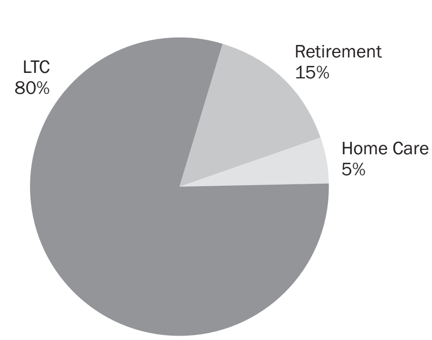
Home Care services

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

REVENUE CONTRIBUTION BY SEGMENT



NOI CONTRIBUTION BY SEGMENT



KEY PERFORMANCE DRIVERS

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

Government funding for LTC facilities ensures stability of cash flow

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

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

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

Occupancy levels enhance cash flow

Occupancy is a key driver of Leisureworld's performance. A LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels ranging from above 90% and below 97%, the adjustment range is up to 2% over actual occupancy. There are no adjustments to occupancy below the 90% threshold. In 2011 the MOHLTC introduced a temporary policy for homes with occupancy rates above 85% and below 97% to provide funding based on actual occupancy plus 3%. Leisureworld has a strong record of maximizing occupancy. In addition, the supply of LTC beds is controlled and regulated by the MOHLTC, which ensures barriers to entry. For the quarter and full year ended December 31, 2012, Leisureworld's average occupancy for LTC homes was 99.1% and 98.8%, respectively (2011 – 98.6% and 98.5%, respectively).

A LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private accommodation at a regulated premium. The LTC home operator retains the premiums collected for such accommodation, which typically increases revenue and enhances profitability. Effective July 1, 2012, the MOHLTC increased the private room premium to $19.75 for all new admissions in qualifying homes. Existing residents were grandfathered at the historic rate of $18.00 per day. Leisureworld has approximately 35% of beds designated as private accommodation. Private bed average total occupancy for the quarter and year ended December 31, 2012 was 99.2% and 98.5%, respectively (2011 – 97.1% and 96.7%, respectively).

Leisureworld's IL attached to its Scarborough LTC home, had an average occupancy for the quarter and full year, of approximately 98% and 92%, respectively. The Muskoka RR was excluded from the occupancy calculation due to the temporary closure for renovations. All residents were relocated to other facilities.

For the Ontario Portfolio, the combined average occupancy rates for the quarter and year ended December 31, 2012 were approximately 72% and 67%, respectively. Over the past twelve-month period the Ontario Portfolio has experienced an average net move-in rate of 1.1 per property which is below management's expectations. The lower move-in rate was partly due to the current economic environment in the local markets, aggressive competitor marketing campaigns including significant discounting, which were not undertaken by management, and changes in property level management which have since been addressed.

The Company completed the drawdown of the $5.5 million income support established at the close of the Ontario Portfolio acquisition. This drawdown rate was approximately six months ahead of the planned end date which was early 2013. It is management's view that not having the full value of the income support to stabilize the cash flows during the remainder of the lease-up period will neither have an impact on the Company's ability to meet its working capital commitments, nor affect its ability to continue with the monthly dividend payments at current levels.

For the recently acquired BC Portfolio of Astoria, Pacifica and Peninsula, the average occupancy realized in the quarter was approximately 59%, 90% and 85%, respectively. Since acquisition in May of 2012, the average occupancy has been approximately 59%, 91% and 88%, respectively. For the Astoria property, which is currently in lease-up, the expected move-in rate of 2.2 per month would result in an occupancy rate in excess of 90% by early 2014. The Company has in place a $2.0 million three-year income support agreement with the vendor which is held in escrow of which $1.1 million has been drawn to date. Through effective cost management, this drawdown rate is in-line with management's expectations, although Astoria has not yet achieved targeted occupancy. Pacifica and Peninsula have also struggled to maintain the occupancy levels that were in place at the acquisition date due to various factors including economic factors related to changes in the local housing markets and demographics, aggressive competitor advertising campaigns in the immediate territory and property level management turnover. Management completed changes in personnel along with a review of sales and marketing strategies, which the Company believes will increase traffic and bring occupancy back to stabilized levels that existed at the time of the acquisition. In reviewing the competitive landscape of the region, the vacancy rates are not inconsistent with what our competitors are experiencing.

					Occupancy at Quarter End							
Property	Location	Suites	Acquisition Date	Occupancy at Acquisition	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Scarborough IL	Scarborough, ON	53	–	–	92.5%	98.1%	90.6%	88.7%	88.7%	84.9%	98.1%	98.1%
Muskoka RR	Gravenhurst, ON	27	–	–	92.6%	85.2%	92.6%	92.6%	88.9%	74.1%	–	–
The Royale Kanata	Kanata, ON	158	April 27, 2011	41.8%	–	45.6%	52.5%	60.1%	58.9%	66.5%	68.4%	71.5%
The Royale Kingston	Kingston, ON	136	April 27, 2011	52.9%	–	52.9%	57.4%	64.7%	65.4%	72.8%	71.3%	69.9%
The Royale Astoria	Port Coquitlam, BC	135	May 24, 2012	59.3%	–	–	–	–	–	59.3%	58.5%	57.0%
The Royale Pacifica	Surrey, BC	130	May 24, 2012	94.6%	–	–	–	–	–	90.0%	88.5%	89.2%
The Royale Peninsula	Surrey, BC	127	May 24, 2012	94.5%	–	–	–	–	–	92.9%	83.5%	82.7%

Disciplined cost management is key to operating profitability

Leisureworld enjoys economies of scale in areas such as hiring, purchasing and administration. LTC operators in Ontario receive funding from the government. Operators must return any funding that is not spent for the NPC, PSS, and RF envelopes to the government. Any 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 to residents, while maximizing operating profit. Effective for 2013, the MOHLTC has provided the ability to balance between the funding envelopes with the exception of the RF envelope, which will not have a significant impact on financial results.

Ensuring high-quality care and services to all residents

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

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

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

Ensuring continued maintenance and upgrade of properties

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

GROWTH STRATEGIES OF LEISUREWORLD SENIOR CARE CORPORATION

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

Organic

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

External

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

BUSINESS PERFORMANCE FOR THE FOURTH QUARTER

NOI – Net operating income

The Company had NOI of $14,972, compared to $12,067 last year, reflecting an increase of $2,905 or 24.1%. The LTC portfolio generated $11,357 of NOI compared to $10,340 in the prior year. The increase of $1,017, or approximately 9.8%, was partially due to the inclusion of the NOI related to the Madonna acquisition which contributed $361. The remainder of the increase was due to favourable same property NOI of approximately $656 resulting from higher accommodation revenues of approximately $413, a year over year variance related to MOHLTC prior year settlements of $309 and an increase in management fees earned of $213. This was partly offset by higher property operating costs compared to the prior year of $331.

The retirement portfolio generated NOI of $2,887, an increase of $1,878 over the same period a year ago. The acquisition of the BC Portfolio contributed $1,634 of the increase, while the Ontario Portfolio had a year over year increase in NOI of $219, principally as a result of increasing occupancy during the lease-up period.

Home Care's NOI was marginally higher than prior year at $728, compared to $718 a year ago. The increased personal support contract volumes was offset by higher cost associated with staffing to accommodate the increased volumes and an increase in operating costs associated with specific initiatives to sustain the increased volumes.

FFO – Funds from operations

FFO totaled $6,882 compared to $4,760 a year ago. The increase of $2,122, or 44.6%, was primarily the result of improved NOI performance of $2,905 and the favourability in current taxes of $279, which was partly offset by the increase in net finance charges of $677, which excludes a one-time bond redemption premium of $1,095, and $410 of higher administrative expenses, net of transaction costs. The one-time bond premium related to the Company's redemption of outstanding bonds with a face value of $15,674, while the remaining increase was due to incremental debt financing costs associated with the acquisitions.

AFFO – Adjusted funds from operations

The Company generated a higher AFFO of $8,289 compared to $6,754 last year. The increase of $1,535, or 22.7%, was principally attributable to the higher FFO of $2,122, and as a result of the add-back of the deferred share unit compensation of $244, partly offset by $585 of lower income support and a higher maintenance capex of $249. The decrease in income support was mainly due to the full utilization of the escrow amount related to the Ontario Portfolio in the third quarter.

BUSINESS PERFORMANCE FOR THE YEAR

NOI – Net operating income

NOI increased by $10,398, or 22.6%, to $56,337 compared to $45,939 a year ago. LTC NOI totaled $45,031, compared to $41,647 last year, an increase of $3,384. The Madonna acquisition NOI accounted for $620 of this increase. Higher same property NOI was primarily due to increased accommodation revenues of $1,586 which included favourability from preferred accommodation premiums of $226. As well, the LTC segment benefited from higher management fees of $727 which was partly offset by higher operating expenditures of $97.

The retirement portfolio NOI was $8,630, compared to $2,045 last year. The $6,585 of higher NOI was attributed to the May 2012 acquisition of the BC Portfolio and continued the lease-up of the Ontario Portfolio. The BC Portfolio's year to date NOI was $3,965 while the favourability of the Ontario Portfolio NOI contributed $2,679 of the increase.

Home Care NOI increased from the prior year by $429, or approximately 19.1%, to $2,676. The higher NOI was attributable to continued favourability in the personal support contract volumes.

FFO – Funds from operations

For the year, FFO increased to $26,256 compared to $19,581 in the prior year, representing an increase of $6,675, or approximately 34.1%. Improved NOI contributed $10,398 which was partially offset by $2,287 of higher net finance charges, which excludes the one-time bond redemption premium, and increased administrative expenses of $744, which are net of transaction costs. The increase in net finance charges, excluding the one-time bond redemption premium, relates to the incremental borrowings to finance the acquisitions. Also, current income taxes increased by $641 compared to a year ago, as the prior year benefited from an income tax book to filing adjustment that did not recur in the current year.

AFFO – Adjusted funds from operations

Full year AFFO was $34,282, which was $7,702 higher than the prior year at $26,580. Favourable FFO performance contributed $6,675 of the increase. The prior year AFFO had a reduction associated with the income tax book to filing adjustment of $739. Also, the current year had an add-back for the deferred share unit plan compensation of $506, which formed part of the increase in administrative expenses, and the increase in the principal portion of construction funding payments. This was partly offset by the year over year increase in maintenance capex of $552.

NET OPERATING INCOME

Thousands of dollars	Quarter		Year Ended	
	2012	2011	**2012**	2011
Net loss	**(1,347)**	(3,344)	**(9,134)**	(11,977)
Provision (recovery) of income taxes	**(274)**	(1,140)	**2,300**	(5,570)
Loss before income taxes	**(1,621)**	(4,484)	**(6,834)**	(17,547)
Depreciation and amortization	**7,132**	8,030	**27,900**	32,666
Net finance charges	**5,982**	3,839	**18,580**	16,390
Impairment loss	**–**	–	**2,697**	–
Income from operations before the undernoted	**11,493**	7,385	**42,343**	31,509
Administrative expenses	**3,479**	4,682	**13,994**	14,430
Net operating income (NOI)	**14,972**	12,067	**56,337**	45,939

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

Thousands of dollars, except share and per share data	Quarter		Year Ended	
	2012	2011	**2012**	2011
Net operating income (NOI)	**14,972**	12,067	**56,337**	45,939
Interest income on construction funding receivable	**778**	753	**3,060**	3,111
Net finance charges[1]	**(6,132)**	(4,360)	**(19,997)**	(16,615)
One-time bond redemption premium	**1,095**	–	**1,095**	–
Current income taxes	**(425)**	(704)	**(1,826)**	(1,185)
Administrative expenses[2]	**(3,442)**	(4,626)	**(13,861)**	(14,134)
Transaction costs	**36**	1,630	**1,448**	2,465
Funds from operations (FFO)	**6,882**	4,760	**26,256**	19,581
Income tax book to filing adjustment	**–**	–	**–**	(739)
HRIS expense	**–**	47	**52**	76
Deferred share unit plan compensation	**244**	–	**506**	–
Income support	**316**	901	**3,188**	3,105
Construction funding principal	**1,430**	1,380	**5,696**	5,421
Maintenance capex[3]	**(583)**	(334)	**(1,416)**	(864)
Adjusted funds from operations (AFFO)	**8,289**	6,754	**34,282**	26,580
Basic FFO per share	**$ 0.2354**	$ 0.1949	**$ 0.9599**	$ 0.8504
Basic AFFO per share	**$ 0.2835**	$ 0.2765	**$ 1.2534**	$ 1.1544
Weighted average common shares outstanding – Basic[4]	**29,239,828**	24,423,483	**27,351,568**	23,024,705
Diluted FFO per share	**$ 0.2351**	$ 0.1944	**$ 0.9586**	$ 0.8478
Diluted AFFO per share	**$ 0.2832**	$ 0.2758	**$ 1.2516**	$ 1.1508
Weighted average common shares outstanding – Diluted[4]	**29,272,889**	24,490,149	**27,391,208**	23,097,673

Notes:

(1) Net finance charges is reconciled as follows:

Reported net finance charges per Statement of Operations	**5,982**	3,839	**18,580**	16,390
Net accretion of fair value adjustments on long-term debt	**(867)**	(531)	**(2,460)**	(2,103)
Interest income on construction funding receivable	**778**	753	**3,060**	3,111
Gain (loss) on the interest rate swap contracts, net	**319**	336	**1,082**	(684)
Amortization of deferred financing charges	**(80)**	(37)	**(265)**	(99)
Net finance charges for AFFO	**6,132**	4,360	**19,997**	16,615

(2) The presented administrative expenses have been decreased by $36, $56, $133, and $296 respectively for share-based compensation expense related to stock issued to senior management in relation to the IPO, the effect being a reduction in proceeds to the seller.

(3) Maintenance capex has been decreased by $nil, $149, $435 and $710 respectively for capital expenditures related to the HRIS project.

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

SELECTED ANNUAL FINANCIAL INFORMATION

Thousands of dollars, except per share data	2012	2011	2010[1]
Revenue	**319,283**	290,107	272,350
Operating expenses (excluding depreciation and amortization)	**262,946**	244,168	230,337
Administrative expenses	**13,994**	14,430	11,454
Income from operations before the undernoted	**42,343**	31,509	30,559
Net loss	**(9,134)**	(11,977)	(8,246)
Per share and diluted per share	**(0.33)**	(0.52)	n/a
Dividends declared[2]	**23,639**	19,876	n/a
Per share and diluted per share	**0.86**	0.84	n/a
AFFO	**34,282**	26,580	n/a
Per share – basic[3]	**1.25**	1.15	n/a
Per share – diluted[3]	**1.25**	1.15	n/a
Total assets	**744,067**	644,551	578,421
Non-current financial liabilities	**403,707**	359,294	301,726

Notes:

(1) The year ended December 31, 2010 presentation is the total of LSCLP results of pre-initial public offering for the period from January 1, 2010 to March 22, 2010 combined with the results of the Company for the post-initial public offering period of March 23, 2010 to December 31, 2010.

