Leisureworld Senior Care Corporation

Financial Report

Quarter Ended March 31, 2013

(In Canadian Dollars)

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

For the Quarter Ended March 31, 2013

(In Canadian Dollars)

The following Management's Discussion and Analysis ("MD&A") for Leisureworld Senior Care Corporation ("LSCC") summarizes the financial results for the quarter ended March 31, 2013. Unless otherwise indicated or the context otherwise requires, "Company" or "Leisureworld" refers to LSCC and its direct and indirect subsidiary entities. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the quarter ended March 31, 2013 should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes contained in this financial report and the audited consolidated financial statements and related notes for the year ended December 31, 2012. Additional information relating to the Company is available on SEDAR at www.sedar.com. This MD&A is dated as of May 14, 2013, the date on which this report was approved by the Board of Directors of Leisureworld and reflects all material events up to that date.

The Company is a public company listed on the Toronto Stock Exchange (the "TSX"), under the symbol LW. As of May 13, 2013, the following securities of LSCC were outstanding: 29,282,324 common shares; 6,353,750 subscription receipts, each representing the right to receive one common share; and $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures which, in the aggregate, are convertible into 2,746,269 common shares.

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

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

Corporate Profile

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

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

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

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

Company's assets and maximize shareholder value; and (iv) expand the asset base of the Company through accretive acquisitions and construction of new LTC and seniors' living homes and other healthcare related business opportunities.

Industry Overview

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

Business Overview

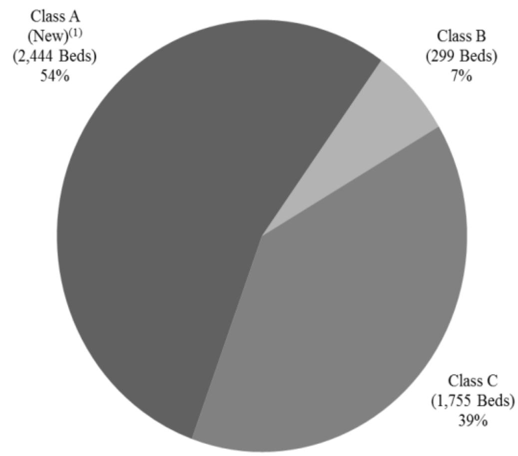
Long-term care

Leisureworld's LTC portfolio generates 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. Leisureworld is well positioned to capitalize on the redevelopment of the Class B and Class 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 25% 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 regulated premium 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.

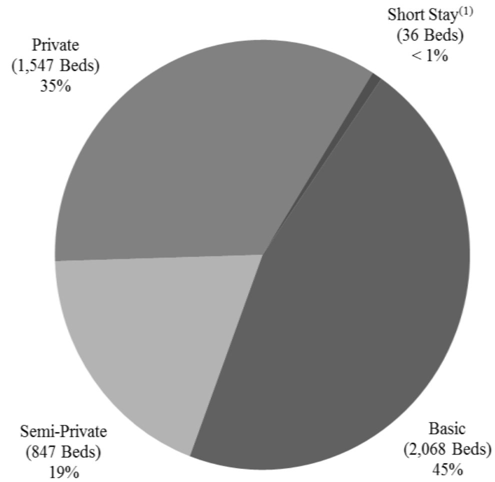
On July 16, 2012, the Company completed the acquisition of the Madonna Long-Term Care Residence ("Madonna") in Orleans, Ontario. Built in 2007, Madonna is a 160 bed Class A home. The total net purchase price was $3,035, which was net of working capital adjustments and an assumed mortgage of $15,718.

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, provides approximately 7% of the net revenues, while providing approximately 15% of the NOI for the Company.

On April 27, 2011, Leisureworld acquired two RRs comprising 294 suites located in Kingston and Kanata, Ontario, (the "Ontario Portfolio"). These residences are new luxury retirement living properties featuring top quality amenities and services. Leisureworld has branded these properties as 'The Royale'. As new properties, both residences are currently in the lease-up period. Occupancy rates as at March 31, 2013 were 68.4% at Kingston and 68.4% at Kanata.

On May 24, 2012, the Company completed the purchase of three luxury retirement properties in the Greater Vancouver Area of British Columbia, which have been added to the 'The Royale' branded properties and operate as The Royale Astoria ("Astoria"), The Royale Pacifica ("Pacifica") and The Royale Peninsula ("Peninsula") (together, the "BC Portfolio"). Occupancy rates as at March 31, 2013 were 55.6% for Astoria, 93.1% for Pacifica and 83.5% for Peninsula. The Astoria property was the most recent property to open in the BC Portfolio and is currently in its lease-up period.

