Leisureworld Senior Care Corporation

Financial Report

For the First Quarter Ended March 31, 2012

(In Canadian Dollars)

Leisureworld Senior Care Corporation

Management's Discussion and Analysis
For the First Quarter Ended
March 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 ended March 31, 2012. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the quarter ended March 31, 2012 should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes contained in this financial report and the audited consolidated financial statements and related notes for the year ended December 31, 2011. Additional information relating to the Company is available on SEDAR at www.sedar.com. The information contained in this report reflects all material events up to May 14, 2012, the date on which this report was approved by the Board of Directors of Leisureworld.

As of May 11, 2012 there were 24,490,149 common shares outstanding. No preference shares were outstanding at this time.

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

Forward-looking statements

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

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

Introduction

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

Corporate overview
Leisureworld and its predecessors have been operating since 1972. Leisureworld is the third largest licensed long-term care ("LTC") provider in the Province of Ontario and the largest participant in the Canadian seniors' housing sector that has focused almost exclusively on Ontario LTC. Leisureworld owns and operates 26 LTC homes (representing an aggregate of 4,314 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates three retirement residences ("RR") (representing 323 suites) and one independent living residence ("IL") (representing 53 apartments) in the Province of Ontario. Ancillary businesses of the Company include: Preferred Health Care Services ("PHCS" or "Heath care"), an accredited provider of professional nursing and personal support services for both community based home healthcare and LTC homes; and Ontario Long Term Care ("OLTC"), a provider of purchasing services, as well as dietary, social work, and other regulated health professional services to Leisureworld homes.

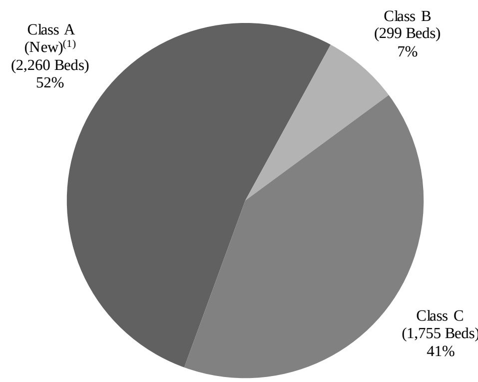
The objectives of Leisureworld are to: (i) provide shareholders with stable monthly dividends derived from revenues generated from income-producing LTC homes, seniors' housing investments and community based services; (ii) enhance the long-term value of the Company's assets and maximize shareholder value;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

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

Business overview

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

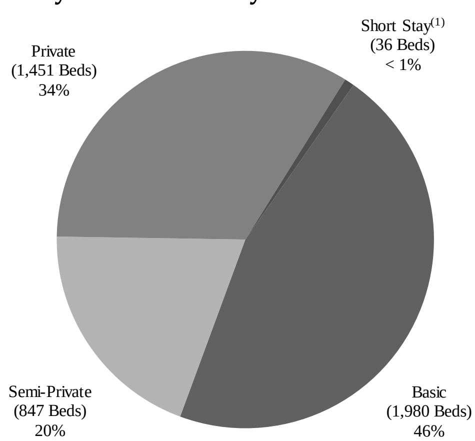
Summary of LTC Beds by Class



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

A significant proportion of Leisureworld's LTC beds are designated as preferred accommodation with approximately 54% of beds designated as private or semi-private accommodation. Approximately 4% of the revenues and 23% of the Net Operating Income ("NOI") (see "Non-IFRS performance measures") from Leisureworld's LTC operations are generated from charging residents the regulated premium of $18.00 and $8.00 per day per bed for private and semi-private accommodation, respectively.

Summary of LTC Beds by Accommodation Type



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

Retirement and independent living residences

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

Leisureworld owns and operates a RR consisting of 29 suites that adjoins the Muskoka LTC home, and one IL residence comprising 53 apartments that is attached to the Scarborough LTC home. These two homes had a combined occupancy of approximately 90% as at March 31, 2012, and are integral to seniors' services provided within their local communities. On April 27, 2011, Leisureworld acquired two additional RRs comprising 294 suites located in Kingston and Kanata, Ontario. 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 March 31, 2012 were 67.6% at Kingston and 58.2% at Kanata. Due to seasonality, we have encountered several discharges in the first quarter of 2012, which is not unexpected, resulting in a virtually unchanged net new lease-up position for the quarter.

As part of the total purchase consideration for the Kingston and Kanata RRs, 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 March 31, 2012, the Company has drawn down $4.1 million of the income support funds. Leisureworld's RRs will have to comply with the requirements of the Retirement Homes Act, as the regulations are phased in over time.

Health Care services

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

Key performance drivers

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

Government funding for LTC facilities ensures stability of cash flow

Ontario's LTC sector is regulated by the MOHLTC according to a defined funding model. This model contributes to the stability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: NPC; PSS; and Other Accommodation. Approximately 70% of revenue from Leisureworld's LTC homes is received from the MOHLTC. Over the past ten years, government funding of Leisureworld's LTC homes has increased in excess of the Consumer Price Index. Leisureworld also receives capital cost funding of $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 and capital tax costs.