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

(3) AFFO per share calculations are based on weighted average shares outstanding, which are calculated based on the period of time the shares have been outstanding.

The Company launched its IPO on March 23, 2010, and with the proceeds of the IPO, it indirectly acquired all of the outstanding partnership units of LSCLP.

In 2011, the Company acquired its first post-IPO assets with the Ontario retirement portfolio consisting of the Kanata and Kingston properties. Also, the Company entered into a purchase agreement with a March 2013 closing date to acquire 88 LTC licences from Christie Gardens which have been designated for abeyance for a period of time. As well, in 2011, the Company adopted the International Financial Reporting Standards and restated the 2010 comparative financial statements to reflect the impact of the initial adoption.

During 2012, LSCC continued with its acquisitive growth strategy by completing the acquisition of three luxury retirement properties in British Columbia forming its BC Portfolio. The properties known as Astoria, Pacifica and Peninsula are all located in the Greater Vancouver Area. In addition, the Company also acquired a LTC community in the Ottawa area. The property is referred to as the Madonna property.

QUARTERLY FINANCIAL INFORMATION

Thousands of dollars, except per share data	2012				2011			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**85,516**	**82,939**	**76,090**	**74,738**	79,028	73,310	70,029	67,740
Operating expenses (excluding depreciation and amortization)	**70,544**	**67,546**	**62,029**	**62,827**	66,961	60,952	58,621	57,634
Administrative expenses	**3,479**	**3,872**	**3,269**	**3,374**	4,682	3,364	3,192	3,192
Income from operations before the undernoted	**11,493**	**11,521**	**10,792**	**8,537**	7,385	8,994	8,216	6,914
Net loss	**(1,347)**	**(139)**	**(5,039)**	**(2,609)**	(3,344)	(3,320)	(2,449)	(2,864)
Per share and diluted per share	**(0.05)**	**(0.00)**	**(0.19)**	**(0.11)**	(0.14)	(0.14)	(0.11)	(0.14)
Dividends declared(1)	**6,341**	**6,217**	**5,879**	**5,202**	5,202	5,202	5,202	4,271
Per share and diluted per share	**0.22**	**0.21**	**0.21**	**0.21**	0.21	0.21	0.21	0.21
AFFO(2)	**8,289**	**9,357**	**9,495**	**7,141**	6,754	7,657	7,007	5,162
Per share – basic(3)	**0.28**	**0.32**	**0.36**	**0.29**	0.28	0.31	0.30	0.26
Per share – diluted(3)	**0.28**	**0.32**	**0.36**	**0.29**	0.28	0.31	0.30	0.26

Notes:

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

(2) AFFO for Q3 2012 has been adjusted to include the add-back for deferred share plan compensation paid to the Board of Directors. The amount added back is $262. This amount has also been adjusted in the Basic and Diluted AFFO per share presentation, the impact was an increase of $0.01 to both.

(3) AFFO per share calculations are based on weighted average shares outstanding, which are calculated based on the period of time the shares have been outstanding.

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

A discussion of the quarter ended December 31, 2012 results compared to the same period in the prior year is provided under the section "Selected Consolidated Financial and Operating Information."

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

Thousands of dollars, except occupancy data	Quarter		Year Ended	
	2012	2011	**2012**	2011
Revenue	**85,516**	79,028	**319,283**	290,107
Expenses				
Operating expenses[1]	**70,544**	66,961	**262,946**	244,168
Administrative expenses	**3,479**	4,682	**13,994**	14,430
	74,023	71,643	**276,940**	258,598
Income from operations before the undernoted	**11,493**	7,385	**42,343**	31,509
Other expenses				
Depreciation and amortization	**7,132**	8,030	**27,900**	32,666
Net finance charges	**5,982**	3,839	**18,580**	16,390
Total other expenses	**13,114**	11,869	**46,480**	49,056
Impairment loss	**–**	–	**2,697**	–
Loss before income taxes	**(1,621)**	(4,484)	**(6,834)**	(17,547)
Provision for (recovery of) income taxes				
Current	**425**	704	**1,826**	1,185
Deferred	**(699)**	(1,844)	**474**	(6,755)
	(274)	(1,140)	**2,300**	(5,570)
Net loss	**(1,347)**	(3,344)	**(9,134)**	(11,977)
Total assets	**744,067**	644,551	**744,067**	644,551
Long-term debt	**425,225**	355,399	**425,225**	355,399
Average occupancy				
Long-term care[2]	**99.1%**	98.6%	**98.8%**	98.5%
Long-term care – private accommodations[2]	**99.2%**	97.1%	**98.5%**	96.7%
Retirement and independent living[3]	**76.7%**	66.7%	**73.9%**	64.2%

Notes:

(1) Operating expenses excluding depreciation and amortization.

(2) The current year includes the impact of addition of the Madonna home acquired on July 16, 2012.

(3) The current year includes the addition of the BC Portfolio which was acquired on May 24, 2012. The 2011 retirement and independent living occupancy rates include the addition of the Kingston and Kanata properties as of April 27, 2011. Muskoka RR occupancy data has been excluded from the current quarter and up to September 30, 2012 for the year-to-date period.

OPERATING RESULTS FOR THE QUARTER

Revenue

Revenue totaled $85,516, an increase of $6,488 or 8.2% over the prior year's revenue of $79,028. LTC revenue increased 3.0%, or $2,177, to $75,422. The higher revenue was attributable to the acquisition of the Madonna property which had total revenues of $2,745. Same property revenues decreased in the quarter by $568 compared to the same quarter last year. This was primarily the result of year over year timing differences in the recognition of flow-through revenues to match expenditures of $2,386. This was mostly offset by increased government funding rates of approximately 1.5%, or $852, increased revenues associated with special initiative funding of $346, and favourable year over year adjustments related to prior year MOHLTC reconciliation settlements of $309. Retirement revenue totaled $6,582, compared to $2,712 a year ago. The increase of $3,870 was primarily due to the acquisition in May 2012 of the BC Portfolio, which had total revenues for the quarter of $3,536. Also, the Ontario Portfolio had increased revenues of $423 due to the higher occupancy levels compared to the prior year. Home Care's net revenue of $3,512 was approximately 14.4%, or $441, higher than the prior year. Home Care continues to benefit from the higher volumes for service contracts.

Operating expenses

Expenses totaled $70,544, an increase of $3,583, or approximately 5.4%, compared to $66,961 a year ago. LTC expenditures of $64,065 increased by $1,160 compared to $62,905 last year. The in-year acquired property, Madonna, had operating expenses of $2,384 in the quarter. Same property expenses were $61,681 representing a decrease of $1,224 over the prior year. The same property favourable variances were due to timing of expenditures related to the flow-through envelopes of $1,550, partly offset by higher property administration costs of $369. Retirement expenses for the quarter totaled $3,695 which increased by $1,992 from last year. The increase was due to the operating costs associated with the BC Portfolio of $1,901. The Ontario Portfolio's expenses increased by $204, which was offset by reduced operating costs on the Muskoka retirement property which temporarily closed for renovations at the end of the prior quarter. Home Care's operating expenses increased by $323, or 10.4%, primarily related to the higher volume of personal support contracts associated with the higher revenues as well as key technology initiative expenditures.

Administrative expenses

For the quarter, administrative expenses totaled $3,479, compared to $4,682 last year. The $1,203 decrease was primarily due to lower transaction costs of $1,594, principally related to land transfer taxes for the Ontario portfolio.

Depreciation and amortization

Depreciation and amortization decreased to $7,132 from $8,030 last year. The decrease was primarily attributable to LTC resident relationships arising from the IPO which were fully amortized at the end of the first quarter in 2012 resulting in $3,277 of favourability. This was partly offset by the increase in resident relationship amortization and property and equipment depreciation associated with the recently acquired retirement portfolios of $539 and $1,969; respectively. The main components of depreciation and amortization charges are property and equipment of $5,023, resident relationships of $1,833 and service contracts of $256.

Net finance charges

For the quarter, net finance charges totaled $5,982, compared to $3,839 for the same quarter last year. The $2,143 increase was partly the result of the one-time bond redemption premium of $1,095 relating to the Company's repurchase of $15,674 of face value of the outstanding 2015 Notes. The remaining increase of $1,048 was primarily related to finance charges on the retirement portfolio acquisitions of $613. Financing costs of $203 were associated with the Madonna property and $316 of incremental amortization of the fair value increments of the 2015 Notes related to the bond redemption.

Income taxes

Current income taxes have been calculated at the weighted combined corporate tax rate of 26.47%. The total income tax recovery for the quarter was $274, compared to $1,140 in 2011. The decrease in current taxes year over year was $279, which related to the timing of acquisitions and corresponding tax shields. The lower recovery of deferred taxes in the quarter arose from the timing of reversal of certain tax values, primarily related to the differences in the timing of depreciation and amortization compared to capital cost allowance and eligible capital expenditure deductions, as well as, year over year rate changes applied to deferred tax balances.

Net loss

Net loss totaled $1,347 compared to a loss of $3,344 a year ago. The improvement of $1,997 was primarily due to $2,905 of increased income from operations, of which $1,878 was attributable to the retirement portfolio and $1,017 related to LTC performance. Also, lower administrative expenses and depreciation and amortization charges of $1,203 and $898, respectively were partly offset by higher net finance charges of $2,143 and lower tax recoveries of $866, compared to the prior year.

OPERATING RESULTS FOR THE YEAR

Revenue

For the current year, revenue was $319,283 compared to $290,107 last year, representing an increase of approximately 10.1%. LTC contributed $12,566 of the increase as revenues were $284,823 compared to $272,257 a year ago. The favourable performance was partly attributable to the acquisition of the Madonna property which had revenues of $5,036 for the year. Same property revenue (excluding current year acquisitions) increased by $7,530 to $279,787. This increase was attributable to the government funding rate increase of approximately 1.8%, or $4,135, as well as an increased case mix index adjustment of $992, a year over year increase in management fee revenues of $728 and $635 for one additional funding day as a result of the leap year. Other minor increases were the result of favourable preferred accommodations revenue and year over year differences in the timing of revenue recognition to account for the flow-through envelopes. Retirement revenue totaled $20,444, an increase of $13,480 over the prior year. The May 2012 acquisition of the BC Portfolio contributed $8,627 while same property revenues increased $4,853. This increase was primarily due to the timing of the Ontario Portfolio acquisition late in the second quarter of the prior year. The temporary closure of the Muskoka retirement property in the third quarter resulted in a decrease in revenues of approximately $199 compared to the prior year. Home Care generated net revenues of $14,016, an increase of $3,130 compared to $10,886 last year. The 28.8% increase was the result of higher personal support contract volumes.

Operating expenses

Operating expenses for the year were $262,946, compared to $244,168 last year, reflecting an increase of $18,778 or approximately 7.7%. LTC operating expenditures of $239,792, increased by 4.0%, or $9,182, compared to the prior year. The acquisition of the Madonna property represents $4,415 of the operating expense increase with the remaining balance related to the increased funding and timing of flow-through expenditures of $4,674 and higher dietary service costs of $632. This was partly offset by lower property administration costs of $666, which was primarily the result of favourable utility expenses partly offset by increases in other administrative areas. Retirement expenses were $11,814, reflecting an increase of $6,895 over last year. This increase was the result of the timing of the acquisitions. The BC Portfolio incurred operating expense of $4,661 while the Ontario Portfolio had incremental expenses of $2,381 over the prior year. The increase in the Ontario Portfolio is attributable to the timing of the acquisition last year. The temporary closure of the Muskoka retirement property in the third quarter reduced expenses by $136 from a year ago. The Home Care segment’s operating expenses increased by $2,600, primarily attributable to the increased personal support contract volumes.

Administrative expenses

Administrative expenses were $13,994, which decreased by $436 compared to the prior year. The decrease was primarily the result of lower transaction costs of $1,017 partly offset by higher consulting and CEO search related expenses of $575.

Depreciation and amortization

Depreciation and amortization for the year was $27,900, which decreased by $4,766 from a year ago. Of the decrease, $10,147 was the result of the LTC resident relationships being fully amortized at the end of the first quarter in 2012. This was partly offset by the higher depreciation on property and equipment and increased amortization of resident relationships resulting from the retirement portfolio acquisitions of $2,111 and $3,757; respectively. The main components of depreciation and amortization charges are property and equipment of $18,954, resident relationships of $7,855, and service contracts of $1,027.

Net finance charges

For the year, net finance charges were $18,580, an increase of $2,190 from prior year charges of $16,390. The increase partly related to the one-time bond redemption premium of $1,095 as the Company repurchased $15,674 of the outstanding 2015 Notes in the fourth quarter. As well, there were increased financing costs associated with the retirement portfolio acquisitions of $2,246, $380 relating to the Madonna property assumed debt and $316 of incremental amortization of the fair value increments of the 2015 Notes related to the bond redemption. This was partly offset by a current year gain of $1,082 on the mark-to-market adjustments relating to interest rate swap contracts compared to a net charge of $684 in the prior year.

Impairment loss

In the second quarter, the Company determined that the carrying amount of the Human Resource Information System ("HRIS") being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a $2,697 impairment of intangible assets.

Income taxes

For the year, the total tax expense was $2,300, compared to a recovery of $5,570 last year. The current tax increase of $641 was principally due to the prior year book to filing tax adjustment as increased profitability was offset by the tax shield generated due to the timing of additions. The deferred tax provision of $474 was $7,229 higher than the prior year's recovery of $6,755. This increase was primarily attributed to an increase in deferred taxes of $3,721 and the timing of reversal of certain tax values, primarily related to the differences in the timing of depreciation and amortization compared to capital cost allowance and eligible capital expenditure deductions.

Net loss

For the year ended December 31, 2012, the net loss improved to $9,134 from $11,977 a year ago. The $2,843 favourability was primarily due to the higher income from operations generated primarily by the retirement portfolio acquisitions and the LTC operations of $6,585 and $3,384, respectively. Other favourability was attributable to lower depreciation and amortization charges of $4,766. The year over year improvements were partly offset by the tax provision compared to the recovery in the prior year, an unfavourable variance of $7,870, the $2,697 impairment loss and $2,190 of higher net financing charges.