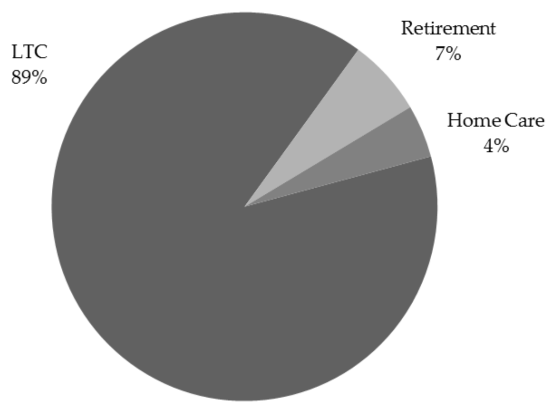
In conjunction with the acquisition of Astoria, the Company put in place a $2,000 three-year income support agreement with the vendor which is held in escrow. As at March 31, 2013, the Company had drawn down $1,500 of the income support funds.

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 March 31, 2013.

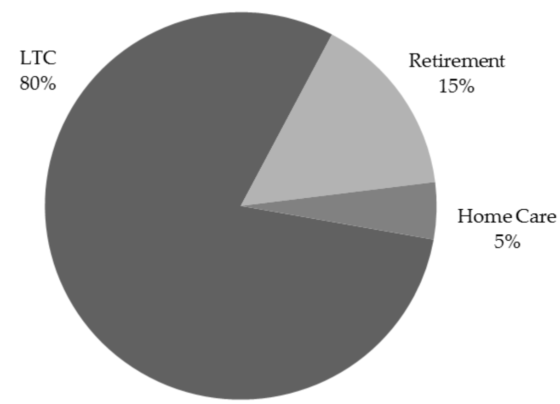
Home Care services

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 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 ensures stability of cash flow

Ontario's LTC sector is regulated and funded by the MOHLTC according to a defined funding model. This model contributes to the stability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: Nursing and Personal Care ("NPC"), Programs and Support Services ("PSS") and Other Accommodations. Approximately 70% of LTC revenue is received from the MOHLTC. Leisureworld also receives capital cost funding of $10.35 per bed, per day from the MOHLTC for Class A homes, as well as payments from residents for both basic and preferred accommodation. Leisureworld also receives structural compliance premiums from the MOHLTC of $2.50 and $1.00, on a per resident per day basis, for Class B and C homes, respectively. Additionally, the MOHLTC provides funding to LTC homes that have been accredited and reimburses up to 85% of property tax costs.

In 2007, the MOHLTC announced plans to establish a capital renewal program that was to provide operators with additional funding to upgrade Ontario's 35,000 Class B and C beds to Class A standards, thereby improving the overall quality and comfort of accommodation available to residents. In April 2009, the MOHLTC published an updated design manual and policy in regard to funding construction costs for the redevelopment of Class B and C LTC homes. The funding for these redevelopment projects will be in the form of a 25-year commitment from the MOHLTC, to pay a specific amount per bed, per day. The amount of funding will depend 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 Ontario Community Care Access Centres ("CCACs"). CCACs were created by the MOHLTC partially to administer publicly funded home care in the Province of Ontario. PHCS holds three CCAC contracts.

Occupancy levels enhance cash flow

Occupancy is a key driver of Leisureworld's performance. A LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. 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. 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, 2013, Leisureworld's average occupancy for LTC homes was 98.7% (2012 – 98.5%).

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 and has converted approximately 24% of the resident base from the grandfathered historic rates to the new prescribed rates. Private bed average total occupancy for the quarter ended March 31, 2013 was 98.7% (2012 – 97.4%).

Leisureworld's IL attached to its Scarborough LTC home, had an average occupancy for the quarter of approximately 98.1%.

For the Ontario retirement portfolio, the combined average occupancy rates for the quarter ended March 31, 2013 was approximately 69.6%. Over the past twelve-month period the Ontario Portfolio has experienced an average net move-in rate below management's expectations. The lower than expected net move-in rate was partly due to high attrition the current economic environment in the local markets, aggressive competitor pricing and marketing campaigns including significant discounting, which were not previously undertaken by management. Management will be taking measures to align rents with market conditions and will be implementing a retirement platform including sales and marketing, lifestyle and operational support functions.

For Astoria, Pacifica and Peninsula, the average occupancy in the quarter was approximately 57.5%, 92.6% and 84.2%, respectively. The Company has in place a $2,000 three-year income support agreement with the vendor which is held in escrow, of which $1,500 had been drawn to the end of March 31, 2013. Management continues with cost management efforts to align with current occupancy levels. Peninsula has experienced some occupancy erosion since its acquisition due to various factors including economic factors related to changes in the local housing markets, aggressive competitor pricing strategies in the immediate territory, and property level management turnover. Management continues to review its pricing, sales and marketing strategies.

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

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 Raw Food ("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 this information exchange 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 redevelopment. 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 accommodation 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 health 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. Also, with the implementation of changes to the retirement operating platform the expected improvements in the retirement occupancy will positively contribute to the Company's organic growth.