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

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

Occupancy levels enhance cash flow

Occupancy is a key driver of Leisureworld's performance. An LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Effective for 2012 the MOH has revised the incremental adjustment to occupancy. For occupancy levels ranging from 90% to 96% the adjustment range is up to 2% over actual occupancy. There are no adjustments to occupancy below the 90% threshold. In 2011 the MOHLTC introduced a policy for homes with occupancy rates above 85% and below 97% to provide funding based on actual occupancy plus 3%. Leisureworld has a strong record of maximizing occupancy. In addition, the supply of LTC beds is controlled and regulated by the MOHLTC, which ensures barriers to entry. For the quarter ended March 31, 2012, Leisureworld's average occupancy for LTC homes was 98.5% (2011 – 98.0%).

Leisureworld's RR that adjoins its Muskoka LTC home, and its IL attached to its Scarborough LTC home, have a combined average occupancy for the quarter ended March 31, 2012 of approximately 90%, and are integral to seniors' services provided within their local communities. For the quarter ended March 31, 2012, the two acquired properties in Kingston and Kanata have combined average occupancy rates of 64.3% and 58.7%, respectively. For Kingston and Kanata, management is targeting a net new average move-in rate of 2.5 per property per month, over a twelve-month period, which will result in achieved occupancy exceeding 90% during the second half of 2013.

Optimization of private accommodation mix increases operating profitability

An LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private accommodation at a regulated premium. The LTC home operator retains the premiums collected for such accommodation, which typically increases revenue and enhances profitability. The premium for a private room is currently $18 per day. Leisureworld has approximately 34% of the beds designated as private accommodation. Private bed average total occupancy for the first quarter of 2012 was 97.4% (2011 – 95.9%).

Disciplined cost management is key to operating profitability

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

Ensuring high-quality care and services to all residents

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

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

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

Ensuring continued maintenance and upgrade of properties

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

Growth strategies of Leisureworld Senior Care Corporation

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

Organic

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

External

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

Non-IFRS performance measures

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

"NOI" is defined as net income (loss) computed in accordance with IFRS, excluding gains or losses from the sale of depreciable real estate and extraordinary items, but before the provision (recovery) of income taxes, amortization, net finance charges, loss (gain) on interest rate swap contracts, and administrative expenses.

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

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

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

Business performance

For the first quarter of 2012, Leisureworld generated NOI of $11,911, an increase of $1,805 or 17.9% from $10,106 in the first quarter a year ago. The LTC portfolio contributed $605 of the increase to NOI, primarily due to greater government funding, lower utility costs and cost constraint measures across the business segment and higher management fees. The Royale LP ("Royale") retirement properties contributed $886 of NOI as it was acquired in the second quarter of 2011, and Health care's NOI increased by $292 primarily due to an increase in personal support contract volumes.

FFO for the quarter was $4,949 compared to $4,083 in the prior year, an increase of $866 or 21.2%. The increase was primarily the result of increased NOI of $1,805 partly offset by increased net finance charges of $569, higher administrative expenses of $255 and a decrease in the add-back for transaction costs of $136. Net finance charges increased by $569, due to the credit facility ("Bridge Loan") related to the acquisition of the retirement properties in Kingston and Kanata. The higher administrative expenses were primarily due to personnel changes, annual wage increases and increased costs associated with recruiting.

AFFO for the quarter increased to $7,141 from $5,162. The increase of $1,979 or 38.3%, was principally attributable to the $997 drawdown of the income support funds in conjunction with the lease-up of the acquired Royale retirement properties and improved FFO of $866.

Net Operating Income

Thousands of dollars

Quarter ended March 31,	**2012**	2011
Net loss	**(2,609)**	(2,864)
Recovery of income taxes	**(786)**	(1,202)
Loss before income taxes	**(3,395)**	(4,066)
Depreciation and amortization	**8,118**	7,562
Net finance charges	**3,814**	3,418
Income from Operations Before the Undernoted	**8,537**	6,914
Administrative expenses	**3,374**	3,192
Net Operating Income (NOI)	**11,911**	10,106

Funds from Operations and Adjusted Funds from Operations

Thousands of dollars, except share and per share data

Quarter ended March 31,	2012	2011
Net Operating Income (NOI)	**11,911**	10,106
Interest income on construction funding receivable	**761**	787
Net finance charges[1]	**(4,300)**	(3,731)
Current income taxes	**(405)**	(452)
Administrative expenses[2]	**(3,321)**	(3,066)
Transaction costs	**303**	439
Funds from Operations (FFO)	**4,949**	4,083
HRIS expense	**(11)**	(52)
Income support	**997**	-
Construction funding principal	**1,395**	1,346
Maintenance capex[3]	**(189)**	(215)
Adjusted Funds from Operations (AFFO)	**7,141**	5,162
Basic FFO per share	**$0.2026**	$0.2040
Basic AFFO per share	**$0.2923**	$0.2579
Weighted average common shares outstanding - Basic [4]	**24,431,175**	20,016,428
Diluted FFO per share	**$0.2021**	$0.2030
Diluted AFFO per share	**$0.2916**	$0.2567
Weighted average common shares outstanding - Diluted [4]	**24,490,149**	20,108,649

Notes:

(1) Net finance charges excluding non-cash interest expense on debentures, construction funding interest income, and non-cash interest income on annuity.