LIQUIDITY AND CAPITAL RESOURCES

Leisureworld reported a cash and cash equivalents balance of $9,498 as at year end. The changes in cash and cash equivalents for the quarters and years ended December 31, 2012 and 2011 are as follows:

	Quarter		Year Ended	
	2012	2011	**2012**	2011
Cash flow from operations before non-cash working capital items	**11,370**	6,737	**41,278**	30,620
Non-cash changes in working capital	**(2,332)**	(30)	**(3,313)**	(3,895)
Cash provided by (used in):				
Operating activities	**9,038**	6,707	**37,965**	26,725
Investing activities	**1,626**	3,087	**(87,367)**	(81,662)
Financing activities	**(21,280)**	(13,278)	**36,979**	62,240
Increase (decrease) in cash and cash equivalents	**(10,616)**	(3,484)	**(12,423)**	7,303

Operating activities

For the quarter ended December 31, 2012, cash flow from operations before non-cash changes in working capital totaled $11,370, compared to $6,737 in the fourth quarter a year ago. Non-cash changes in working capital decreased cash by $2,332, compared to $30 in the same period last year. Accounts receivable and other assets had a net increase of $243 primarily related to the timing of receivable collections. Prepaid expense and deposit balances decreased which was the result of timing recognition of expenses. The income tax payable balance remained consistent as a result of the timing of tax installments offset by the tax provision recorded in the quarter. Accounts payable and accrued liabilities increased by $1,260, which was primarily related to timing of trade payables and payroll related accruals. Income support balances decreased as a result of the drawdown of the Astoria escrow of $430. The change in net government funding balances of $4,609 was primarily the result of the timing of revenue recognition as it relates to expenditures incurred as the Company has not had significant adjustments relating to the settlement of prior year balances.

For the quarter ended December 31, 2011, cash flow from operations before non-cash changes in working capital totaled $6,737. During the quarter ended December 31, 2011, non-cash changes in working capital used $30 of operating cash. The source of cash was principally attributable to an increase in accounts payable and accrued liabilities of $1,988, the drawdown of $901 from the income support funds held in escrow and a change in income taxes of $1,081. This increase was offset by the decrease in the net government funding liability of $4,433. The increase in accounts payable and accrued liabilities is mainly due to higher trade payables and accruals due to the timing of purchases. The decrease in government funding payable was mainly due to the timing of revenue recognition to match spending under the flow-through funding envelopes. The income tax receivable decrease was due to the receipt of the tax refund related to the prior year's filing.

For the year, cash flow from operations provided $41,278 compared to $30,620 last year. Non-cash changes in working capital balance decreased cash by $3,313. This reflects an increase in accounts receivable and other assets balances of $1,167 primarily the result of the timing of receivable collections. Prepaid expenses and deposits balances increased primarily the result of deposits funding adjustments related to the employee benefit programs. The income tax receivable balance remains consistent with prior year levels as installment payments made in the year were offset by the provisions recorded. Accounts payable and accrued liabilities increased by $2,142 which was primarily related to the timing of trade payables and payroll related accruals. Income support balances decreased by $1,450 which was the result of the drawdown of the Ontario Portfolio escrow and the Astoria escrow, partly offset by the funds used to establish the Astoria income support at the time of the acquisition. The $4,900 net change in government funding balances was primarily due to the final reconciliation claw-backs for prior year balances.

For the year ended December 31, 2011, cash flow from operations before non-cash changes in working capital totaled $30,620. Non-cash changes to working capital used $3,895 of operating cash. The use of cash was attributable principally to establishing the income support of $5,500, less drawdowns in the year of $3,105, for a net use of $2,395 held in escrow which relates to the acquisition of the Royale properties. As well, an increase of $1,942 in the income tax receivable position was attributable to the timing of the payments and final tax adjustments related to the prior year, an increase in accounts receivable and other assets of $1,864, which were partly offset by an increase in government funding payable and accounts payable and accrued liabilities of $1,559 and $1,282, respectively. The increase in government funding payable is mainly due to the timing of recognition of revenue to match spending under the flow-through funding envelopes. The increase in accounts payable and accrued liabilities is mainly due to higher trade payables and accruals due to the timing of purchases.

Investing activities

For the fourth quarter of 2012, investing activities generated cash of $1,626, primarily as a result of the receipt of construction funding of $2,234, partly offset by the purchase of equipment related to maintenance capex of $583.

For the quarter ended December 31, 2011, investing activities provided $3,087 of cash. These funds were primarily received from construction funding of $2,133 and the reclassification of land transfer taxes as a transaction cost, previously discussed, which decreased the quarter's investment in property and equipment by $787. The increase in funds was partly offset by an investment in capitalized assets of $149, principally related to HRIS project costs.

Current full year investing activities used cash of $87,367, which was the result of the $91,710 cash invested in the BC Portfolio, $2,776 as a result of the Madonna acquisition and an aggregate investment in property and equipment and intangible assets of $1,851. This partly offset the cash received from construction funding of $8,756.

During the prior year, investing activities used cash of $81,662. These funds were used primarily for the acquisition of the two retirement properties in Kingston and Kanata, totaling $88,742. Additionally, the Company invested $998 in property and equipment mainly related to buildings. As well, the Company invested in intangible assets totaling $575, primarily related to HRIS project costs. Partly offsetting these purchases was the amount received from construction funding of $8,532.

Financing activities

During the current quarter, financing activities used $21,280 of cash. The Company made long-term debt repayments of $16,991, principally related to the 2015 Notes, interest payments on long-term debt of $8,720 and dividend payments of $6,217. The remaining use of cash primarily relates to deferred finance charges of $258 and the net settlement payment on interest rate swap contracts of $275. The Company generated cash from the drawdown of one of its BA facilities totaling $11,000.

During the quarter ended December 31, 2011, financing activities used cash of $13,278. During the quarter, the Company made dividend payments of $5,201, interest payments on long-term debt of $7,944, and net settlement payments of $133 on interest rate swap contracts.

For the current year, financing activities provided $36,979 of cash. The Company generated cash from the issuance of long-term debt and common shares of $63,100 and $53,787 respectively. This was partly offset by long-term debt repayments of $37,213, dividend payments of $23,177 and interest payments on long-term debt of $18,492. The remaining use of cash primarily relates to deferred finance charges of $268 and the net settlement payment on interest rate swap contracts of $758.

During the year ended December 31, 2011, financing activities provided cash of $62,240. Proceeds from the issuance of long-term debt generated $54,835 of cash, which was used to partially finance the acquisition of the two retirement properties in Kingston and Kanata. The Company's issuance of common shares also generated net proceeds of $43,857. During the year, the Company made dividend payments of $19,565, interest payments on long-term debt of $16,218, and made net settlement payments of $550 on interest rate swap contracts.

Capital resources

Leisureworld's debt as at December 31, 2012 was $425,225 compared to $355,399 last year. The increase of $69,826 related to the $52,100 of new debt raised and $24,716 of debt assumed in relation to the BC Portfolio acquisition in May 2012. The assumed debt was inclusive of a $1,000 fair value adjustment. In addition the Company assumed $15,718 of debt with the Madonna acquisition in July 2012. This was partly offset by the partial repayment of $9,000 relating to the debt associated with the Ontario Portfolio. As well, the Company purchased and retired $15,674 face value of the outstanding 2015 Notes in the quarter. Of the remaining increase, $2,460 relates to the accretion of the fair value increment from the purchase price allocation of the 2015 Notes and accretion of deferred financing charges on the debt raised to acquire the retirement properties of the Royale. As at December 31, 2012, Leisureworld had a committed revolving credit facility of $10,000 with a Canadian chartered bank; the Company had no claims outstanding against this credit facility.

As of December 31, 2012, the Company had negative working capital of $39,604 principally arising from a credit facility coming due within a year related to the Pacifica property in the BC Portfolio. Management is currently in the process of re-financing and extending the maturity date of this credit facility. In addition, the Company has other longer term credit facilities including access to undrawn revolving credit facilities totaling $25,500 and, with the Company's current leverage ratio, it also has access to additional equity financing, which enables it to meet its obligations. The Company is in compliance with all financial covenants on its borrowings.

Capital commitments

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

On June 22, 2010, the Company announced an agreement to acquire 88 LTC licences from Christie Gardens Apartments and Care Inc. These licences are in the Toronto area and will increase the total number of the Company's LTC beds by approximately 2%. According to the terms of the agreement, the licences will be acquired by March 31, 2013 at a cost of $2,200.

Leisureworld expects to meet its operating cash requirements through 2013, including required working capital investments, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed borrowing capacity.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

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

The 2015 Notes may be redeemed in whole or in part at the option of the Company at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the 2015 Notes. The redemption price is the greater of: (i) the face value of the 2015 Notes to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such 2015 Notes equal to the Canada Yield Price, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.18%. During the quarter ended December 31, 2012, the Company redeemed $15,674 of the 2015 Notes for $16,769 in cash, which includes a redemption premium of $1,095.

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

On June 29, 2012, the Bridge Loan was converted to a $61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP. The Bridge Loan is guaranteed by the Company and subject to certain customary financial and non-financial covenants. On September 30, 2012, the Company extended the maturity date on the $61,500 revolving credit facility to April 26, 2014. As at December 31, 2012, the Company had drawn $46,000 from this credit facility.

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

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

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

Interest expense on the long-term debt for the fourth quarter ended December 31, 2012 was $6,011 (2011 – $4,966), which includes non-cash interest of $947 (2011 – $568). Interest expense for the year was $21,841 (2011 – $18,938), which includes non-cash interest of $2,725 (2011 – $2,202).

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

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

	Operating Leases	Long-term Debt	Licences Purchase Commitment	Total
2013	556	27,017	2,200	**29,773**
2014	450	72,963	–	**73,413**
2015	379	295,340	–	**295,719**
2016	3	1,065	–	**1,068**
2017	–	1,120	–	**1,120**
Thereafter	–	33,840	–	**33,840**
	1,388	**431,345**	**2,200**	**434,933**

ACQUISITIONS

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

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

To partly finance the purchase price, the Company entered into a two-year Bridge Loan with a Canadian chartered bank in the amount of $55,000, which was subsequently converted to a $61,500 revolving credit facility with a maturity of April 26, 2014. The Bridge Loan was secured by the assets of Royale, guaranteed by the Company and subject to certain customary financial and non-financial covenants. The Company entered into an interest rate swap contract to substantially fix the interest rate payable on the Bridge Loan at 4.045%, which remains in effect with a maturity of April 26, 2013. The balance of the purchase price was funded from the net proceeds of a public offering of subscription receipts, completed on April 27, 2011, which raised gross proceeds of approximately $46,000. On closing of the acquisition, one common share was automatically issued in exchange for each outstanding subscription receipt, resulting in the issuance of 4,381,500 common shares.

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

The net purchase price was $92,710 including a $1,000 mark-to-market adjustment on assumed debt, but excluding a performance based earn out of up to $6,000. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, the Company raised gross proceeds of $56,400, issuing 4,680,500 Common Shares (including the overallotment of 610,500 Common Shares) at a price of $12.05 per Common Share, and issued 82,988 Common Shares to one of the sellers at an issue price of $12.05 per Common Share. The balance of the purchase price was financed through short-term bridge financing based on floating rates. Management has evaluated the contingent purchase price consideration of the $6,000 performance based earn out and based on currently available information, including performance of the assets, has concluded that the payout is unlikely and therefore it is not reflected in the purchase price.

The Company also entered into a one-year credit facility for $26,100 to finance the acquisition of the Pacifica property and a two-year credit facility for $26,000 to finance the acquisition of the Astoria property. Both facilities bear a floating interest rate equal to the BA rate plus 187.5 bps. These credit facilities are secured by each of the properties' assets and guaranteed by the Company and are subject to certain customary financial and non-financial covenants. Interest on the credit facilities is payable in advance each month.

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

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

On July 16, 2012, one of the Company's subsidiaries, The Royale Development LP ("Royale Development") completed the acquisition of the Madonna Long-Term Care Residence. Royale Development is a limited partnership that was formed under the laws of the Province of Ontario on November 25, 2011. The sole general partner of Royale Development is The Royale Development GP Corporation ("Royale Development GP"), a corporation incorporated under the laws of the Province of Ontario on November 24, 2011. The Company holds all of the issued and outstanding shares of Royale Development GP and the limited partnership interest in Royale Development.

The Madonna Long-Term Care Residence is a 160 bed, Class A home in Orleans, Ontario, a suburb of Ottawa. The net purchase price for the transaction was $3,035, net of assumed debt of $15,718. The net purchase price was settled in cash. As part of the acquisition of Madonna, the Company assumed a mortgage in the amount of $15,718, which bears interest at the floating monthly BA rate plus a stamping fee of 1.5% per annum and matures April 2029. The mortgage is collateralized by a first collateral mortgage on the property, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the assumption of the mortgage, assumed the related interest rate swap contract, in the amount of $2,317, to effectively fix the floating BA rate at 3.7%. The swap is collateralized by a second mortgage on the property. Interest and principal on the mortgage is payable monthly on the 16th day of each month.

RELATED PARTY TRANSACTIONS

The Company earns revenue from Spencer House Inc., a charitable organization that owns a licence to operate a 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 year ended December 31, 2012 was $1,939 (2011 – $1,899). Included in accounts receivable is $71 owing from Spencer House Inc. at December 31, 2012 (2011 – $12). 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. These amounts are due on demand and are non-interest bearing.

As of December 31, 2012, the Company had amounts outstanding from certain key executives of $74 (December 31, 2011 – $nil) which have been recorded as a contra to equity in relation to the Long-Term Incentive Plan ("LTIP") issuance. These amounts outstanding bear interest at the prime rate.

SIGNIFICANT JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Property and equipment and intangible assets

(i) Fair value On April 27, 2011, The Royale LP acquired two RRs comprising 294 suites located in Kingston and Kanata, Ontario. As part of this transaction, the property and equipment and intangible assets were recorded at their estimated fair values. The total fair values attributed to the property and equipment and intangible assets were $85,829 and $4,777, respectively.

On May 24, 2012, the Company acquired the BC Portfolio. As part of this transaction, the property and equipment were recorded at their estimated fair values. The total fair values attributed to the property and equipment and intangible assets were $104,369 and $16,592, respectively.

On July 16, 2012, The Royale Development LP acquired a LTC home comprising of 160 beds located in Orleans, Ontario. As part of this transaction, the property and equipment and intangible assets were recorded at their estimated fair values. The total fair values attributed to the property and equipment and intangible assets were $11,635 and $3,731, respectively.