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 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 Quarter

NOI - Net Operating Income

The Company had NOI of $13,970, compared to $11,911 last year, reflecting an increase of $2,059 or 17.3%. The LTC portfolio generated $10,434 of NOI compared to $10,201 in the prior year. The increase of $233, or approximately 2.3%, was mainly due to the inclusion of the NOI related to the Madonna acquisition which contributed $141.

The retirement portfolio generated NOI of $2,716, an increase of $1,705 over the same period a year ago. The BC Portfolio contributed $1,449 of the increase, while the Ontario Portfolio had a year over year increase in NOI of $207 as a result of increasing occupancy.

Home Care's NOI of $820 represents an increase of $121 compared to the same period a year ago. The increase was the result of increased contributions from educational services and sales. Increased personal support contract volumes were offset by higher costs associated with staffing to accommodate the increased volumes.

FFO – Funds from Operations

FFO totaled $6,226, compared to $4,949 a year ago, an increase of $1,277, or 25.8%. This increase was primarily the result of improved NOI performance of $2,059 partly offset by the increase in net finance charges of $582. The increase in net finance charges relates to interest on long-term debt that was used to finance the BC Portfolio acquisition. General and administrative expenses, net of transaction costs, were marginally higher as a result of consulting related expenses.

AFFO – Adjusted Funds from Operations

The Company generated AFFO of $8,180, compared to $7,141 last year. The increase of $1,039, or 14.5%, was principally attributable to the higher FFO of $1,277, and an add-back of the deferred share unit compensation of $428, partly offset by $659 of lower income support and a higher maintenance capex of $150. The decrease in income support was due to the full utilization of the escrow amount related to the Ontario Portfolio in the third quarter of last year.

Net Operating Income

Thousands of dollars

	Quarter	
	2013	2012
Net loss	**(1,362)**	(2,609)
Recovery of income taxes	**(320)**	(786)
Loss before income taxes	**(1,682)**	(3,395)
Depreciation and amortization	**7,100**	8,118
Net finance charges	**4,384**	3,814
Income from Operations Before the Undernoted	**9,802**	8,537
Administrative expenses	**4,168**	3,374
Net Operating Income (NOI)	**13,970**	11,911

Funds from Operations and Adjusted Funds from Operations

Thousands of dollars, except share and per share data

	Quarter	
	2013	2012
Net Operating Income (NOI)	**13,970**	11,911
Interest income on construction funding receivable	**757**	761
Net finance charges[1]	**(4,882)**	(4,300)
Current income taxes	**(455)**	(405)
Administrative expenses[2]	**(4,163)**	(3,321)
Transaction costs	**999**	303
Funds from Operations (FFO)	**6,226**	4,949
HRIS expense	**-**	(11)
Deferred share unit plan compensation	**428**	-
Income support	**338**	997
Construction funding principal	**1,527**	1,395
Maintenance capex[3, 4]	**(339)**	(189)
Adjusted Funds from Operations (AFFO)	**8,180**	7,141
Basic FFO per share	**$0.2127**	$0.2026
Basic AFFO per share	**$0.2795**	$0.2923
Weighted average common shares outstanding - Basic	**29,269,949**	24,431,175
Diluted FFO per share	**$0.2127**	$0.2021
Diluted AFFO per share	**$0.2794**	$0.2916
Weighted average common shares outstanding - Diluted	**29,274,671**	24,490,149

Notes:

(1) Net finance charges is reconciled as follows:

Reported Net Finance Charges per Statement of Operations	**4,384**	3,814
Net accretion of fair value adjustments on long-term debt	**(424)**	(552)
Interest income on construction funding receivable	**757**	761
Gain on the interest rate swap contracts	**299**	315
Amortization of deferred financing charges	**(134)**	(38)
Net Finance Charges for FFO	**4,882**	4,300

(2) The presented administrative expenses have been decreased by $5, and $53 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, and $219 respectively for capital expenditures related to the HRIS project.

(4) Maintenance capex for the current quarter excludes redevelopment costs related to the Muskoka property of $597.

Quarterly Financial Information

Thousands of dollars, except per share data

	2013	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**83,704**	85,516	82,939	76,090	74,738	79,028	73,310	70,029
Operating expenses (excluding depreciation and amortization)	**69,734**	70,544	67,546	62,029	62,827	66,961	60,952	58,621
Administrative expenses	**4,168**	3,479	3,872	3,269	3,374	4,682	3,364	3,192
Income from operations before the undernoted	**9,802**	11,493	11,521	10,792	8,537	7,385	8,994	8,216
Net loss	**(1,362)**	(1,347)	(139)	(5,039)	(2,609)	(3,344)	(3,320)	(2,449)
Per share and diluted per share	**(0.05)**	(0.05)	(0.00)	(0.19)	(0.11)	(0.14)	(0.14)	(0.11)
Dividends declared (1)	**6,587**	6,341	6,217	5,879	5,202	5,202	5,202	5,202
Per share and diluted per share	**0.23**	0.22	0.21	0.21	0.21	0.21	0.21	0.21
AFFO (2)	**8,180**	8,289	9,357	9,495	7,141	6,754	7,657	7,007
Per share - basic	**0.28**	0.28	0.32	0.36	0.29	0.28	0.31	0.30
Per share - diluted	**0.28**	0.28	0.32	0.36	0.29	0.28	0.31	0.30

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 unit 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.