(2) Administrative expenses have been decreased by $53, and $126 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 $219, and $250, respectively for capital expenditures related to the implementation of the new HRIS.

(4) Weighted average common shares outstanding are calculated based on the period of time the shares have been outstanding. Prior MD&A disclosures calculated the share weighting based on months of dividend eligibility.

Quarterly Financial Information
Thousands of dollars, except per share data

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**74,738**	79,028	73,310	70,029	67,740	71,589	68,824	66,785
Operating expenses (excluding depreciation and amortization)	**62,827**	66,961	60,952	58,621	57,634	60,734	58,319	55,878
Administrative expenses	**3,374**	4,682	3,364	3,192	3,192	3,114	2,493	2,962
Income from operations before the undernoted	**8,537**	7,385	8,994	8,216	6,914	7,741	8,012	7,945
Net loss	**(2,609)**	(3,344)	(3,320)	(2,449)	(2,864)	(2,268)	(2,291)	(2,214)
Per share and diluted per share	**(0.11)**	(0.14)	(0.14)	(0.11)	(0.14)	(0.11)	(0.11)	(0.11)
Dividends declared (1)	**5,202**	5,202	5,202	5,202	4,271	4,271	4,271	4,685
Per share and diluted per share	**0.21**	0.21	0.21	0.21	0.21	0.21	0.21	0.23
AFFO	**7,141**	6,754	7,657	7,007	5,162	5,030	5,533	5,538
Per share - basic (2)	**0.29**	0.28	0.31	0.30	0.26	0.25	0.28	0.28
Per share - diluted (2)	**0.29**	0.28	0.31	0.30	0.26	0.25	0.28	0.28

Notes:
(1) All dividends paid by the Company, unless otherwise indicated, are designated as eligible dividends for Canadian tax purposes in accordance with subsection 89(14) of the Income Tax Act (Canada), and any applicable corresponding provincial and territorial provisions.
(2) AFFO per share calculations are based on weighted average shares outstanding, which are calculated based on the period of time the shares have been outstanding. Prior MD&A disclosures calculated the share weighting based on months of dividend eligibility.

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

Following the Company's conversion to IFRS, administrative expenses for the first quarter of 2012, the four quarters of 2011, and the last three quarters of 2010 include transaction costs of $303, $1,630, $131, $263, $449, $9, $26 and $nil respectively.

As a result of the IPO in the quarter ended March 31, 2010, the Company's administrative expenses increased.

A discussion of the quarter ended March 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 ended March 31,	2012	2011
Revenue	**74,738**	67,740
Expenses		
Operating expenses [1]	**62,827**	57,634
Administrative expenses	**3,374**	3,192
	66,201	60,826
Income from operations before the undernoted	**8,537**	6,914
Other expenses		
Depreciation and amortization	**8,118**	7,562
Net finance charges	**3,814**	3,418
Total other expenses	**11,932**	10,980
Loss before income taxes	**(3,395)**	(4,066)
Provision for (recovery of) income taxes		
Current	**405**	452
Deferred	**(1,191)**	(1,654)
	(786)	(1,202)
Net loss	**(2,609)**	(2,864)
Total assets	**641,173**	644,551
Long-term debt	**355,989**	355,399
Average occupancy		
Long-term care	**98.5%**	98.0%
Long-term care - private accommodations	**97.4%**	95.9%
Retirement and independent living [2]	**67.4%**	93.5%

Notes:
(1) Operating expenses excluding depreciation and amortization.
(2) The 2012 retirement and independent living occupancy rates include the addition of the Kingston and Kanata properties. The 2011 occupancy rates only include the Muskoka and Scarborough properties.

Revenue

For the quarter ended March 31, 2012, Leisureworld generated revenue of $74,738 compared to $67,740 in 2011, representing an increase of $6,998 or 10.3%. LTC accounted for $3,562 of the increase, primarily due to a government funding rate increase of approximately 3.1% or $1,763 and incremental funding of approximately $467 related to the case mix index adjustment. As well, there was an increase in revenues of $801 due to the timing of revenue recognition to match spending under the flow-through funding envelopes, partly offset by lower capital funding initiative funding of $268. Retirement revenue accounted for $2,522 of the increase due primarily to the operations of the two retirement residences acquired on April 27, 2011. Health care's external revenue increased by $914, primarily attributable to an increase in personal support contract volumes.