(ii) Estimated useful lives Management estimates the useful lives of property and equipment and finite-lived intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation and amortization for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment and finite-lived intangible assets in the future.

(iii) Residual value Management estimates the residual value of property and equipment based on current market prices of similar assets at the end of their useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of permanent market changes or technical or commercial obsolescence. It is possible that changes in these factors may cause significant changes in the carrying value of the Company's property and equipment in the future.

(iv) Indefinite-lived intangible assets In the Province of Ontario, all LTC homes are funded and must be licensed. The Long-Term Care Homes Act, 2007 ("LTCHA") was proclaimed into law and became effective July 1, 2010. The LTCHA contains a new licence term regime that resulted in licence terms for the Leisureworld LTC homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by the MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and transfer or revocation of existing licences. With an existing wait-list of approximately 20,000 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

Goodwill and indefinite-lived intangible asset impairment analysis

On an annual basis, in the second quarter, the Company uses forecast cash flow information and estimates of future growth to assess whether goodwill and indefinite-lived intangible assets are impaired. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required. Any impairment losses are recognized in net income (loss). Impairment losses on goodwill are not reversible.

Share-based compensation

The assumptions used in calculating the fair value of share-based compensation have a significant impact upon the amount of the charge recognized in the consolidated statement of operations and comprehensive loss. Details of the principal assumptions used in calculating the share-based compensation expense are given in the notes to the consolidated financial statements. When a grant of share awards is made, management reviews the estimates and assumptions used to ensure appropriateness.

Deferred taxes

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration to the timing and level of future taxable income.

Income taxes

The actual tax on the results for the period is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits which are recognized in the consolidated financial statements. The Company considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the consolidated financial statements.

CAPITAL DISCLOSURE

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

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

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

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

The 2015 Notes and revolving credit facility are collateralized by all assets of LSCLP and the subsidiary partnerships totaling $478,018 and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The debts obtained as part of the acquisition of the Ontario Portfolio, Astoria, and Pacifica are secured by each of the properties' assets guaranteed by the Company and are subject to certain customary financial and non-financial covenants. The mortgage assumed from the acquisition of Madonna is collateralized by a first collateral mortgage on the property and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company was in compliance with all financial covenants on its borrowings as of December 31, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts.

Cash and cash equivalents

Cash includes deposits held with Canadian chartered banks. Cash equivalents are short-term investments with an initial maturity of less than three months. Cash and cash equivalents are classified as loans and receivables. The carrying value of cash and cash equivalents approximates fair value as they are immediately available for use.

Accounts receivable and other assets

Accounts receivable and other assets are classified as loans and receivables. Accounts receivable and other assets are initially recorded at fair value and subsequently recognized at amortized cost. The carrying value of accounts receivable and other assets, after consideration of the provision 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 initially recorded at fair value and subsequently 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. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term maturity of the instruments.

Long-term debt

The Company's long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest method and is classified as other liabilities. The fair value of the Company's long-term debt is subject to changes in interest rates and the Company's credit rating.

Government funding receivable/payable

The government funding balances are classified as either loans and receivables or other liabilities which are measured at amortized cost. Government funding receivable/payable represents the difference between the amounts earned and those received from the MOHLTC, which are non-interest bearing. The carrying value of the government funding approximates its fair value. The difference between the carrying value and the fair value of the long-term portion is insignificant.

Interest rate swap contracts

The Company has interest rate swap contracts for which hedge accounting has not been applied. The changes in fair value are recorded in net income (loss).

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, interest rate swap contracts and construction funding receivable 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. 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 MOHLTC. 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 subject to interest rate risk on variable rate debt obtained in connection with the acquisition of the Ontario Portfolio and Madonna. The floating interest rate on the debt is offset by interest rate swap contracts. Leisureworld has not adopted hedge accounting for the interest rate swap contracts. Interest rates, maturities and security affecting the interest and credit risk of Leisureworld's financial liabilities have been disclosed in the notes to the audited consolidated financial statements.

The Company's credit facilities are, and future borrowings may be, at variable rates of interest, which exposes the Company to the risk of increased interest rates.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable and interest rate swap contracts. 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. The credit risk related to amounts owed by LTC residents is further mitigated by the Company's ability to recover 50% of LTC amounts written off from the MOHLTC. A provision for management's estimate of uncollectible 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 provision based on historical experience. The amount of the provision is reduced by amounts that would be recovered from the MOHLTC upon ultimate write-off. When a receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of operations and comprehensive loss.

The Company is also exposed to credit risk through the amounts receivable from the MOHLTC. The Company has assessed the credit risk associated with the amounts owed by the MOHLTC as low as they are receivable from the Ontario government. Management has assessed the credit risks associated with the interest rate swap contracts and cash and cash equivalents balances as low given the counter parties are major Canadian financial institutions that have been accorded investment grade ratings by a primary rating agency.

Liquidity risk

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

The Company's capital structure includes access to revolving credit facilities totaling $71,500 of which $25,500 is undrawn, helping to manage the Company's liquidity.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which are measured at fair value.

Basis of preparation

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed under the heading "Significant Judgments and Estimates."

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised and in future periods if affected.

The following accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

Basis of consolidation and business combinations

The consolidated financial statements comprise the financial statements of Leisureworld Senior Care Corporation and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisitions of subsidiaries. Total consideration on the acquisition is measured as the fair value of the assets transferred and equity instruments issued on the date of the acquisition. Transaction costs related to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured at their fair value at the date of acquisition. The excess of fair value of consideration transferred above the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net income (loss) on the acquisition date.

Subsidiaries are 100% owned and fully controlled by the Company. Subsidiaries are consolidated in these financial statements from the date of acquisition where control is transferred to the group and continue to be consolidated until the date where the Company no longer controls the subsidiary.

All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions, are eliminated on consolidation.

Revenue recognition

Revenues include amounts earned from the operation of LTC homes, retirement residences and the independent living facility, PHCS and management fees associated with the operation of Spencer House Inc. A significant portion of the LTC homes' revenues are funded by the MOHLTC.

Long-term care revenue Ontario's LTC sector is regulated by the MOHLTC, which provides government funding to LTC homes. Operational funding, paid monthly, is divided into three envelopes: nursing; programs; and other accommodations, which includes funding for raw food. Revenue for nursing, programs and raw food is only recognized to the extent that an eligible expense has been incurred. All envelope funding received that is not spent is recorded as a government funding payable, with the exception of the non-raw food portion of the other accommodation funding which is recognized as earned in the month of receipt. Approximately 70% of revenue from Leisureworld's LTC homes is received from the MOHLTC. Leisureworld also receives structural compliance premiums from the MOHLTC on a per resident per day basis. Additionally, the MOHLTC provides funding to Leisureworld LTC homes that have been accredited and reimburses up to 85% of property tax costs.

Revenue for accommodation fees are recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the MOHLTC. Revenue for each LTC home is recognized based on full occupancy, unless there is an indication that the annualized occupancy rate will fall below 97% at which point revenue will be adjusted. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels above 90% and below 97% the adjustment range is up to 2% over actual occupancy. There are no adjustments to occupancy below the 90% threshold. In 2011 homes with occupancy rates above 85% and below 97% were provided funding based on actual occupancy plus 3%. Other LTC revenues paid by the residents relating to accommodation fees and ancillary services are recognized in the period in which the services are rendered.

Retirement residence and independent living residence revenue Residents pay for accommodations and other services on a monthly basis and revenue is recorded when the service is rendered.

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

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

Construction funding

The MOHLTC provides funding to homes constructed after April 1, 1998. Under the development agreements, these homes received 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 initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of operations and comprehensive loss during the period in which they are incurred.

The Company provides for depreciation at rates designed to depreciate the cost of the property and equipment less the estimated residual value over the estimated useful lives. The annual depreciation rates and methods are as follows:

Buildings	Up to 55 years straight-line
Furniture and fixtures	10 years straight-line
Automobiles	5 years straight-line
Computer hardware	5 years straight-line
Circulating equipment	Not depreciated

Circulating equipment is comprised of china, linen, glassware and silverware 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 allocates the initial cost of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in net income (loss).

Intangible assets

Intangible assets include LTC licences, resident relationships, service contracts and computer software that is not integral to computer hardware included in property and equipment. Intangible assets with finite useful lives are amortized over their respective estimated useful lives. The annual amortization rates and methods are as follows:

Licences	Not amortized
Resident relationships	2–3 years straight-line
Service contracts	3 years straight-line
Computer software	5 years straight-line

Goodwill

Goodwill represents amounts arising on the acquisition of subsidiaries, which is the excess of the purchase consideration over the fair values attributable to the net identifiable assets acquired.

Goodwill is tested for impairment in the second quarter of each year or more frequently when there is an indicator of impairment, and is carried at cost less accumulated impairment losses. Goodwill is not amortized and impairment losses are not reversed. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of assessing impairment. For the Company, each home, independent living residence, retirement residence and PHCS is a separate CGU. The allocation is made to the CGU, or group of CGUs, that is expected to benefit from the acquisition.

Impairment of non-financial assets

The Company reviews the carrying amounts of its property and equipment and finite-lived intangible assets at each reporting date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Intangible assets with an indefinite useful life are tested for impairment annually in the second quarter of each year and whenever there is an indication that the asset may be impaired. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

Financial instruments comprise of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts. Financial instruments are recognized initially at fair value. The Company's interest rate swap contracts are measured at fair value and any changes are reflected in the consolidated statement of operations and comprehensive loss.

Derivatives

Derivative instruments are used to reduce interest rate risk on the Company's long-term debt. The Company does not enter into derivative instruments for trading or speculative purposes. Derivative instruments 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. The Company has no derivative financial instruments for which hedge accounting has been applied.

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 has determined that it does not have any outstanding contracts or financial instruments with embedded derivatives that require separation.

Impairment of financial assets

Financial assets are reviewed at each consolidated statement of financial position date to assess whether there is objective evidence that indicates an impairment of a financial asset. If such evidence exists, the Company recognizes an impairment loss measured at the excess of the carrying amount over the fair value of the asset, which is reflected in net income (loss).

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. The Company 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 into interest expense using the effective interest rate method over the life of the related debt instrument. Incremental costs directly attributable to the issuance of shares are recognized as a reduction of share capital. Transaction costs associated with business acquisitions are expensed as incurred.

Interest bearing loans and borrowings

All interest bearing loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at their amortized cost using the effective interest method.

Operating lease payments

Payments made under operating leases are recognized in the consolidated statement of operations and comprehensive loss on a straight-line basis over the term of the lease.

Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction from shareholders' equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Company.

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise unvested shares issued to certain senior executive and are currently anti-dilutive.

Share-based compensation

The Company applies the fair value method of accounting for share-based compensation. The loans offered to senior executives ("Participants") related to the LTIP are recorded as a reduction to shareholders' equity. Fair value of the shares are measured at the grant date using the Cox-Ross-Rubinstein binomial tree model. The fair value of restricted share units ("RSU") and deferred share units ("DSU") are measured based on the closing price of the Company's shares at each reporting date.

In 2010 the Company issued shares to a senior executive. These shares vest over three years (33% per year). Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period by increasing share capital.

The expense related to share-based compensation is recognized in administrative expenses.

Employee benefits

Short-term benefits Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Assuming the obligation can be reasonably estimated, liabilities are recognized for the amounts expected to be paid within the next 12 months as the Company has an obligation to pay the amount as a result of past service provided by the employee. These benefits are recorded in accounts payable and accrued liabilities.

Long-term benefits Payments to defined contribution retirement benefit plans are based on 4% of gross wages and charged to expense as incurred.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Income taxes comprise of current and deferred taxes. Income taxes are recognized in the consolidated statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' equity. Income tax balances are also recorded on initial recognition of a deferred tax asset or liability arising from business combinations.

Current taxes are the expected taxes payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

In general, deferred taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are also recognized on business acquisitions. Deferred taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset. This applies when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Segmented reporting

The Company operates solely within Canada, hence no geographical segment disclosures are presented. Segmented information is presented in respect of business segments, based upon management's internal reporting structure.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the parts of IAS 39, Financial Instruments – Recognition and Measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income (loss), unless this creates an accounting mismatch. IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has chosen not to early adopt this standard and management has not yet determined the impact of this standard.

IFRS 10, Consolidated Financial Statements

IASB published an amendment to IFRS 10, Consolidated Financial Statements, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. This amendment requires that if the consolidation conclusion under IFRS 10 differs from IAS 27 or SIC-12 as at the date of initial application, the immediately preceding comparative period should be restated to be consistent with the accounting conclusion under the IFRS 10 through an adjustment to equity. This amendment will not have a material impact on the financial statements.

IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement, provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS standards and enhances disclosure requirements for information about fair value measurements. The future accounting policy changes are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. This standard will not have a material impact on the financial statements.

There are no other accounting standards issued but not yet applied that would be expected to have a material impact on the Company.

RISKS AND UNCERTAINTIES

Ownership and operation

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

The provincial regulation of LTC homes includes control of fees

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

In the Province of Ontario, all LTC homes are funded and must be licensed

LTCHA was proclaimed into law and became effective July 1, 2010. The LTCHA contains a new licence term regime for all LTC homes which will result in licence terms for the Leisureworld homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC including approval of new licences, and transfer or revocation of existing licences. With an existing wait-list of approximately 20,000 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences will continue to be renewed and have indefinite lives. A failure of Leisureworld's LTC licences to be renewed or conditional renewal could have an impact on the Leisureworld business.

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

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

Acquisitions

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

Capital intensive industry

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

The Company's ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of its strategies

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

Redevelopment of Class B and C homes

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

Real property ownership

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

Rising healthcare and utility costs

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

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

Reconciliations of MOHLTC funding will result in current year adjustments made in respect of prior years

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

The MOHLTC is transitioning its approach to funding the NPC envelope

The MOHLTC is changing the classifications used in calculating funding for the NPC envelope. Similar to the old system, the new methodology uses resident clinical and functional information for calculating a care resource allocation. However, there are a number of differences between the elements and relative weight factors and these differences may produce different outcomes. In addition, new technical knowledge and proficiency in applying the methodology will be required. In this learning phase, it is not clear what impact the new methodology and its application will have on the calculation of funding outcomes.

There can be no assurance the Company will continue to generate sufficient cash flow from operations

A portion of the Company's cash flow is devoted to servicing its debt and there can be no assurance the Company will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its debt. If the Company were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it could have an impact upon the business, operating results or financial condition of Leisureworld, which could adversely affect the Company's results and the Company's ability to pay dividends on its common shares.