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 a Human Resource Information System ("HRIS") project. In the fourth quarter of 2012, the Company paid a one-time bond redemption premium of $1,095 relating to the repurchase and cancellation of bonds with a face value of $15,674 of the Company's outstanding 4.814% Series A Senior Secured Notes due November 24, 2015 (the "2015 Notes").

A discussion of the quarter ended March 31, 2013 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 2013	2012
Revenue	**83,704**	74,738
Expenses		
Operating expenses (1)	**69,734**	62,827
Administrative expenses	**4,168**	3,374
	73,902	66,201
Income from operations before the undernoted	**9,802**	8,537
Other expenses		
Depreciation and amortization	**7,100**	8,118
Net finance charges	**4,384**	3,814
Total other expenses	**11,484**	11,932
Loss before income taxes	**(1,682)**	(3,395)
Provision for (recovery of) income taxes		
Current	**455**	405
Deferred	**(775)**	(1,191)
	(320)	(786)
Net loss	**(1,362)**	(2,609)
Total assets	**744,868**	641,173
Long-term debt	**425,543**	355,989
Average occupancy		
Long-term care (2)	**98.7%**	98.5%
Long-term care - private accommodations (2)	**98.7%**	97.4%
Retirement and independent living (3)	**76.0%**	67.4%

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. Muskoka RR occupancy data has been included in the prior year up to September 30, 2012.

Operating Results for the Quarter

Revenue

Revenue totaled $83,704, compared to $74,738 in the first quarter of 2012, an increase of $8,966 or 12.0%. LTC revenue increased 7.0%, or $4,796, to $73,416. The higher revenue was partly attributable to the acquisition of the Madonna property which had total revenues of $2,746 for the quarter. Same property revenues increased by $2,050 compared to last year. This was primarily the result of incremental flow-through special initiative funding of $697, the change in funding related to high-intensity needs for residents of $669, and the year over year funding rate increases, inclusive of the acuity adjustment, of $380. The funding rate increase was approximately $853 or 1.5%, which was offset by an incremental day of funding in 2012 of approximately $645.

The retirement portfolio generated revenues of $6,529, compared to $2,801 a year ago. The increase of $3,728 was primarily due to the acquisition in May 2012 of the BC Portfolio, which had total revenues for the quarter of $3,501. Also, the Ontario Portfolio had increased revenues of $352 due to higher occupancy levels compared to the prior year.

Home Care's net revenue of $3,759 was approximately 13.3%, or $442, higher than the prior year. Home Care continues to benefit from higher volumes for service contracts, as well, the current year results include an increase in revenues from the educational services and products provided by the division.

Operating expenses

Total operating expenses for the quarter were $69,734, an increase of $6,907, or approximately 11.0%, compared to 2012. LTC expenses totaled $62,982, an increase of $4,563 compared to last year. The Madonna property, acquired in the second half of 2012, had operating expenses of $2,606 in the quarter, with the remaining increase of $1,957 relating to same property expenses. The same property variances were due to increased expenditures related to the flow-through envelopes of $1,684. Other property administration and maintenance expenses were slightly higher than the prior year.

The increase in retirement operating expenses in the quarter arises from the BC Portfolio of $2,052, and the Ontario Portfolio's expenses increase of $145. This was partly offset by reduced operating costs on the Muskoka retirement property.

Home Care's operating expenses increased by $460, or 14.7%, 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 $4,168, compared to $3,374 in the first quarter last year. The $794 increase was primarily due to higher transaction costs of $696, principally related to the proposed Specialty Care acquisition, described below.

Depreciation and amortization

Depreciation and amortization decreased to $7,100 from $8,118 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. This was partly offset by the increase in resident relationship amortization and property and equipment depreciation of $1,383 and $617, respectively, associated with the acquired retirement portfolios. The main components of depreciation and amortization charges are property and equipment of $5,018, resident relationships of $1,832 and service contracts of $231.

Net finance charges

For the quarter, net finance charges were $4,384, compared to $3,814 for the first quarter last year. The $570 increase primarily related to finance charges on the BC Portfolio acquisition of $609. Financing costs of $104 were associated with the Madonna mortgage. This was partly offset by lower interest on the 2015 Notes of $226, as a result of the partial 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 $320, compared to $786 in 2012. Current taxes increased year over year by $50, which related to the timing of acquisitions, partly offset by the corresponding tax shields. The lower recovery of deferred taxes in the quarter arose from the timing of the reversal of certain tax values, primarily related to 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 $1,362 compared to a loss of $2,609 for the comparable period. The $1,247 lower net loss was attributable to increased income from operations of $1,265, primarily the result of the retirement portfolio acquisition last year, and lower depreciation and amortization of $1,018. This was partly offset by increased interest costs related to the acquisitions and lower tax recovery in the period, compared to the prior year.