Operating expenses

Operating expenses for the quarter were $62,827, which was $5,193 or 9.0% higher than the $57,634 in the first quarter a year ago. LTC expenditures increased by $2,957 compared to the prior year. The increase is attributable to expenses incurred as a result of the increased funding of $3,115, higher dietary service costs of $360 following the implementation of increased regulatory requirements last year, higher property maintenance costs of $93 and increased laundry expense of $93. This was partly offset by lower property administration costs of $601. Retirement operating expenses for the quarter increased by $1,614, attributable to the operations of the two acquired retirement residences in the second quarter of 2011. During the quarter ended March 31, 2012, Health care's operating expenses increased by $639, principally related to higher volume of personal support contracts associated with the higher revenues.

Administrative expenses

For the first quarter ended March 31, 2012 administrative expenses were $3,374 compared to $3,192 in 2011, representing an increase of $182 or 5.7%. The increase was principally related to higher personnel related costs of $185. This increase includes personnel changes, annual wage increases and increased costs associated with recruiting.

Depreciation and amortization

Depreciation and amortization increased from $7,562 in the first quarter of 2011 to $8,118 in the current quarter. The increase of $556 was primarily attributable to depreciation on the Royale property and equipment which totalled $503 in the quarter. As the Royale assets were purchased in the second quarter of 2011, there was no corresponding charge in the comparative quarter. Amortization was marginally unfavourable to the prior years' comparable quarter as decreased amortization on resident relationships from the LTC portfolio was offset by effect of the Royale portfolio acquired in the second quarter of 2011. The main components of depreciation and amortization charges are property and equipment of $4,496, resident relationships of $3,349, and service contracts of $257.

Net finance charges

For the quarter, net finance charges totalled $3,814, a $396 increase from $3,418 for the quarter ended March 31, 2011. The increase was due to higher interest expense on long-term debt of $462 primarily relating to the incremental interest paid on the Bridge Loan, higher net settlement payments on interest rate swap contracts of $135 and increased amortization of deferred financing charges and the amortization of fair value increments of approximately $72. This was partly offset by a gain on the interest swap contracts of $315 compared to $44 in the first quarter of 2011. The increase in the gain is due to the mark to market adjustment on the swap related to the Royale, which only came into effect in the second quarter of 2011 as part of the property acquisition.

Income taxes

Current income taxes have been calculated at the corporate tax rate of 26.25% based on taxable income for the quarter. The income tax recovery for the quarter ended March 31, 2012 was $786, a decrease of $416 compared to the first quarter of 2011. The change was due to a lower deferred income tax recovery of $463 recorded in the quarter related to timing of recognition of temporary differences partly offset by a lower current tax provision of $47.

Net loss

For the quarter ended March 31, 2012, the net loss was $2,609 compared to $2,864 in the same quarter of the prior year. The improvement in the net loss position was the result of improved income from operations. This was partly offset by higher expenses associated with the timing of the Royale acquisition, primarily related to depreciation and amortization and financing costs. As well, there was a lower recovery of income taxes in the quarter.

Liquidity and capital resources

Leisureworld reported a cash and cash equivalents balance of $28,636 as at March 31, 2012. The changes in cash and cash equivalents for the quarters ended March 31, 2012 and 2011 are as follows:

Quarter ended March 31,	**2012**	2011
Cash flow from operations before non-cash working capital items	**8,185**	6,587
Non-cash changes in working capital	**2,554**	(2,262)
Cash provided by (used in):		
Operating activities	**10,739**	4,325
Investing activities	**1,796**	1,689
Financing activities	**(5,820)**	(4,333)
Increase in cash and cash equivalents	**6,715**	1,681

Operating activities

For the quarter ended March 31, 2012, cash flow from operations before non-cash changes in working capital totalled $8,185, compared to $6,587 in the first quarter a year ago. During the quarter, non-cash changes in working capital generated $2,554 of operating cash, compared to using $2,262 in the same period in the prior year. During the current quarter, the source of cash was attributable to the change in net government funding of $1,257, receipt of the income support associated with the Royale acquisition of $997, lower accounts receivable and other assets of $724 and an increase in accounts payable and accrued liabilities of $538. This was partly offset by a use of cash associated with prepaid expense and deposits in the quarter. The lower accounts receivables are primarily due to timing of receipts.

For the same quarter of the prior year, cash flow from operations before non-cash changes to working capital items totalled $6,587. Non-cash changes to working capital used $2,262 of operating cash. The use of cash was attributable to the income tax payments related to the completion of the first taxable year of the Company. Other uses of cash included lower accounts payable and accrued liabilities, timing of prepaid expenses and deposits and an increase in accounts receivables and other assets. Accounts payable and accrued liabilities decreased by $1,870 due to lower trade payables of $1,311 and a reduction in payroll related accruals of $914, partly offset by an increase in property tax accruals of $349, all due to timing.