A majority of the employees working at the Leisureworld properties are unionized

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

The Leisureworld business is labour intensive

The Leisureworld business is labour intensive, with labour-related costs comprising a substantial portion of the Company's direct operating expenses. The Leisureworld business competes with other healthcare providers with respect to attracting and retaining qualified personnel. The LTC industry is currently facing a shortage of qualified personnel, such as nurses, pharmacists, certified nurse's assistants, nurse's aides, therapists, and other important providers of healthcare services. The shortage of qualified personnel and general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for such personnel, the costs of which are included in the annual operating budget for each home. The Company may not be able to offset such added costs by increasing the rates charged to residents. An increase in these costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of the Company. No assurance can be given that labour costs will not increase, or that if they do increase, that they will be matched by corresponding increases in revenue. Wage increases in excess of increases that can be obtained from increases in rental or cost reimbursement could have an impact upon the business, operating results, and financial condition of the Company, which could adversely affect the Company's results and the Company's ability to pay dividends on its common shares.

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

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

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

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

Liability and insurance

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

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

Competition

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

Geographic concentration

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

Geographic risk

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

Changes in the Company's credit ratings may affect the Company's capital structure

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

RISKS RELATING TO A PUBLIC COMPANY AND COMMON SHARES

Volatile market price for common shares

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

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

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the common shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the common shares by those institutions, which could adversely affect the trading price of the common shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations and the trading price of the common shares may be adversely affected.

The Company is a holding company

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

Dividend policy

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

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

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

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

Future sales of common shares by directors and executive officers

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

Directors and officers may have conflicts of interest

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

Dilution and future sales of common shares may occur

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

Disclosure controls and procedures and internal controls over financial reporting

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

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

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

The CEO and CFO evaluated the design and operating effectiveness of the Company's disclosure controls and procedures and its internal controls over financial reporting for the year ended December 31, 2012. Based on this evaluation, the CEO and CFO concluded that the Company's internal controls over financial reporting were effective as at December 31, 2012. There have been no changes in the Company's disclosure controls and procedures and its internal controls over financial reporting during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

Leisureworld continues to benefit from strong industry fundamentals including favourable demographics and maintaining high occupancy in its LTC portfolio. Management continues to focus on improving occupancy in the retirement portfolio and improving the NOI performance of all business segments which forms a strong platform for reliable shareholder dividends.

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

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

The consolidated financial statements are the responsibility of the management of Leisureworld Senior Care Corporation (the "Company"), and have been approved by the Board of Directors of the Company. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Report is consistent with the consolidated financial statements.

The Company maintains a system of internal controls that are designed to provide reasonable assurance that the financial records are reliable and accurate and form a proper basis for the preparation of the financial statements.

The external auditors, PricewaterhouseCoopers LLP, have audited the consolidated financial statements in accordance with IFRS. The following report of PricewaterhouseCoopers LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

Dino Chiesa
Interim Chief Executive Officer
Markham, Canada
February 21, 2013

Manny DiFilippo
Chief Financial Officer

To the Shareholders of Leisureworld Senior Care Corporation

We have audited the accompanying consolidated financial statements of Leisureworld Senior Care Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of changes in shareholders' equity, operations and comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Leisureworld Senior Care Corporation and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 21, 2013

Consolidated Statements of Financial Position

Thousands of dollars

	Notes	**December 31, 2012**	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	7	**9,498**	21,921
Accounts receivable and other assets	22	**6,943**	5,564
Income support	4	**945**	2,395
Prepaid expenses and deposits		**3,004**	1,639
Government funding receivable		**4,371**	2,440
Construction funding receivable	20	**6,157**	5,621
Income taxes receivable		**–**	20
		30,918	39,600
Government funding receivable		**567**	163
Construction funding receivable	20	**69,746**	69,533
Property and equipment	8	**455,882**	357,416
Intangible assets	9	**95,488**	86,373
Goodwill	10	**91,466**	91,466
Total assets		**744,067**	644,551
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	15	**40,869**	35,331
Government funding payable		**2,072**	4,082
Current portion of long-term debt	11	**27,206**	–
Interest rate swap contracts	5	**336**	688
Income taxes payable		**39**	–
		70,522	40,101
Long-term debt	11	**398,019**	355,399
Deferred income taxes	13	**65,682**	64,128
Government funding payable		**3,297**	3,691
Share-based compensation liability	16	**600**	–
Interest rate swap contracts	5	**1,791**	204
Total liabilities		**539,911**	463,523
SHAREHOLDERS' EQUITY			
Share capital	14	**289,098**	233,207
Contributed surplus	16	**10**	–
Deficit		**(84,952)**	(52,179)
Total shareholders' equity		**204,156**	181,028
Total liabilities and shareholders' equity		**744,067**	644,551

Commitments 19

See accompanying notes.

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

Dino Chiesa
Chairman and Director

Janet Graham
Director

Consolidated Statements of Changes in Shareholders' Equity

Thousands of dollars

	Notes	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2011		**233,207**	**–**	**(52,179)**	**181,028**
Issuance of shares	**14**	**55,470**	**–**	**–**	**55,470**
Net loss and comprehensive loss		**–**	**–**	**(9,134)**	**(9,134)**
Long-term incentive plan	**16**	**173**	**10**	**–**	**183**
Deferred tax rate change	**13**	**115**	**–**	**–**	**115**
Share-based compensation	**16**	**133**	**–**	**–**	**133**
Dividends	**15**	**–**	**–**	**(23,639)**	**(23,639)**
Balance, December 31, 2012		**289,098**	**10**	**(84,952)**	**204,156**

	Notes	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2010		188,517	–	(20,326)	168,191
Issuance of shares	14	44,394	–	–	44,394
Net loss and comprehensive loss		–	–	(11,977)	(11,977)
Share-based compensation	16	296	–	–	296
Dividends	15	–	–	(19,876)	(19,876)
Balance, December 31, 2011		233,207	–	(52,179)	181,028

See accompanying notes.

Consolidated Statements of Operations and Comprehensive Loss

Thousands of dollars, except share and per share data

	Notes	**Year Ended December 31, 2012**	Year Ended December 31, 2011
Revenue	22, 23	**319,283**	290,107
Expenses			
Operating		**290,846**	276,834
Administrative	16	**13,994**	14,430
Impairment loss	9	**2,697**	–
	24	**307,537**	291,264
Income (loss) from operations		**11,746**	(1,157)
Finance costs		**22,936**	19,764
Finance income		**(4,356)**	(3,374)
Net finance charges	11	**18,580**	16,390
Loss before income taxes		**(6,834)**	(17,547)
Provision for (recovery of) income taxes			
Current		**1,826**	1,185
Deferred		**474**	(6,755)
	13	**2,300**	(5,570)
Net loss and comprehensive loss attributable to shareholders		**(9,134)**	(11,977)
Basic and diluted loss per share		**($0.33)**	($0.52)
Weighted average number of common shares outstanding		**27,351,568**	23,024,705

See accompanying notes.

Consolidated Statements of Cash Flows

Thousands of dollars

	Notes	Year Ended December 31, 2012	Year Ended December 31, 2011
OPERATING ACTIVITIES			
Net loss		**(9,134)**	(11,977)
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**18,954**	17,378
Amortization of intangible assets		**8,946**	15,288
Deferred income taxes		**474**	(6,755)
Share-based compensation	16	**761**	296
Net finance charges	11	**18,580**	16,390
Impairment loss	9	**2,697**	–
		41,278	30,620
Non-cash changes in working capital			
Accounts receivable and other assets		**(1,167)**	(1,864)
Prepaid expenses and deposits		**(897)**	(535)
Income taxes receivable/payable		**59**	(1,942)
Accounts payable and accrued liabilities		**2,142**	1,282
Income support		**1,450**	(2,395)
Government funding, net		**(4,900)**	1,559
Cash provided by operating activities		**37,965**	26,725
INVESTING ACTIVITIES			
Purchase of property and equipment		**(1,416)**	(998)
Purchase of intangible assets		**(435)**	(575)
Amounts received from construction funding		**8,756**	8,532
Interest received from cash and cash equivalents		**214**	121
Acquisition of the Madonna LTC, net of cash acquired	4	**(2,776)**	–
Acquisition of the Astoria property	4	**(36,718)**	–
Acquisition of the Pacifica property	4	**(39,731)**	–
Acquisition of the Peninsula property	4	**(15,261)**	–
Acquisition of the Ontario Portfolio, net of cash acquired	4	**–**	(88,742)
Cash used in investing activities		**(87,367)**	(81,662)
FINANCING ACTIVITIES			
Repayment of long-term debt		**(37,213)**	–
Proceeds from issuance of long-term debt		**63,100**	54,835
Deferred financing costs		**(268)**	(119)
Net settlement payment on interest rate swap contracts		**(758)**	(550)
Interest paid on long-term debt		**(18,492)**	(16,218)
Dividends paid	15	**(23,177)**	(19,565)
Net proceeds from issuance of common shares		**53,787**	43,857
Cash provided by financing activities		**36,979**	62,240
Increase (decrease) in cash and cash equivalents during the year		**(12,423)**	7,303
Cash and cash equivalents, beginning of year	7	**21,921**	14,618
Cash and cash equivalents, end of year	7	**9,498**	21,921
Supplementary information			
Income taxes paid		**1,758**	4,078

See accompanying notes.

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

1. ORGANIZATION

Leisureworld Senior Care Corporation ("Leisureworld" or the "Company") was incorporated under the laws of the Province of Ontario on February 10, 2010 and was continued under the laws of the Province of British Columbia on March 18, 2010. The Company closed its Initial Public Offering ("IPO") on March 23, 2010 and acquired, indirectly, all of the outstanding limited partnership interests in Leisureworld Senior Care LP ("LSCLP") and common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP. On April 27, 2011, two additional retirement residences comprising 294 suites located in Kingston and Kanata, Ontario ("Ontario Portfolio") were acquired by the Company's subsidiary, The Royale LP ("Royale"). On May 24, 2012, three additional retirement residences comprising 392 suites located in the Greater Vancouver Area in British Columbia ("BC Portfolio") were acquired by the Company's subsidiaries. Two of the properties, Astoria and Pacifica, were acquired by Royale. The third property, Peninsula, was acquired by The Royale West Coast LP, a newly established subsidiary. On July 16, 2012, an additional long-term care ("LTC") home comprising of 160 beds located in Orleans, Ontario ("Madonna") was acquired by the Company's subsidiary, The Royale Development LP.

Leisureworld and its predecessors have been operating since 1972. The Company's head office is located at 302 Town Centre Blvd., Markham, Ontario, L3R 0E8. Leisureworld owns and operates 27 LTC homes (representing an aggregate of 4,474 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates five retirement residences ("RR") (representing 686 suites) and one independent living residence ("IL") (representing 53 apartments) in the Provinces of Ontario and British Columbia. The Muskoka retirement residence was vacant as at September 30, 2012 and is undergoing renovations to allow the property to accommodate short stay and convalescent care residents. An ancillary business of the Company is Preferred Health Care Services ("PHCS"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes.

The Company is a public company listed on the Toronto Stock Exchange (the "TSX") under the ticker symbol TSX:LW.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the Accounting Handbook of The Canadian Institute of Chartered Accountants.

The consolidated financial statements were approved by the Board of Directors for issue on February 21, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATION UNCERTAINTY

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which are measured at fair value.

Basis of preparation

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below under the heading "Significant judgments and estimates."

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised and in future periods if affected.

The following accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

Basis of consolidation and business combinations

The consolidated financial statements comprise the financial statements of Leisureworld Senior Care Corporation and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisitions of subsidiaries. Total consideration on the acquisition is measured as the fair value of the assets transferred and equity instruments issued on the date of the acquisition. Transaction costs related to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured at their fair value at the date of acquisition. The excess of fair value of consideration transferred above the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net income (loss) on the acquisition date.

Subsidiaries are 100% owned and fully controlled by the Company. Subsidiaries are consolidated in these financial statements from the date of acquisition where control is transferred to the group and continue to be consolidated until the date where the Company no longer controls the subsidiary.

All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

Revenue recognition

Revenues include amounts earned from the operation of LTC homes, retirement residences and the independent living facility, PHCS and management fees associated with the operation of Spencer House Inc. A significant portion of the LTC homes' revenues are funded by the Ministry of Health and Long-Term Care ("MOHLTC").

Long-term care revenue Ontario's LTC sector is regulated by the MOHLTC, which provides government funding to LTC homes. Operational funding, paid monthly, is divided into three envelopes: nursing; programs; and other accommodations, which includes funding for raw food. Revenue for nursing, programs and raw food is only recognized to the extent that an eligible expense has been incurred. All envelope funding received that is not spent is recorded as a government funding payable, with the exception of the non-raw food portion of the other accommodation funding which is recognized as earned in the month of receipt. Approximately 70% of revenue from Leisureworld's LTC homes is received from the MOHLTC. Leisureworld also receives structural compliance premiums from the MOHLTC on a per resident per day basis. Additionally, the MOHLTC provides funding to Leisureworld LTC homes that have been accredited and reimburses up to 85% of property tax costs.

Revenue for accommodation fees are recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the MOHLTC. Revenue for each LTC home is recognized based on full occupancy, unless there is an indication that the annualized occupancy rate will fall below 97% at which point revenue will be adjusted. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels above 90% and below 97%, the adjustment range is up to 2% over actual occupancy. There are no adjustments to occupancy below the 90% threshold. In 2011, homes with occupancy rates above 85% and below 97% were provided funding based on actual occupancy plus 3%. Other LTC revenues paid by the residents relating to accommodation fees and ancillary services are recognized in the period in which the services are rendered.

Retirement residence and independent living residence revenue Residents pay for accommodations and other services on a monthly basis and revenue is recorded when the service is rendered.

PHCS revenue Revenue associated with PHCS is recognized when the service is rendered. Revenue generated from providing services to other operating segments of the Company is eliminated upon 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 owns the land, building and equipment used by the home and has been contracted to manage the operations of Spencer House Inc. The Company earns rental income from leasing the land, building and equipment to Spencer House Inc. as well as a management fee based on a percentage of gross revenues of the operation for managing the home. Revenue is recognized when the services are rendered.

Construction funding

The MOHLTC provides funding to homes constructed after April 1, 1998. Under the development agreements, these homes received 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 initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to net income (loss) during the period in which they are incurred.