Liquidity and capital resources

Leisureworld reported a cash and cash equivalents balance of $18,776 as at March 31, 2013. The changes in cash and cash equivalents for the quarters ended March 31, 2013 and 2012 are as follows:

	Quarter	
	2013	2012
Cash flow from operations before non-cash working capital items	**9,825**	8,185
Non-cash changes in working capital	**8,258**	2,554
Cash provided by (used in):		
Operating activities	**18,083**	10,739
Investing activities	**(635)**	1,796
Financing activities	**(8,170)**	(5,820)
Increase in cash and cash equivalents	**9,278**	6,715

Operating activities

For the quarter ended March 31, 2013, cash flow from operations before non-cash changes in working capital totaled $9,825, compared to $8,185 in the first quarter a year ago. Non-cash changes in working capital provided cash of $8,258, compared to $2,554 in the same period last year. Accounts receivable and other assets had a net decrease of $1,552 primarily related to the timing of receivable collections. Increases in prepaid expense and deposit balances were a result of timing of expense recognition. The income tax payable balance remained consistent due to the timing of tax installments offset by the tax provision recorded in the quarter. Accounts payable and accrued liabilities increased by $3,681, 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 $455. The change in net government funding balances of $2,941 was primarily the result of the timing of revenue recognition as it relates to expenditures incurred, as the Company has not had significant adjustments relating to the settlement of prior year balances.

For the quarter ended March 31, 2012, cash flow from operations before non-cash changes in working capital totaled $8,185. During the quarter, non-cash changes in working capital generated $2,554 of operating cash. During the 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 Ontario Portfolio 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 receivable are primarily due to the timing of receipts.

Investing activities

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

For the same quarter last year, 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 HRIS project costs.

Financing activities

During the quarter ended March 31, 2013, financing activities used cash totaling $8,170, comprised of dividend payments of $6,587 and interest on long-term debt of $1,178. The remaining use of cash primarily relates to repayment of long-term amortizing debt on the Peninsula and Madonna properties and net settlement payments on interest rate swap contracts of $180.

During the first quarter of 2012, financing activities used cash of $5,820, comprised of 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.

Capital resources

Leisureworld's debt as at March 31, 2013 was $425,543 compared to $425,225 as at December 31, 2012. The increase of $318 relates to the accretion of the fair value increment on the 2015 Notes related to the IPO and the accretion of deferred financing charges on the debt incurred to acquire the retirement properties. As at March 31, 2013, Leisureworld had a committed revolving credit facility of $10,000 with a Canadian chartered bank; the Company had no amounts outstanding under this credit facility.

As of March 31, 2013, the Company had negative working capital of $39,598 principally arising from a credit facility coming due within a year related to the Pacifica property in the BC Portfolio. Subsequent to the quarter end, the Company received a commitment to fund a 10-year term mortgage insured by the Canadian Housing and Mortgage Corporation ("CMHC") to replace the existing credit facility before its current maturity. 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 providing flexibility in meeting its obligations.

Capital commitments

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

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

On April 4, 2013, the Company announced an agreement to acquire from Specialty Care Inc. and certain other related parties (collectively "Specialty Care"), a portfolio of 10 properties in Ontario consisting of six LTC homes, two RRs and two properties containing both LTC and RR components (the "Acquisition"). The Acquisition comprises in total 1,235 LTC beds and 326 retirement suites (the "Properties"), as well as the third party seniors living management business operated by Specialty Care ("Management Business"). The aggregate gross purchase price is approximately $254,000, which does not reflect a mark-to-market adjustment on assumed debt as of the closing, currently estimated at $10,000. The Acquisition is expected to close before the end of 2013. In connection with the Acquisition, the Company completed the public offering (the "Offering") of $68,510 of subscription receipts (the "Subscription Receipts") and $40,000 of aggregate principal amount of extendible convertible unsecured subordinated debentures (the "Debentures"). The Offering was completed on April 25, 2013 and included an overallotment of 15% for both the Subscription Receipts and Debentures.

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

Contractual Obligations and Other Commitments
On November 24, 2005, Leisureworld Senior Care LP ("LSCLP") issued the 2015 Notes, collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships.

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

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

On June 29, 2012, the Bridge Loan was converted to a $61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets. The Bridge Loan is guaranteed by LSCC and is subject to certain customary financial and non-financial covenants. On September 30, 2012, the Company extended the maturity date on the $61,500 revolving credit facility to April 26, 2014. As at March 31, 2013, 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, are guaranteed by LSCC and are subject to certain customary financial and non-financial covenants. Interest on the credit facilities is payable in advance each month. In obtaining the credit facilities, the Company incurred financing costs of $181. These costs have been recorded as a reduction of the total financing received and are expensed over the term of each loan.