Investing activities

For the quarter, investing activities provided $1,796 of cash. These funds were primarily received from construction funding of $2,156 partly offset by investments in property and equipment of $189 and intangible assets of $219 principally related to Human Resource Information System ("HRIS") project costs.

For the comparative quarter ended March 31, 2011, investing activities provided $1,689 of cash. During the quarter, the Company received $2,133 in construction funding, used cash for investments in capital expenditures totalling $339 and capitalized costs related to HRIS of $126.

Financing activities

During the first quarter of 2012, financing activities used cash of $5,820. The Company made dividend payments of $5,202, interest payments on long-term debt of $421, and net settlement payments of $197 on the interest rate swap contracts. The dividend payments increased on a year over year basis as a result of the equity issued in the second quarter of 2011 associated with the Royale acquisition.

For the comparative quarter ended March 31, 2011, the Company used $4,333 of cash for financing activities. During the quarter, the Company made dividend payments of $4,271, and had a net settlement payment of $62 on the interest rate swap contract.

Capital resources

Leisureworld's debt as at March 31, 2012 was $355,989 compared to $355,399 as at December 31, 2011. The increase of $590 relates to the accretion of the fair value increment from the purchase price allocation of the Series A Senior Secured Notes due November 24, 2015 and accretion of deferred financing charges on the debt raised to acquire the retirement properties of the Royale. As at March 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.

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. As at March 31, 2012, total capital commitments outstanding were $427 relating to the purchase of software.

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.

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

Contractual obligations and other commitments

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

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

On April 27, 2011, the Company entered into the Bridge Loan to finance the acquisition of the retirement properties in Kingston and Kanata, which bears interest at 187.5 basis points ("bps") per annum over the floating 30-day bankers' acceptance ("BA") rate. The Bridge Loan is secured by the assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the Bridge Loan, entered into an interest rate swap contract to effectively fix the interest rate at 4.045%. The Company is not applying hedge accounting.

Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year. Interest expense on the 2015 Notes in the quarter ended was $4,273 (2011 - $4,198), which includes non-cash interest of $552 (2011 - $518). Interest on the Bridge Loan is payable monthly, the interest expense on the Bridge Loan in the quarter end was $459 (2011 – $nil).

Leisureworld has a revolving credit facility with a Canadian chartered bank collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships, which it can access for working capital purposes. The facility bears interest on cash advances at 150 bps per annum over the floating BA rate (30, 60, 90 days), or at 50 bps per annum over prime rate and on letters of credit at 150 bps per annum. As at March 31, 2012, the Company had no claims outstanding against the credit facility.

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

	Operating Leases	Long-Term Debt	Licences Purchase Commitment	Total
2012	471	-	-	**471**
2013	505	55,000	2,200	**57,705**
2014	412	-	-	**412**
2015	361	310,000	-	**310,361**
2016	-	-	-	-
Thereafter	-	-	-	-
	1,749	**365,000**	**2,200**	**368,949**

Acquisitions

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

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

To partly finance the purchase price, the Company entered into a two-year Bridge Loan with a Canadian chartered bank in the amount of $55,000. 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 entered into an interest rate swap contract to substantially fix the interest rate payable on the Bridge Loan at 4.045%. 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 January 12, 2012, the Company entered into an agreement to acquire the Madonna Long-Term Care Residence, a 160 bed, "A" Class home in Orleans, Ontario, a suburb of Ottawa. The purchase transaction is for $20,100, comprised of $13,400 for the operating business and approximately $6,700 of construction funding. Incremental expenses for transaction and land transfer costs are expected to be approximately $1,100. This transaction is subject to approval by the MOHLTC and the Local Health Integration Network. The transaction is expected to close in 2012.

On April 26, 2012, Leisureworld announced that it has entered into acquisition agreements to acquire three luxury retirement residences in the Greater Vancouver Area (the "GVA") in British Columbia (the "Acquisition"). The aggregate purchase price is $119,750 net of a mark to market adjustment on assumed debt and excluding a performance-based earn-out of up to $6,000. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, the Company also announced an agreement to sell, on a bought-deal basis, $49,044 of subscription receipts ("Subscription Receipts") at a price of $12.05 per Subscription Receipt, and issue 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 will be financed through short-term bridge financing based on floating rates.

As one of the residences is currently in the lease-up phase, the aggregate purchase price includes an income guarantee of $2,030 for a three-year term to be held in escrow and used by the Company to complement cash flow from this residence in accordance with the terms of the Acquisition. The income guarantee is intended to supplement after-tax net operating income ("NOI") during the remaining lease-up period to a stabilized after-tax NOI.