The Company provides for depreciation at rates designed to depreciate the cost of the property and equipment less the estimated residual value over the estimated useful lives. The annual depreciation rates and methods are as follows:

Buildings	Up to 55 years straight-line
Furniture and fixtures	10 years straight-line
Automobiles	5 years straight-line
Computer hardware	5 years straight-line
Circulating equipment	Not depreciated

Circulating equipment is comprised of china, linen, glassware and silverware 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 allocates the initial cost of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amounts of the assets and are included in net income (loss).

Intangible assets

Intangible assets include LTC licences, resident relationships, service contracts and computer software that is not integral to computer hardware included in property and equipment. Intangible assets with finite useful lives are amortized over their respective estimated useful lives. The annual amortization rates and methods are as follows:

Licences	Not amortized
Resident relationships	2–3 years straight-line
Service contracts	3 years straight-line
Computer software	5 years straight-line

Goodwill

Goodwill represents amounts arising on the acquisition of subsidiaries, which is the excess of the purchase consideration over the fair values attributable to the net identifiable assets acquired.

Goodwill is tested for impairment in the second quarter of each year or more frequently when there is an indicator of impairment, and is carried at cost less accumulated impairment losses. Goodwill is not amortized and impairment losses are not reversed. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of assessing impairment. For the Company, each home, independent living residence, retirement residence and PHCS is a separate CGU. The allocation is made to the CGU, or group of CGUs, that is expected to benefit from the acquisition.

Impairment of non-financial assets

The Company reviews the carrying amounts of its property and equipment and finite-lived intangible assets at each reporting date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Intangible assets with indefinite useful lives are tested for impairment annually in the second quarter of each year and whenever there is an indication that the asset may be impaired. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

Financial instruments comprise of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts. Financial instruments are recognized initially at fair value. The Company's interest rate swap contracts are measured at fair value and any changes are reflected in the consolidated statement of operations and comprehensive loss.

Derivatives

Derivative instruments are used to reduce interest rate risk on the Company's long-term debt. The Company does not enter into derivative instruments for trading or speculative purposes. Derivative instruments 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. The Company has no derivative financial instruments for which hedge accounting has been applied.

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 has determined that it does not have any outstanding contracts or financial instruments with embedded derivatives that require separation.

Impairment of financial assets

Financial assets are reviewed at each consolidated statement of financial position date to assess whether there is objective evidence that indicates an impairment of a financial asset. If such evidence exists, the Company recognizes an impairment loss measured at the excess of the carrying amount over the fair value of the asset, which is reflected in net income (loss).

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. The Company 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 into interest expense using the effective interest method over the life of the related debt instrument. Incremental costs directly attributable to the issuance of shares are recognized as a reduction of share capital. Transaction costs associated with business acquisitions are expensed as incurred.

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

Interest bearing loans and borrowings

All interest bearing loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at their amortized cost using the effective interest method.

Operating lease payments

Payments made under operating leases are recognized in the consolidated statement of operations and comprehensive loss on a straight-line basis over the term of the lease.

Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction from shareholders' equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Company.

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise unvested shares issued to certain senior executive and are currently anti-dilutive.

Share-based compensation

The Company applies the fair value method of accounting for share-based compensation. The loans offered to senior executives ("Participants") related to the long-term incentive plan ("LTIP") are recorded as a reduction to shareholders' equity. Fair value of the shares are measured at the grant date using the Cox-Ross-Rubinstein binomial tree model. The fair value of restricted share units ("RSU") and deferred share units ("DSU") are measured based on the closing price of the Company's shares at each reporting date.

The Company issued shares to a senior executive. These shares vest over three years (33% per year). Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period by increasing share capital.

The expense related to share-based compensation is recognized in administrative expenses.

Employee benefits

Short-term benefits Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Assuming the obligation can be reasonably estimated, liabilities are recognized for the amounts expected to be paid within the next 12 months as the Company has an obligation to pay the amount as a result of past service provided by the employee. These benefits are recorded in accounts payable and accrued liabilities.

Long-term benefits Payments to defined contribution retirement benefit plans are based on 4% of gross wages and charged to expense as incurred.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Income taxes comprise of current and deferred taxes. Income taxes are recognized in the consolidated statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' equity. Income tax balances are also recorded on initial recognition of a deferred tax asset or liability arising from business combinations.

Current taxes are the expected taxes payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

In general, deferred taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are also recognized on business acquisitions. Deferred taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset. This applies when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Segmented reporting

The Company operates solely within Canada, hence no geographical segment disclosures are presented. Segmented information is presented in respect of business segments, based upon management's internal reporting structure. Further details are provided in Note 25.

Recent accounting pronouncements

IFRS 9, Financial Instruments IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the parts of IAS 39, Financial Instruments – Recognition and Measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income (loss), unless this creates an accounting mismatch. IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not early adopted this standard and management has not yet determined the impact of this standard.

IFRS 10, Consolidated Financial Statements IASB published an amendment to IFRS 10, Consolidated Financial Statements, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. This amendment requires that if the consolidation conclusion under IFRS 10 differs from IAS 27 or SIC-12 as at the date of initial application, the immediately preceding comparative period should be restated to be consistent with the accounting conclusion under the IFRS 10 through an adjustment to equity. This amendment will not have a material impact on the financial statements.

IFRS 13, Fair Value Measurement IFRS 13, Fair Value Measurement, provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The future accounting policy changes are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. This standard will not have a material impact on the financial statements.

There are no other accounting standards issued but not yet applied that would be expected to have a material impact on the Company.

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

Significant judgments and estimates

The preparation of the consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Property and equipment and intangible assets

(i) Fair values On April 27, 2011, The Royale LP acquired two RRs comprising 294 suites located in Kingston and Kanata, Ontario. As part of this transaction, the property and equipment and intangible assets were recorded at their estimated fair values. The total fair values attributed to the property and equipment and intangible assets were $85,829 and $4,777, respectively.

On May 24, 2012, the Company acquired the BC Portfolio. As part of this transaction, the property and equipment and intangible assets were recorded at their estimated fair values. The total fair values attributed to the property and equipment and intangible assets were $104,369 and $16,592, respectively.

On July 16, 2012, The Royale Development LP acquired Madonna. As part of this transaction, the property and equipment and intangible assets were recorded at their estimated fair values. The total fair values attributed to the property and equipment and intangible assets were $11,635 and $3,731, respectively.

(ii) Estimated useful lives Management estimates the useful lives of property and equipment and finite-lived intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation and amortization for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment and finite-lived intangible assets in the future.

(iii) Residual value Management estimates the residual value of property and equipment based on current market prices of similar assets at the end of their useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of permanent market changes or technical or commercial obsolescence. It is possible that changes in these factors may cause significant changes in the carrying value of the Company's property and equipment in the future.

(iv) Indefinite-lived intangible assets In the Province of Ontario, all LTC homes are funded and must be licensed. The Long-Term Care Homes Act, 2007 ("LTCHA") was proclaimed into law and became effective July 1, 2010. The LTCHA contains a new licence term regime that resulted in licence terms for the Leisureworld LTC homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by the MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and transfer or revocation of existing licences. With an existing wait-list of approximately 20,000 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

Goodwill and indefinite-lived intangible asset impairment analysis On an annual basis, in the second quarter, the Company uses forecast cash flow information and estimates of future growth to assess whether goodwill and indefinite-lived intangible assets are impaired. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required. Any impairment losses are recognized in net income (loss). Impairment losses on goodwill are not reversible.

Share-based compensation The assumptions used in calculating the fair value of share-based compensation have a significant impact upon the amount of the charge recognized in the consolidated statement of operations and comprehensive loss. Details of the principal assumptions used in calculating the share-based compensation expense are given in Note 16. When a grant of share awards is made, management reviews the estimates and assumptions used to ensure appropriateness.

Deferred taxes Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration to the timing and level of future taxable income.

Income taxes The actual tax on the results for the period is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits which are recognized in the consolidated financial statements. The Company considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the consolidated financial statements.

4. ACQUISITIONS

On April 27, 2011, Leisureworld completed the acquisition of two luxury retirement residences for the net purchase price paid to the vendors of $88,742 after working capital adjustments and a three-year income support agreement of $5,500 held in escrow as an income guarantee to supplement cash flow from the properties during the lease-up period.

The total purchase price of $88,742 was allocated to the assets and liabilities as follows:

Assets	
Cash	1
Accounts receivable and other assets	13
Prepaid expenses and deposits	19
Property and equipment	85,829
Intangible assets – resident relationships	4,777
Total assets	**90,639**
Liabilities	
Accounts payable and accrued liabilities	703
Deferred income taxes	1,194
Total liabilities	**1,897**
Net assets acquired	**88,742**

As part of the total purchase consideration for the Kingston and Kanata RRs, Leisureworld put in place a $5,500 three-year income support agreement with the vendor, held in escrow as an income guarantee to supplement cash flow during the lease-up period. As at September 30, 2012, the Company has drawn down $5,500 (December 31, 2011 – $3,105). Leisureworld's RRs will have to comply with the requirements of the Retirement Homes Act as the regulations are phased in over time.

Transaction costs expensed related to the acquisition of the Ontario Portfolio for the year ended December 31, 2011 were $2,109.

Kingston and Kanata RR's revenue and net loss recorded for the period from April 27, 2011 to December 31, 2011 were $5,883 and $3,211, respectively.

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

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

The total net purchase price of $92,710 was allocated to the assets and liabilities as follows:

	Astoria	Pacifica	Peninsula	Total
Assets				
Accounts receivable and other assets	–	–	5	**5**
Prepaid expenses and deposits	50	–	29	**79**
Property and equipment	36,228	33,830	34,311	**104,369**
Intangible assets – resident relationships	2,471	7,111	7,010	**16,592**
Total assets	**38,749**	**40,941**	**41,355**	**121,045**
Liabilities				
Accounts payable and accrued liabilities	353	518	507	**1,378**
Deferred income taxes	678	692	871	**2,241**
Long-term debt	–	–	24,716	**24,716**
Total liabilities	**1,031**	**1,210**	**26,094**	**28,335**
Net assets acquired	**37,718**	**39,731**	**15,261**	**92,710**

The purchase price allocation related to the acquisition of the BC Portfolio has been finalized as at December 31, 2012. There were no changes to the preliminary allocation disclosed for the quarter ended September 30, 2012.

As part of the total purchase consideration for the Astoria property, Leisureworld put in place a $2,030 three-year income support agreement with the vendor, which is held in escrow as an income guarantee to supplement cash flow during the lease-up period. For the year ended December 31, 2012, the Company has drawn down $1,085. As a part of the consideration transferred for the property, the Company issued $1,000 of shares to the vendor.

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

Transaction costs expensed related to the acquisition of the BC Portfolio for the year ended December 31, 2012 were $754.

The BC Portfolio's revenue and net loss recorded for the period from May 24, 2012 to December 31, 2012 were $8,627 and $2,316, respectively.

On July 16, 2012, the Company completed the acquisition of Madonna in Orleans, Ontario.

The total net purchase price of $3,035 was allocated to the assets and liabilities as follows:

Assets	
Cash	259
Accounts receivable and other assets	65
Prepaid expenses and deposits	79
Construction funding receivable	6,445
Property and equipment	11,635
Intangible assets – resident relationships	611
Intangible assets – licences	3,120
Deferred income taxes	350
Total assets	**22,564**
Liabilities	
Accounts payable and accrued liabilities	1,333
Government funding payable	161
Long-term debt	15,718
Interest rate swap contract	2,317
Total liabilities	**19,529**
Net assets acquired	**3,035**

During the quarter ended December 31, 2012, the Company finalized the purchase price allocation related to the Madonna acquisition. The finalization of working capital resulted in an increase in accounts receivable and other assets of $5 and prepaid expenses and deposits of $13 and a reduction in accounts payable and accrued liabilities of $34.

Transaction costs expensed related to the acquisition of the Madonna LTC home for the year ended December 31, 2012 were $713.

Madonna's revenue and net income recorded for the period from July 16, 2012 to December 31, 2012 were $5,036 and $523, respectively.

If the BC Portfolio and Madonna acquisitions had taken place on January 1, 2012, the revenue and net loss for the Company for the year ended December 31, 2012 are estimated to have been $330,755 and $9,620, respectively. If the Ontario Portfolio acquisition had taken place on January 1, 2011, the revenue and net loss for the year ended December 31, 2011 are estimated to have been $292,523 and $14,634, respectively.

5. FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts.

Cash and cash equivalents

Cash includes deposits held with Canadian chartered banks. Cash equivalents are short-term investments with an initial maturity of less than three months. Cash and cash equivalents are classified as loans and receivables. The carrying value of cash and cash equivalents approximates fair value as they are immediately available for use.

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

Accounts receivable and other assets

Accounts receivable and other assets are classified as loans and receivables. Accounts receivable and other assets are initially recorded at fair value and subsequently measured at amortized cost. The carrying value of accounts receivable and other assets, after consideration of the provision 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 initially recorded at fair value and subsequently 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. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term maturity of the instruments.

Long-term debt

The Company's long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest method and is classified as other liabilities. The fair value of the Company's long-term debt is subject to changes in interest rates and the Company's credit rating.

Government funding receivable/payable

The government funding balances are classified as either loans and receivables or other liabilities which are measured at amortized cost. Government funding receivable/payable represents the difference between the amounts earned and those received from the MOHLTC, which are non-interest bearing. The carrying value of the government funding approximates its fair value. The difference between the carrying value and the fair value of the long-term portion is insignificant.

Interest rate swap contracts

The Company has interest rate swap contracts for which hedge accounting has not been applied. The changes in fair value are recorded in net income (loss).

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 observable market prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Fair values of long-term debt, interest rate swap contracts and construction funding receivable 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:

	Carrying Value as at December 31, 2012				
	Assets/ Liabilities at Fair Value through the Profit and Loss	**Loans and Receivables**	**Other Liabilities**	**Total Carrying Value**	**Fair Value**
Financial assets:					
Cash and cash equivalents	**–**	**9,498**	**–**	**9,498**	**9,498**
Accounts receivable and other assets	**–**	**6,943**	**–**	**6,943**	**6,943**
Government funding receivable	**–**	**4,938**	**–**	**4,938**	**4,938**
Construction funding receivable	**–**	**75,903**	**–**	**75,903**	**82,631**
Financial liabilities:					
Accounts payable and accrued liabilities	**–**	**–**	**40,869**	**40,869**	**40,869**
Government funding payable	**–**	**–**	**5,369**	**5,369**	**5,369**
Long-term debt	**–**	**–**	**425,225**	**425,225**	**453,096**
Interest rate swap contracts	**2,127**	**–**	**–**	**2,127**	**2,127**

	Carrying Value as at December 31, 2011				
	Assets/ Liabilities at Fair Value through the Profit and Loss	Loans and Receivables	Other Liabilities	Total Carrying Value	Fair Value
Financial assets:					
Cash and cash equivalents	–	21,921	–	21,921	21,921
Accounts receivable and other assets	–	5,564	–	5,564	5,564
Government funding receivable	–	2,603	–	2,603	2,603
Construction funding receivable	–	75,154	–	75,154	82,178
Financial liabilities:					
Accounts payable and accrued liabilities	–	–	35,331	35,331	35,331
Government funding payable	–	–	7,773	7,773	7,773
Long-term debt	–	–	355,399	355,399	383,169
Interest rate swap contracts	892	–	–	892	892

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above:

The carrying values of cash and cash equivalents, accounts receivable and other assets, government funding receivable/payable, and accounts payable and accrued liabilities approximate fair values as the items are short-term in nature.