As part of the acquisition of the Peninsula property, the Company assumed a mortgage in the amount of $23,716 with a fair value of $24,716. The mortgage assumed bears interest at 5.18% per annum and matures on January 1, 2017. The mortgage is collateralized by a first collateral mortgage on the Peninsula property and a general security agreement providing a first charge on all assets and undertakings. Interest and principal on the mortgage is due on the first day of each month.

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

On April 19, 2013 the Company received a commitment letter from MCAP Financial Corporation for a CMHC first mortgage on the Pacifica property. This will be used to replace the credit facility that matures on May 24, 2013. The net proceeds from the mortgage will be $17,392, bearing interest at a maximum rate of 3.5% for a 10-year term and a 25-year amortization period. The difference between the amount to be settled under the credit facility and the mortgage amount will be settled in cash.

Interest expense on long-term debt for the quarter ended March 31, 2013 was $5,183 (2012 - $4,732), which includes non-cash interest of $558 (2012 - $590).

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

Leisureworld has a 10-year lease with respect to its corporate office, which expires on December 31, 2015. As well, there are various operating leases for office and other equipment that expire over the next five years. As at March 31, 2013, 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	513	26,792	2,200	**29,505**
2014	472	72,963	-	**73,435**
2015	393	295,340	-	**295,733**
2016	7	1,065	-	**1,072**
2017	-	1,120	-	**1,120**
Thereafter	-	33,840	-	**33,840**
	1,385	**431,120**	**2,200**	**434,705**

Acquisitions

On May 24, 2012, Leisureworld's subsidiaries, The Royale LP and The Royale West Coast LP completed the acquisition of the BC Portfolio. The net purchase price was $92,710 including a $1,000 mark-to-market adjustment on assumed debt. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, the Company raised gross proceeds of $56,400, issuing 4,680,500 Common Shares (including the 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.

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 Peninsula property and a general security agreement providing a first charge on all assets and undertakings. Interest and principal on the mortgage is due on the first day of each month.

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

On July 16, 2012, one of the Company's subsidiaries, The Royale Development LP, completed the acquisition of Madonna, a 160 bed, Class A LTC home in Orleans, Ontario, a suburb of Ottawa. The net purchase price for the 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 LSCC and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the assumption of the mortgage, assumed the related interest rate swap contract, in the amount of $2,317, to effectively fix the floating BA rate at 3.7%. The swap is collateralized by a second mortgage on the property. Interest and principal on the mortgage is payable monthly on the 16th day of each month.

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

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 three-month period ended March 31, 2013 was $488 (2012 - $480). Included in accounts receivable is $128 owing from Spencer House Inc. at March 31, 2013 (December 31, 2012 - $71). These transactions occurred 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 March 31, 2013, the Company had amounts owing from certain key executives of $185 (December 31, 2012 - $74) which have been recorded as a contra to equity in relation to the Long-Term Incentive Plan issuance. These amounts outstanding bear interest at the prime rate.

Significant Judgments and Estimates

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2012. Please refer to those statements for further detail.

Capital Disclosure

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

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

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

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

The 2015 Notes and the $10,000 revolving credit facility are collateralized by all assets of LSCLP and its subsidiary entities totaling $483,574 and guaranteed by the subsidiary partnerships. Under the indenture governing the 2015 Notes, LSCLP is subject to certain financial and non-financial covenants including the maintenance of a certain debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The debts incurred as part of the acquisition of the Ontario Portfolio, 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 mortgages assumed in connection with the acquisition of the Peninsula and Madonna properties are collateralized by first collateral mortgages on the respective properties, guaranteed by the Company, and subject to certain customary financial and non-financial covenants. The Company was in compliance with all financial covenants on its borrowings as of March 31, 2013. However, there can be no assurance that covenant requirements will be met at all times in the future. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

Financial Instruments

Financial instruments consist of cash and cash equivalents, 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 AIF dated March 25, 2013 and the Management's Discussion and Analysis filed for the year ended December 31, 2012.

Critical Accounting Estimates and Accounting Policies

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2012. Please refer to those statements for further detail.

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

Changes in accounting policies

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

IFRS 10, Consolidated Financial Statements

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

IFRS 13, Fair Value Measurement

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

Accounting Standards Issued But Not Yet Applied

Other than those disclosed in the audited consolidated financial statements for the year ended December 31, 2012, the following is an accounting standard 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.

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 and Risks Relating to a Public Company and Common Shares

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

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

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

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

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

Outlook

Leisureworld continues to benefit from strong industry fundamentals including favourable demographics and high occupancy in its LTC portfolio. Management continues to focus on improving occupancy in the retirement portfolio and improving the NOI performance of all business segments. With its strong balance sheet and operational expertise, Leisureworld is well positioned to capitalize on organic growth and acquisition opportunities in the seniors' services sector to further support a strong platform for reliable shareholder dividends.