Related party transactions

Leisureworld 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 quarters ended March 31, 2012 and 2011 was $480 and $473, respectively. Included in accounts receivable was $65 owed by Spencer House Inc. at the end of the quarter (December 31, 2011 - $12). These transactions are in the normal course of operations and have been valued in the condensed interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

Capital disclosure

The Company defines its capital as the total of its long-term debt, shareholders' equity and 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 are collateralized by all assets of LSCLP and the subsidiary partnerships totalling $508,069 as at March 31, 2012 and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The two-year credit facility ("Bridge Loan") is secured by the assets of Royale guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of March 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 quarter.

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

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

Critical accounting estimates and accounting policies

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

Accounting standards issued but not yet applied

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

Risks and uncertainties

The Company's Annual Information Form dated March 19, 2012 and our Management's Discussion and Analysis filed for the year ended December 31, 2011 contain a detailed discussion of the risk and uncertainties that could affect the Company. There have been no changes or updates since the filings, with the exception of the risk associated with the April 26, 2012 acquisition announcement.

On April 26, 2012 the Company entered into acquisition agreements to acquire three retirement properties in the Province of British Columbia. 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 with 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 residents.

Disclosure controls and procedures and internal controls over financial reporting

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

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

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

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

Outlook

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

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

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

Leisureworld Senior Care Corporation

Condensed Interim Consolidated Financial Statements

For the First Quarter Ended March 31, 2012

(Unaudited)

(In Canadian Dollars)

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

	Notes	(Unaudited) March 31, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	4	**28,636**	21,921
Accounts receivable and other assets	9	**4,840**	5,564
Income support		**1,398**	2,395
Prepaid expenses and deposits		**2,746**	1,639
Government funding receivable		**2,161**	2,440
Construction funding receivable		**5,700**	5,621
Income taxes receivable		**23**	20
		45,504	39,600
Government funding receivable		**48**	163
Construction funding receivable		**68,076**	69,533
Property and equipment		**353,109**	357,416
Intangible assets		**82,970**	86,373
Goodwill		**91,466**	91,466
Total assets		**641,173**	644,551
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	**39,747**	35,331
Government funding payable		**4,610**	4,082
Interest rate swap contracts		**577**	688
		44,934	40,101
Long-term debt	5	**355,989**	355,399
Deferred income taxes	6	**62,937**	64,128
Government funding payable		**4,043**	3,691
Interest rate swap contract		**-**	204
Total liabilities		**467,903**	463,523
SHAREHOLDERS' EQUITY			
Share capital		**233,260**	233,207
Deficit		**(59,990)**	(52,179)
Total shareholders' equity		**173,270**	181,028
Total liabilities and shareholders' equity		**641,173**	644,551

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Leisureworld Senior Care Corporation
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
Thousands of dollars

	Notes	Share Capital	Deficit	Total Shareholders' Equity
Balance, December 31, 2010		188,517	(20,326)	168,191
Net loss and comprehensive loss		-	(2,864)	(2,864)
Share-based compensation		125	-	125
Dividends	7	-	(4,271)	(4,271)
Balance, March 31, 2011		188,642	(27,461)	161,181

	Notes	**Share Capital**	**Deficit**	**Total Shareholders' Equity**
Balance, December 31, 2011		**233,207**	**(52,179)**	**181,028**
Net loss and comprehensive loss		**-**	**(2,609)**	**(2,609)**
Share-based compensation		**53**	**-**	**53**
Dividends	**7**	**-**	**(5,202)**	**(5,202)**
Balance, March 31, 2012		**233,260**	**(59,990)**	**173,270**

See accompanying notes.

Leisureworld Senior Care Corporation

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

Thousands of dollars, except share and per share data

Quarter ended March 31,	Notes	**2012**	2011
Revenue	9, 10	**74,738**	67,740
Expenses			
Operating		**70,945**	65,196
Administrative		**3,374**	3,192
	11	**74,319**	68,388
Income (loss) from operations		**419**	(648)
Finance costs	5	**4,938**	4,271
Finance income	5	**(1,124)**	(853)
Net finance charges		**3,814**	3,418
Loss before income taxes		**(3,395)**	(4,066)
Provision for (recovery of) income taxes			
Current	6	**405**	452
Deferred	6	**(1,191)**	(1,654)
		(786)	(1,202)
Net loss and comprehensive loss attributable to shareholders		**(2,609)**	(2,864)
Basic and diluted loss per share		**($0.11)**	($0.14)
Weighted average number of common shares outstanding		**24,431,175**	20,016,428

See accompanying notes.