The fair value of construction funding receivable is estimated by discounting the expected future cash flows using the yield of the applicable bonds issued by the Province of Ontario plus a risk premium. At December 31, 2012, the construction funding receivable was discounted using a rate of 2.44% (2011 – 2.34%).

The fair values of floating-rate debt are approximated by their carrying values. The fair values of fixed-rate debt are estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2012, the fixed-rate debt were discounted using rates between 2.63% (2011 – 3.35%) and 3.86% (2011 – not applicable).

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

The fair values of interest rate swap contracts are based on valuations provided by the financial institutions that are the counter parties to the contracts.

Impairment charges on accounts receivable are disclosed below. All finance income and costs from financial instruments have been disclosed in Note 11.

Maturities of financial instruments

For the years ending December 31, 2013 through 2017, and thereafter, Leisureworld has estimated that the following undiscounted cash flows will arise from its interest rate swap contracts, construction funding receivable and long-term debt at the consolidated statement of financial position date:

						As at December 31, 2012
	2013	2014	2015	2016	2017	Thereafter
Interest rate swap contracts						
Cash inflows	623	391	379	368	354	2,859
Cash outflows	(959)	(552)	(535)	(520)	(500)	(4,035)
	(336)	(161)	(156)	(152)	(146)	(1,176)
Construction funding receivable						
Cash inflows	9,137	9,137	9,137	9,160	9,137	48,059
Long-term debt						
Cash outflows	(45,215)	(89,303)	(311,035)	(2,547)	(22,044)	(16,239)
Net cash inflows (outflows)	**(36,414)**	**(80,327)**	**(302,054)**	**6,461**	**(13,053)**	**30,644**

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. 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 MOHLTC. 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 subject to interest rate risk on floating-rate debt obtained in connection with the acquisitions of the Ontario Portfolio and Madonna. The floating interest rate on the debt is offset by interest rate swap contracts. Leisureworld has not adopted hedge accounting for the interest rate swap contracts. Interest rates, maturities and security affecting the interest rate and credit risk of Leisureworld's financial liabilities have been disclosed in Notes 11 and 12.

The Company's credit facilities are, and future borrowings may be, at variable rates of interest, which exposes the Company to the risk of increased interest rates.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable and interest rate swap contracts. 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. The credit risk related to amounts owed by LTC residents is further mitigated by the Company's ability to recover 50% of LTC amounts written off from the MOHLTC. A provision for management's estimate of uncollectible 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 provision based on historical experience. The amount of the provision is reduced by amounts that would be recovered from the MOHLTC upon ultimate write-off. When a receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of operations and comprehensive loss.

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

Balance, December 31, 2010	764
Provision for receivables during the year	–
Receivables written off during the year	(35)
Balance, December 31, 2011	729
Provision for receivables during the year	347
Receivables written off during the year	(515)
Balance, December 31, 2012	**561**

The Company has $3,669 in trade and other receivables (December 31, 2011 – $3,218) that are past due but not impaired. These amounts have not been provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances.

The aging analysis of these receivables is as follows:

	2012	2011
0–30 days	**2,648**	1,719
31–60 days	**297**	366
61–90 days	**127**	176
Over 90 days	**597**	957

The Company is also exposed to credit risk through the amounts receivable from the MOHLTC. The Company has assessed the credit risk associated with the amounts owed by the MOHLTC as low as they are receivable from the Ontario government. Management has assessed the credit risks associated with the interest rate swap contracts and cash and cash equivalents balances as low given the counter parties are major Canadian financial institutions that have been accorded investment grade ratings by a primary rating agency.

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness. Management is currently in the process of re-financing and extending the maturity date of the Pacifica Credit Facility. In addition, the Company has other available longer term credit facilities, including access to undrawn revolving credit facilities totaling $25,500, which will enable it to meet its obligations.

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

Sensitivity analysis

IFRS 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 the consolidated statement of operations and comprehensive loss at December 31, 2012 assuming that a reasonably possible change in the relevant risk variable has occurred at December 31, 2012. 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 December 31, 2012 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives at December 31, 2012 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments.

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 the market variable and the change in fair values 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%
	Notes	Fair Value	Income	Income
Financial liabilities				
Interest rate swap contracts	11	2,127	(1,994)	1,994

The Company currently has no net cash flow risk associated with changes in interest rates. Any changes in the interest payable under the debt issued as part of the acquisition of the Ontario Portfolio and the debt assumed with Madonna would be offset by a change in the cash flows from the related swap contracts.

Fair value hierarchy

Financial instruments carried at fair value have been categorized under the 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 and cash equivalents. The fair value of the instrument is based on 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 contracts. These instruments are recorded at fair value as at each reporting date. The fair value of the interest rate swap contracts are 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 as of December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Interest rate swap contracts	**–**	**(2,127)**	**–**	**(2,127)**

	Financial Instruments at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Interest rate swap contracts	–	(892)	–	(892)

6. CAPITAL MANAGEMENT

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

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

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

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

The Series A Senior Secured Notes ("the 2015 Notes") and revolving credit facility (Note 12) are collateralized by all assets of LSCLP and the subsidiary partnerships totaling $478,018 and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The debt obtained as part of the acquisition of the Ontario Portfolio, Astoria, and Pacifica are secured by each of the properties' assets guaranteed by the Company and are subject to certain customary financial and non-financial covenants. The mortgage assumed on the acquisition of Madonna is collateralized by a first collateral mortgage on the property and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as at December 31, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

7. CASH AND CASH EQUIVALENTS

	2012	2011
Cash	**9,415**	16,082
Cash equivalents	**83**	5,839
Cash and cash equivalents	**9,498**	21,921

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

8. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture and Fixtures	Automobiles	Computer Hardware	Circulating Equipment	Total
Cost							
At January 1, 2011	42,271	247,485	9,567	–	276	985	300,584
Acquisition of the Royale properties	5,760	80,023	46	–	–	–	85,829
Additions	–	657	139	–	202	–	998
At December 31, 2011	48,031	328,165	9,752	–	478	985	387,411
Acquisition of the BC Portfolio	14,700	86,475	3,018	176	–	–	104,369
Acquisition of Madonna	800	10,749	86	–	–	–	11,635
Additions	–	1,026	183	–	207	–	1,416
Disposals	–	–	–	–	(82)	–	(82)
At December 31, 2012	**63,531**	**426,415**	**13,039**	**176**	**603**	**985**	**504,749**
Accumulated depreciation							
At January 1, 2011	–	10,554	1,979	–	84	–	12,617
Charges for the year	–	14,966	2,319	–	93	–	17,378
At December 31, 2011	–	25,520	4,298	–	177	–	29,995
Charges for the year	–	16,832	1,881	20	221	–	18,954
Disposals	–	–	–	–	(82)	–	(82)
At December 31, 2012	**–**	**42,352**	**6,179**	**20**	**316**	**–**	**48,867**
Net book value							
At December 31, 2011	48,031	302,645	5,454	–	301	985	357,416
At December 31, 2012	**63,531**	**384,063**	**6,860**	**156**	**287**	**985**	**455,882**

9. INTANGIBLE ASSETS

	Licences	Resident Relationships	Service Contracts	Computer Software	Total
Cost					
At January 1, 2011	76,000	26,190	3,080	2,068	107,338
Acquisition of the Royale properties	–	4,777	–	–	4,777
Additions	–	–	–	575	575
At December 31, 2011	76,000	30,967	3,080	2,643	112,690
Acquisition of the BC Portfolio	–	16,592	–	–	16,592
Acquisition of the Madonna	3,120	611	–	–	3,731
Additions	–	–	–	435	435
Impairment	–	–	–	(2,697)	(2,697)
At December 31, 2012	**79,120**	**48,170**	**3,080**	**381**	**130,751**
Accumulated amortization					
At January 1, 2011	–	10,144	795	90	11,029
Charges for the year	–	14,159	1,027	102	15,288
At December 31, 2011	–	24,303	1,822	192	26,317
Charges for the year	–	7,855	1,027	64	8,946
At December 31, 2012	**–**	**32,158**	**2,849**	**256**	**35,263**
Net book value					
At December 31, 2011	76,000	6,664	1,258	2,451	86,373
At December 31, 2012	**79,120**	**16,012**	**231**	**125**	**95,488**

During the year ended December 31, 2012, the Company determined that the carrying amount of the Human Resource Information System being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a $2,697 impairment of intangible assets recorded in net income (loss).

10. GOODWILL

Goodwill acquired in business combinations is allocated to the CGUs that are expected to benefit from that business combination based on the relative fair value of the CGU at the time of acquisition. CGUs are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company has determined that each LTC home, independent living residence, retirement residence and PHCS are separate CGUs for goodwill impairment testing purposes. The Company also allocates indefinite-lived intangible assets which relate to the LTC business to the LTC CGUs on a per bed basis. The Company has allocated $91,466 and $79,120 of goodwill and indefinite-lived intangible assets, respectively, to the individual CGUs. No CGU has been allocated a significant amount of goodwill or indefinite-lived intangible assets as compared with the other CGUs.

The recoverable amount of the CGU is the higher of its value in use and fair value less costs to sell ("fair value"). Fair value is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted to arrive at the recoverable amount. In assessing fair value, the estimated future cash flows are derived from the most recent financial budget and long-range forecasts including an assumed growth rate. For the 2012 annual goodwill impairment analysis, the Company used an average post-tax discount rate of approximately 6.12% across the CGUs and an average growth rate of 2% before considering expansion projects. The Company has not recognized any goodwill impairment losses.

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

11. LONG-TERM DEBT

	Interest Rate	Maturity Date	2012	2011
Current				
Pacifica Credit Facility	Floating	May 23, 2013	**26,068**	–
Current Portion of Peninsula Mortgage	5.180%	N/A	**726**	–
Current Portion of Madonna Mortgage	Floating	N/A	**412**	–
			27,206	–
Long-Term				
Series A Senior Secured Notes	4.814%	November 24, 2015	**287,516**	300,599
Revolving Credit Facility	Floating	April 26, 2014	**45,926**	54,800
Astoria Credit Facility	Floating	May 23, 2014	**25,927**	–
Peninsula Mortgage	5.180%	January 1, 2017	**23,505**	–
Madonna Mortgage	Floating	April 16, 2029	**15,145**	–
			398,019	355,399
			425,225	355,399

The 2015 Notes, due November 24, 2015, have a remaining face value of $294,326 (2011 – $310,000) and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year.

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, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.18%. During the year ended December 31, 2012, the Company redeemed 2015 Notes with face value of $15,674 for $16,769 in cash, which includes a redemption premium of $1,095. Fair value adjustment of $317 was accreted to finance costs in connection with the redemption.

On April 27, 2011, the Company entered into a two-year credit facility ("Bridge Loan" or "Revolving Credit Facility") for $55,000 to finance the acquisition of the Ontario Portfolio, which bears interest at 187.5 basis points ("bps") per annum over the floating 30-day BA rate. The Bridge Loan is secured by the assets of Royale and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the Bridge Loan, entered into an interest rate swap contract to effectively fix the interest rate at 4.045% which remains in effect with a maturity of April 26, 2013. Interest on the Bridge Loan is payable in advance every 30 days beginning on April 30, 2011. As a part of the Bridge Loan, the Company incurred financing costs of $299, directly associated with obtaining the financing. These costs have been recorded as a reduction of the total financing received and are expensed over the term of the loan.

On June 29, 2012, the Bridge Loan was converted to a $61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. On September 30, 2012, the Company extended the maturity date on the $61,500 revolving credit facility to April 26, 2014. As at December 31, 2012, the Company has drawn $46,000 from this credit facility.

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

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

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

The following summarizes the components of net finance charges, in the consolidated statement of operations and comprehensive loss:

	2012	2011
Finance costs		
Interest expense on long-term debt	**18,297**	16,072
Interest expense and fees on revolving credit facility	**61**	51
Net accretion of the fair value adjustments on long-term debt	**2,460**	2,103
Amortization of deferred financing charges	**265**	99
Redemption premium on 2015 Notes	**1,095**	–
Net settlement payment on interest rate swap contracts	**758**	613
Loss on interest rate swap contract	**–**	826
	22,936	19,764
Finance income		
Interest income on construction funding receivable (Note 20)	**3,060**	3,111
Other interest income	**214**	121
Gain on interest rate swap contracts	**1,082**	142
	4,356	3,374
Net finance charges	**18,580**	16,390

12. REVOLVING CREDIT FACILITY

LSCLP has a $10,000 revolving credit facility with a Canadian chartered bank which it can access for working capital purposes. This facility is collateralized by the assets of LSCLP and its subsidiary partnerships of $478,018 and guaranteed by the subsidiary partnerships. It bears interest on cash advances at 150 bps per annum over the floating BA rate (30, 60 or 90 days), or at 50 bps per annum over the prime rate and bears interest on letters of credit at 150 bps per annum. As at December 31, 2012, the Company had no amounts drawn on this facility (2011 – $nil) and no letters of credit outstanding (2011 – $nil). During the year ended December 31, 2012, charges related to standby fees totaled $38 (2011 – $43).