Looking ahead, Leisureworld will maintain its strategy of delivering high quality care, service and accommodation for seniors, supporting and increasing occupancy rates, and 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.

Leisureworld Senior Care Corporation

Condensed Interim Consolidated Financial Statements

For the Quarter Ended March 31, 2013
(Unaudited)

(In Canadian Dollars)

Leisureworld Senior Care Corporation

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

Thousands of dollars

	Notes	**March 31, 2013**	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	5	**18,776**	9,498
Accounts receivable and other assets	12	**5,397**	6,943
Income support		**490**	945
Prepaid expenses and deposits	16	**5,386**	3,004
Government funding receivable		**3,588**	4,371
Construction funding receivable		**6,219**	6,157
		39,856	30,918
Government funding receivable		**176**	567
Construction funding receivable		**68,160**	69,746
Property and equipment		**451,804**	455,882
Intangible assets		**93,406**	95,488
Goodwill		**91,466**	91,466
Total assets		**744,868**	744,067
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	**48,203**	40,869
Government funding payable		**3,773**	2,072
Current portion of long-term debt	6	**27,235**	27,206
Interest rate swap contracts	4	**199**	336
Income taxes payable		**44**	39
		79,454	70,522
Long-term debt	6	**398,308**	398,019
Deferred income taxes	7	**64,907**	65,682
Government funding payable		**3,366**	3,297
Share-based compensation liability	10	**969**	600
Interest rate swap contracts	4	**1,629**	1,791
Total liabilities		**548,633**	539,911
SHAREHOLDERS' EQUITY			
Share capital	8	**289,109**	289,098
Contributed surplus		**27**	10
Deficit		**(92,901)**	(84,952)
Total shareholders' equity		**196,235**	204,156
Total liabilities and shareholders' equity		**744,868**	744,067

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Thousands of dollars

	Notes	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total Shareholders' Equity**
Balance, January 1, 2013		**289,098**	**10**	**(84,952)**	**204,156**
Net loss		**-**	**-**	**(1,362)**	**(1,362)**
Long-term incentive plan	**10**	**6**	**17**	**-**	**23**
Share-based compensation	**10**	**5**	**-**	**-**	**5**
Dividends	**9**	**-**	**-**	**(6,587)**	**(6,587)**
Balance, March 31, 2013		**289,109**	**27**	**(92,901)**	**196,235**

	Notes	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2012		233,207	-	(52,179)	181,028
Net loss		-	-	(2,609)	(2,609)
Share-based compensation	10	53	-	-	53
Dividends	9	-	-	(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

	Notes	Quarter ended March 31, 2013	2012
Revenue	12, 13	**83,704**	74,738
Expenses			
Operating		**76,834**	70,945
Administrative		**4,168**	3,374
	14	**81,002**	74,319
Income from operations		**2,702**	419
Finance costs		**5,461**	4,938
Finance income		**(1,077)**	(1,124)
Net finance charges	6	**4,384**	3,814
Loss before income taxes		**(1,682)**	(3,395)
Provision for (recovery of) income taxes			
Current		**455**	405
Deferred		**(775)**	(1,191)
	7	**(320)**	(786)
Net loss and comprehensive loss attributable to shareholders		**(1,362)**	(2,609)
Basic and diluted loss per share		**($0.05)**	($0.11)
Weighted average number of common shares outstanding		**29,269,949**	24,431,175

See accompanying notes.

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

	Notes	Quarter ended March 31, 2013	2012
OPERATING ACTIVITIES			
Net loss		**(1,362)**	(2,609)
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**5,018**	4,496
Amortization of intangible assets		**2,082**	3,622
Deferred income taxes		**(775)**	(1,191)
Share-based compensation	10	**478**	53
Net finance charges	6	**4,384**	3,814
		9,825	8,185
Non-cash changes in working capital			
Accounts receivable and other assets		**1,552**	724
Prepaid expenses and deposits		**(376)**	(959)
Income taxes receivable/payable		**5**	(3)
Accounts payable and accrued liabilities		**3,681**	538
Income support		**455**	997
Government funding, net		**2,941**	1,257
Cash provided by operating activities		**18,083**	10,739
INVESTING ACTIVITIES			
Purchase of property and equipment		**(940)**	(189)
Purchase of intangible assets		**-**	(219)
Amounts received from construction funding		**2,284**	2,156
Interest received from cash and cash equivalents		**21**	48
Acquisition related deposit	16	**(2,000)**	-
Cash (used in) provided by investing activities		**(635)**	1,796
FINANCING ACTIVITIES			
Repayment of long-term debt		**(225)**	-
Net settlement payment on interest rate swap contracts		**(180)**	(197)
Interest paid on long-term debt		**(1,178)**	(421)
Dividends paid	9	**(6,587)**	(5,202)
Cash used in financing activities		**(8,170)**	(5,820)
Increase in cash and cash equivalents during the period		**9,278**	6,715
Cash and cash equivalents, beginning of period	5	**9,498**	21,921
Cash and cash equivalents, end of period	5	**18,776**	28,636
Supplementary information			
Income taxes paid		**450**	408

See accompanying notes.