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

Quarter ended March 31,	**2012**	2011
OPERATING ACTIVITIES		
Net loss	**(2,609)**	(2,864)
Add (deduct) items not affecting cash		
Depreciation of property and equipment	**4,496**	4,001
Amortization of intangible assets	**3,622**	3,561
Deferred income taxes	**(1,191)**	(1,654)
Share-based compensation	**53**	125
Net finance charges	**3,814**	3,418
	8,185	6,587
Non-cash changes in working capital		
Accounts receivable and other assets	**724**	(227)
Prepaid expenses and deposits	**(959)**	(756)
Income taxes payable/receivable	**(3)**	(2,113)
Accounts payable and accrued liabilities	**538**	(1,870)
Income support	**997**	-
Government funding, net	**1,257**	2,704
Cash provided by operating activities	**10,739**	4,325
INVESTING ACTIVITIES		
Purchase of property and equipment	**(189)**	(339)
Purchase of intangible assets	**(219)**	(126)
Amounts received from construction funding	**2,156**	2,133
Interest received from cash and cash equivalents	**48**	21
Cash provided by investing activities	**1,796**	1,689
FINANCING ACTIVITIES		
Net settlement payment on interest rate swap contracts	**(197)**	(62)
Interest paid on long-term debt	**(421)**	-
Dividends paid	**(5,202)**	(4,271)
Cash used in financing activities	**(5,820)**	(4,333)
Increase in cash and cash equivalents during the period	**6,715**	1,681
Cash and cash equivalents, beginning of period	**21,921**	14,618
Cash and cash equivalents, end of period	**28,636**	16,299
Supplementary information		
Income taxes paid	**408**	2,815

See accompanying notes.

1 Organization

Leisureworld Senior Care Corporation ("Leisureworld" or the "Company") was incorporated under the laws of the Province of Ontario on February 10, 2010 and was continued under the laws of the Province of British Columbia on March 18, 2010. The Company closed its Initial Public Offering ("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 were acquired by the Company's subsidiary, The Royale LP ("Royale").

Leisureworld and its predecessors have been operating since 1972. The Company's head office is located at 302 Town Centre Blvd., Markham, Ontario, L3R 0E8. Leisureworld owns and operates 26 long-term care ("LTC") homes (representing an aggregate of 4,314 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates three retirement residences ("RR") (representing 323 suites) and one Independent Living residence ("IL") (representing 53 apartments) in the Province of Ontario. Ancillary businesses of the Company include Preferred Health Care Services ("PHCS"), an accredited provider of professional nursing and personal support services for both community-based home health care and LTC homes.

The Company is a public company listed on the TSX.

2 Basis of preparation

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

The interim consolidated financial statements were approved by the Board of Directors for issue on May 14, 2012.

3 Summary of significant accounting policies, judgments and estimation uncertainty

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

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

4 Cash and cash equivalents

	March 31, 2012	December 31, 2011
Cash	**14,773**	16,082
Cash equivalents	**13,863**	5,839
Cash and cash equivalents	**28,636**	21,921

5 Long-term debt

	Interest rate	**Maturity date**	**March 31, 2012**	December 31, 2011
Series A Senior Secured Notes	4.814%	November 24, 2015	**301,151**	300,599
Bridge Loan	Floating	April 26, 2013	**54,838**	54,800
			355,989	355,399

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

The 2015 Notes may be redeemed in whole or in part at the option of the Company at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the 2015 Notes. The redemption price is the greater of: (i) the face amount of the 2015 Notes to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such 2015 Notes equal to the Canada Yield Price plus 0.18%, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.25%. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year.

On April 27, 2011, the Company entered into a two year credit facility agreement ("Bridge Loan") for $55,000 to finance the acquisition of the Royale properties, which bears interest at 187.5 basis points ("bps") per annum over the floating 30-day bankers' acceptance 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.

Interest expensed on the long-term debt for the quarter ended March 31, 2012 was $4,732 (2011 - $4,198) which includes non-cash interest of $590 (2011 - $518).

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

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

Quarter ended March 31,	**2012**	2011
Finance costs		
Interest expense on long-term debt	**4,142**	3,680
Interest expense and fees on revolving credit facility	**9**	11
Accretion of the fair value increment on long-term debt	**552**	518
Amortization of deferred financing charges	**38**	-
Net settlement payment on interest rate swap contracts	**197**	62
	4,938	4,271
Finance income		
Interest income on construction funding receivable	**761**	788
Other interest income	**48**	21
Gain on interest rate swap contracts	**315**	44
	1,124	853
Net finance charges	**3,814**	3,418

6 Income taxes

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

Quarter ended March 31,	**2012**	2011
Loss before income taxes	**(3,395)**	(4,066)
Canadian combined income tax rate	**26.25%**	28.30%
Income tax recovery	**(891)**	(1,151)
Adjustments to income tax provision:		
Non-deductible items	**19**	41
Other items	**86**	(92)
Income tax recovery	**(786)**	(1,202)

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

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at December 31, 2011	(58,695)	(9,013)	3,010	4,599	(4,029)	(64,128)
Credit (charge) to net loss	674	911	(234)	(200)	40	1,191
As at March 31, 2012	**(58,021)**	**(8,102)**	**2,776**	**4,399**	**(3,989)**	**(62,937)**

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

	March 31, 2012	December 31, 2011
Within one year	**(2,967)**	**(2,202)**
One to four years	**(10,133)**	**(9,616)**
After four years	**(49,837)**	**(52,310)**
Total	**(62,937)**	**(64,128)**

7 Dividends

The Company paid dividends at $0.0708 per month per common share totalling $5,202 for the quarter ended March 31, 2012 (2011 - $4,271). Dividends of $1,734 are included in accounts payable and accrued liabilities as of March 31, 2012 (December 31, 2011 - $1,734). Subsequent to March 31, 2012, the Board of Directors declared dividends of $0.0708 per common share for April and May 2012 totalling $3,468. These dividends are not included in accounts payable and accrued liabilities.