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

13. INCOME TAXES

Total income tax provision (recovery) for the year can be reconciled to the consolidated statement of operations and comprehensive loss as follows:

	2012	2011
Loss before income taxes	**(6,834)**	(17,547)
Canadian combined income tax rate	**26.47%**	28.25%
Income tax recovery	**(1,809)**	(4,957)
Adjustments to income tax provision:		
Non-deductible items	**382**	119
Tax rate change	**3,721**	–
Book to filing adjustment	**–**	(739)
Other items	**6**	7
Provision for (recovery of) income taxes	**2,300**	(5,570)

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

	Accelerated Tax Depreciation	**Intangible Assets**	**Share Issuance**	**Construction Funding Interest**	**Other**	**Total**
As at January 1, 2011	(59,804)	(14,592)	3,456	5,325	(4,611)	(70,226)
Due to acquisition of the Ontario Portfolio	(2,612)	1,418	–	–	–	(1,194)
Credit (charge) to net loss	3,721	4,161	(983)	(726)	582	6,755
Credit to equity	–	–	537	–	–	537
As at December 31, 2011	(58,695)	(9,013)	3,010	4,599	(4,029)	(64,128)
Due to acquisition of the BC Portfolio	(3,045)	543	–	–	261	(2,241)
Due to acquisition of Madonna	(706)	(300)	–	742	614	350
Credit (charge) to net loss net of rate changes	2,777	1,830	(1,085)	(810)	535	3,247
Effect of change in income tax rates	(3,257)	(455)	–	217	(226)	(3,721)
Credit to shareholders' equity	–	–	811	–	–	811
As at December 31, 2012	**(62,926)**	**(7,395)**	**2,736**	**4,748**	**(2,845)**	**(65,682)**

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

	2012	2011
Within one year	**(2,136)**	(2,202)
One to four years	**(9,795)**	(9,616)
After four years	**(53,751)**	(52,310)
Total	**(65,682)**	(64,128)

14. SHARE CAPITAL

Authorized

Unlimited number of common shares, without nominal or par value

Unlimited number of preferred shares, without nominal or par value

Issued and outstanding

Common shares

	Common Shares	Amount
Balance, January 1, 2011	20,108,649	188,517
Issued common shares	4,381,500	44,394
Share-based compensation (Note 16)	–	296
Balance, December 31, 2011	24,490,149	233,207
Issued common shares	4,680,500	54,470
Shares issued to vendor (Note 4)	82,988	1,000
Long-term incentive plan, net of loans receivable (Note 16)	19,252	173
Deferred income tax rate change (Note 13)	–	115
Share-based compensation (Note 16)	–	133
Balance, December 31, 2012	**29,272,889**	**289,098**

On April 27, 2011, the Company raised $44,394, net of underwriters' fees and other issuance related costs of $2,148, and the related deferred tax impact of $537, through a public offering of 4,381,500 common shares.

On May 23, 2012, the Company issued 19,252 shares to the Participants related to the LTIP. Total net value of the share-based payment at the grant date was $13. During the year ended December 31, 2012, one of the Participants repaid $142 of their loan in full, which was recorded as an increase in share capital. The LTIP issued to this Participant was revalued in conjunction with the repayment, which resulted in an increase in share capital of $18. Total net value of the share-based payment as at December 31, 2012 is $173.

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

There are 8,334 unvested common shares that are outstanding (Note 16) that are anti-dilutive.

15. DIVIDENDS

The Company paid dividends at $0.0708 per month per common share totaling $23,177 for the year ended December 31, 2012 (2011 – $19,565). Dividends of $2,196 are included in accounts payable and accrued liabilities as at December 31, 2012 (2011 – $1,734). Subsequent to December 31, 2012, the Board of Directors declared dividends of $0.075 per common share for January and February 2013 totaling $4,391. These dividends are not included in accounts payable and accrued liabilities.

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

16. SHARE-BASED COMPENSATION

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

LTIP

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

On February 22, 2012, 19,252 shares were granted to the Participants under this plan which was approved by the shareholders at the Annual General Meeting ("AGM") held on April 18, 2012. Related to LTIP compensation plan in the year ended December 31, 2012, the Company recorded an increase of $173 in share capital (2011 – $nil) and $10 in contributed surplus (2011 – $nil). Included as a reduction to shareholders' equity is an outstanding loan balance of $74 (December 31, 2011 – $nil). During the year ended December 31, 2012, one of the Participants repaid their loan in full. Total expense related to the LTIP for the year ended December 31, 2012 was $28 (2011 – $nil).

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

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

RSU

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

On February 22, 2012, 19,252 RSUs were granted to the Participants under this plan as approved by the shareholders at the AGM. During the year ended December 31, 2012, one of the Participants resigned and 8,417 RSUs were forfeited. None of the RSUs have vested during 2012 and the expense related to this plan for the year ended December 31, 2012 was $94, which was recognized in administrative expenses (2011 – $nil). The total liability recorded as a part of the share-based compensation liability as at December 31, 2012 was $94 (2011 – $nil).

DSU

Eligible Members of the Board of Directors ("Members") can elect on an annual basis to receive their annual retainer fees up to 100% as notional shares of the Company, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using the Average Closing Price on the grant date. The Company will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the notional shares, as long as the Member continues to serve on the Board of Directors, as additional notional units under DSU plan. The compensation, nominating and governance committee reserves the right to amend the eligible participants and compensation structure under this plan. The value of each DSU is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date. Total expense related to this plan for the year ended December 31, 2012 was $506, which was recognized in administrative expenses (2011 – $nil). The total liability recorded as a part of the share-based compensation liability as at December 31, 2012 was $506 (2011 – $nil).

Shares awarded

The Company awarded 130,000 common shares to a senior executive in 2010 in relation to the IPO. Of this amount, 30,000 shares were awarded for nominal value and had trading restrictions imposed on them for a period of six months. These shares vested immediately upon issuance. The remaining 100,000 shares vest in three equal installments on the first, second and third anniversary of the grant date and also have trading restrictions imposed. The fair value of these shares was determined to be approximately $1,147 based on the Black-Scholes option pricing model.

During the year ended December 31, 2012, an additional 25,000 of the 100,000 shares vested in accordance with an agreement between the Company and the senior executive. Share-based compensation expense was $133 for the year ended December 31, 2012 (2011 – $296) which was recognized in administrative expenses with a corresponding increase in share capital.

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

	Shares Awarded	Weighted Average Exercise Price (dollars)
Balance, January 1, 2011	100,000	n/a
Vested	(33,333)	n/a
Unvested, December 31, 2011	66,667	n/a
Vested	(58,333)	n/a
Unvested, December 31, 2012	**8,334**	**n/a**

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

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

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

17. EMPLOYEE BENEFITS

Payroll costs for all employees including key management consist of:

	2012	2011
Salaries and short-term employee benefits	**197,960**	184,899
Defined contribution pension benefits	**4,265**	4,084
Termination benefits	**389**	343
Share-based compensation	**761**	296
	203,375	189,622

18. KEY MANAGEMENT COMPENSATION

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

	2012	2011
Salaries and short-term employee benefits	**1,853**	2,524
Share-based compensation	**761**	296
	2,614	2,820

19. COMMITMENTS

The Company has a ten-year operating 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 operating leases are as follows:

2013	556
2014	450
2015	379
2016	3
2017	–
Thereafter	–
	1,388

On June 22, 2010, the Company announced an agreement to acquire 88 LTC licences from Christie Gardens Apartments and Care Inc., conditional on approval by the MOHLTC. These licences are in the Toronto area and will increase the total number of the Company's LTC beds by approximately 2%. According to the terms of the agreement, the licences will be acquired by March 31, 2013 at a cost of $2,200. No licences were acquired under the terms of this agreement in the years ended December 31, 2012 and December 31, 2011.

20. CONSTRUCTION FUNDING RECEIVABLE

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 funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care communities for the remaining period. As of December 31, 2012, the condition for the funding has been met.

As at December 31, 2012, the Company will receive gross funding from the Ontario government of approximately $93,767 (2011 – $93,347) related to the construction costs of LTC homes. The amounts are non-interest bearing and will be received for certain LTC homes for various periods ending over the next 14 years.

The construction funding receivable is initially recorded at estimated fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates. Included in net finance charges is interest income on the construction funding receivable of $3,060 for the year ended December 31, 2012 (2011 – $3,111).

21. TRUST FUNDS

The Company maintains separate trust accounts on behalf of its LTC home residents, which are not included in these consolidated financial statements. The total balance in the trust bank accounts as at December 31, 2012 was $996 (2011 – $957).

22. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, 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 year ended December 31, 2012 was $1,939 (2011 – $1,899). Included in accounts receivable is $71 owing from Spencer House Inc. at December 31, 2012 (2011 – $12). 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. These amounts are due on demand and are non-interest bearing.

As at December 31, 2012, the Company has amounts outstanding from certain key executives of $74 (2011 – $nil) (Note 16) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

23. ECONOMIC DEPENDENCE

The Company holds licences related to each of its LTC homes and receives funding from the MOHLTC related to these licences. Funding is received on or about the 22nd of each month. During the year ended December 31, 2012, the Company received approximately $204,328 (2011 – $200,596), in respect of these licences for operating revenues and other MOHLTC funded initiatives.

24. EXPENSES BY NATURE

	2012	2011
Salaries, benefits and people costs	**211,303**	198,027
Depreciation and amortization	**27,900**	32,666
Food	**12,929**	11,743
Property taxes	**10,151**	9,676
Utilities	**7,940**	8,504
Impairment loss	**2,697**	–
Other	**34,617**	30,648
Total expenses	**307,537**	291,264

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

25. SEGMENTED INFORMATION

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

The Company is comprised of the following main business segments:

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

The significant accounting policies of the reportable operating segments are the same as those disclosed in Note 3.

				Year Ended December 31, 2012	
	Long-term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**290,307**	**20,444**	**16,221**	**23,639**	**350,611**
Less: Internal revenue	**5,484**	**–**	**2,205**	**23,639**	**31,328**
Net revenue	**284,823**	**20,444**	**14,016**	**–**	**319,283**
Income (loss) from operations before the undernoted	**45,031**	**8,630**	**2,676**	**(13,994)**	**42,343**
Depreciation of property and equipment	**14,654**	**4,298**	**2**	**–**	**18,954**
Amortization of intangible assets	**3,092**	**4,818**	**1,036**	**–**	**8,946**
Finance costs	**18,735**	**4,201**	**–**	**–**	**22,936**
Finance income	**(3,586)**	**(706)**	**–**	**(64)**	**(4,356)**
Impairment loss	**2,697**	**–**	**–**	**–**	**2,697**
Income tax expense	**–**	**–**	**–**	**2,300**	**2,300**
Net income (loss)	**9,439**	**(3,981)**	**1,638**	**(16,230)**	**(9,134)**
Purchase of property and equipment	**1,275**	**141**	**–**	**–**	**1,416**
Purchase of intangible assets	**435**	**–**	**–**	**–**	**435**

	Year Ended December 31, 2011				
	Long-term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Gross revenue	278,862	6,964	13,192	19,877	318,895
Less: Internal revenue	6,605	–	2,306	19,877	28,788
Net revenue	272,257	6,964	10,886	–	290,107
Income (loss) from operations before the undernoted	41,647	2,045	2,247	(14,430)	31,509
Depreciation of property and equipment	15,019	2,358	1	–	17,378
Amortization of intangible assets	13,190	1,061	1,037	–	15,288
Finance costs	17,035	2,729	–	–	19,764
Finance income	(3,232)	–	–	(142)	(3,374)
Income tax recovery	–	–	–	(5,570)	(5,570)
Net income (loss)	(365)	(4,103)	1,209	(8,718)	(11,977)
Purchase of property and equipment	830	160	8	–	998
Purchase of intangible assets	575	–	–	–	575

	As at December 31, 2012				
	Long-term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Total assets	**477,757**	**256,740**	**8,884**	**686**	**744,067**
Goodwill	**84,945**	**–**	**6,521**	**–**	**91,466**
Intangible assets	**79,754**	**15,489**	**245**	**–**	**95,488**

	As at December 31, 2011				
	Long-term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Total assets	528,927	105,601	9,669	354	644,551
Goodwill	84,945	–	6,521	–	91,466
Intangible assets	81,377	3,715	1,281	–	86,373

26 COMPARATIVE FIGURES

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

Leisureworld's Board of Directors is committed to the highest standards in corporate governance. The duties and responsibilities of the Board of Directors are clearly separated from those of Leisureworld's management and do not include the day-to-day operation of the Company's business. Members of the Board of Directors are selected for the skills and experience they bring and are elected by the shareholders. The Board operates as a whole in ensuring the effective and ethical stewardship of the Company. In addition, the Board operates through two important committees: i) the Compensation, Nominating and Governance Committee (John McLaughlin, Chair), and ii) the Audit Committee (Janet Graham, Chair). Dino Chiesa serves as Chairman of Leisureworld's Board of Directors and currently serves as interim CEO of the Company.

Leisureworld's Compensation, Nominating and Governance Committee's primary responsibilities include: making recommendations concerning the appointment of executive officers; reviewing and assessing senior management performance and compensation, including that of the Chief Executive Officer; making recommendations on the nominations and appointments of new directors; and administering and making recommendations regarding the operation of employee incentive plans.

Leisureworld's Audit Committee's roles and responsibilities are set out in a charter and cover, generally, five functions: the quality and integrity of the Company's financial statements; the internal control and financial reporting systems; the compliance with legal and regulatory requirements in respect of financial disclosure; the qualification, independence and performance of the Company's independent auditors; and the performance of the Chief Financial Officer. To be effective in these duties, the Audit Committee regularly meets separately with the CFO and the independent auditors. It is also empowered to engage outside advisors and experts in the fulfillment of its duties. The Committee also reviews and assesses the adequacy of its charter regularly.

Another important function of the Board of Directors is the dividend policy, which is determined exclusively by the Board. At the time of its March 23, 2010 initial public offering (IPO), Leisureworld set a target dividend payout ratio amounting to less than or equal to 80% of total Adjusted Funds From Operations (AFFO) and totaling $0.85 annually. On November 7, 2012, Leisureworld's Board approved a 5.9% increase to the dividend, representing $0.90 per share on an annualized basis. The increase was effective for Leisureworld's December 2012 dividend.

Further information on Leisureworld's corporate governance practices can be found on the Company's website, its Annual Information Form and other regulatory filings, available via the Company website or at www.sedar.com.

SHAREHOLDER INFORMATION

OFFICERS

Interim Chief Executive Officer
Dino Chiesa

Chief Financial Officer
Manny DiFilippo

Chief Operating Officer
Paul Rushforth

STOCK EXCHANGE LISTING AND TRADING SYMBOL

Leisureworld Senior Care Corporation is listed on the Toronto Stock Exchange under the symbol "LW".

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
100 University Avenue
9th Floor, North Tower
Toronto, Ontario, Canada
M5J 2Y1
Phone: 1-800-564-6253
(toll-free in Canada and the U.S.)
or 514-982-7555 (international direct call)

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on:
Wednesday, April 24, 2013
Design Exchange
234 Bay Street
The Library, 4th Floor
Toronto, ON
Time: 10:00 a.m.