8 Key management compensation

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

Quarter ended March 31,	**2012**	2011
Salaries and short-term employee benefits	**526**	513
Share-based compensation	**53**	125
	579	638

9 Related party transactions

During the quarter ended March 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

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

Company has been contracted to manage the operations of Spencer House Inc. Total revenue for the quarter ended March 31, 2012 was $480 (2011 - $473). Included in accounts receivable is $65 owing from Spencer House Inc. at March 31, 2012 (December 31, 2011 - $12). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

10 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the Ministry of Health and Long-Term Care ("MOHLTC") related to these licences. Funding is received on or about the 22nd of each month. During the quarter ended March 31, 2012, the Company received approximately $51,302 (2011 - $49,540), in respect of these licences for operating revenues and other MOHLTC funded initiatives.

11 Expenses by nature

Quarter ended March 31,	**2012**	2011
Salaries, benefits and people costs	**49,883**	45,925
Depreciation and amortization	**8,118**	7,562
Food	**2,972**	2,676
Property taxes	**2,463**	2,382
Utilities	**2,355**	2,650
Other	**8,528**	7,193
Total expenses	**74,319**	68,388

12 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.

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

The Company is comprised of the following main business segments:

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

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

	Quarter Ended March 31, 2012				
	Long-Term Care	**Retirement**	**Health Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**69,991**	**2,801**	**3,819**	**5,202**	**81,813**
Less: Internal revenue	**1,371**	**-**	**502**	**5,202**	**7,075**
Net revenue	**68,620**	**2,801**	**3,317**	**-**	**74,738**
Income (loss) from operations before the undernoted	**10,201**	**1,011**	**699**	**(3,374)**	**8,537**
Depreciation of property and equipment	**3,732**	**764**	**-**	**-**	**4,496**
Amortization of intangible assets	**2,964**	**398**	**260**	**-**	**3,622**
Finance costs	**4,273**	**665**	**-**	**-**	**4,938**
Finance income	**(809)**	**(251)**	**-**	**(64)**	**(1,124)**
Income tax recovery	**-**	**-**	**-**	**(786)**	**(786)**
Net income (loss)	**41**	**(565)**	**439**	**(2,524)**	**(2,609)**
Purchase of property and equipment	**171**	**16**	**2**	**-**	**189**
Purchase of intangible assets	**219**	**-**	**-**	**-**	**219**

	As at March 31, 2012				
	Long-Term Care	**Retirement**	**Health Care**	**Corporate, Eliminations and Other**	**Total**
Total assets	**526,949**	**103,507**	**9,595**	**1,122**	**641,173**
Goodwill	**84,603**	**342**	**6,521**	**-**	**91,466**
Intangible assets	**78,631**	**3,317**	**1,022**	**-**	**82,970**

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

	Quarter Ended March 31, 2011				
	Long-Term Care	Retirement	Health Care	Corporate, Eliminations and Other	Total
Gross revenue	66,720	279	2,888	4,271	74,158
Less: Internal revenue	1,662	-	485	4,271	6,418
Net revenue	65,058	279	2,403	-	67,740
Income (loss) from operations before the undernoted	9,596	103	407	(3,192)	6,914
Depreciation of property and equipment	3,747	254	-	-	4,001
Amortization of intangible assets	3,302	-	259	-	3,561
Finance costs	4,199	72	-	-	4,271
Finance income	(809)	-	-	(44)	(853)
Income tax recovery	-	-	-	(1,202)	(1,202)
Net income (loss)	(843)	(223)	148	(1,946)	(2,864)
Purchase of property and equipment	339	-	-	-	339
Purchase of intangible assets	126	-	-	-	126

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

13 Subsequent event

On April 26, 2012, Leisureworld announced that it has entered into acquisition agreements to acquire three luxury retirement residences in the Greater Vancouver Area in British Columbia (the "Acquisition"). The aggregate purchase price is $119,750 net of a mark to market adjustment on assumed debt and excluding a performance-based earn-out of up to $6,000. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, the Company also announced an agreement to sell, on a bought-deal basis, $49,044 of subscription receipts ("Subscription Receipts") at a price of $12.05 per Subscription Receipt, and issue 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 will be financed through short-term bridge financing based on floating rates.

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.

14 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.