1 Organization

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

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

Leisureworld and its predecessors have been operating since 1972. Through its subsidiaries, the Company owns and operates 27 long-term care ("LTC") homes (representing an aggregate of 4,474 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 Province of Ontario and British Columbia. The Muskoka retirement residence was vacant since September 30, 2012 and has undergone 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 LW.

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. 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, 2012, which have 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, 2013.

3 Summary of significant accounting policies, judgments and estimation uncertainty

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

Changes in accounting policies

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

IFRS 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities.* IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

IFRS 13, Fair Value Measurement

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

Significant judgments and estimates

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 annual audited consolidated financial statements for the year ended December 31, 2012.

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

4 Fair value of financial instruments

The following table provides a summary of the carrying and fair values for each classification of financial instrument:

	Carrying value as at March 31, 2013				
	Assets / liabilities at fair value through profit and loss	**Loans and receivables**	**Other liabilities**	**Total carrying value**	**Fair value**
Financial Assets:					
Cash and cash equivalents	**-**	**18,776**	**-**	**18,776**	**18,776**
Accounts receivable and other assets	**-**	**5,397**	**-**	**5,397**	**5,397**
Government funding receivable	**-**	**3,764**	**-**	**3,764**	**3,764**
Construction funding receivable	**-**	**74,379**	**-**	**74,379**	**81,148**
Financial Liabilities:					
Accounts payable and accrued liabilities	**-**	**-**	**48,203**	**48,203**	**48,203**
Government funding payable	**-**	**-**	**7,139**	**7,139**	**7,139**
Long-term debt	**-**	**-**	**425,543**	**425,543**	**456,583**
Interest rate swap contracts	**1,828**	**-**	**-**	**1,828**	**1,828**

	Carrying value as at December 31, 2012				
	Assets / liabilities at fair value through 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

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

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

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.

	As at March 31, 2013			As at December 31, 2012		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Financial Liabilities:						
Interest rate swap contracts	-	(1,828)	-	-	(2,127)	-

5 Cash and cash equivalents

	March 31, 2013	December 31, 2012
Cash	**18,773**	9,415
Cash equivalents	**3**	83
Cash and cash equivalents	**18,776**	9,498

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

6 Long-term debt

	Interest rate	Maturity date	March 31, 2013	December 31, 2012
Current				
Pacifica Credit Facility	Floating	May 23, 2013	**26,087**	26,068
Current Portion of Peninsula Mortgage	5.180%	N/A	**731**	726
Current Portion of Madonna Mortgage	Floating	N/A	**417**	412
			27,235	27,206
Long-Term				
Series A Senior Secured Notes	4.814%	November 24, 2015	**288,068**	287,516
Revolving Credit Facility	Floating	April 26, 2014	**45,940**	45,926
Astoria Credit Facility	Floating	May 23, 2014	**25,940**	25,927
Peninsula Mortgage	5.180%	January 1, 2017	**23,320**	23,505
Madonna Mortgage	Floating	April 16, 2029	**15,040**	15,145
			398,308	398,019
			425,543	425,225

The 4.814% Series A Senior Secured Notes ("2015 Notes"), due November 24, 2015, have a remaining face value of $294,326 as at March 31, 2013 (December 31, 2012 - $294,326) and are collateralized by the assets of Leisureworld Senior Care LP 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%.

On June 29, 2012, the Company's $55,000 credit facility was converted to a $61,500 revolving credit facility ("Revolving Credit Facility") bearing interest at 187.5 bps per annum over the floating 30-day BA rate. The Revolving Credit Facility is secured by the Royale LP's (a subsidiary of the Company) interest in the Kingston and Kanata retirement residences, is guaranteed by the Company, and is subject to certain customary financial and non-financial covenants. As at March 31, 2013, the Company has drawn $46,000 from this credit facility (December 31, 2012 - $46,000). The Company, in conjunction with the $55,000 credit facility, entered into an interest rate swap contract to effectively fix the interest rate at 4.045% with a maturity date of April 26, 2013.

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

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

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 the Madonna LTC home, 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, is 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 condensed interim consolidated statement of operations:

	Quarter ended March 31,	
	2013	2012
Finance costs		
Interest expense on long-term debt	**4,625**	4,142
Interest expense and fees on revolving credit facility	**58**	9
Net accretion of the fair value adjustments on long-term debt	**424**	552
Amortization of deferred financing charges	**134**	38
Net settlement payment on interest rate swap contracts	**220**	197
	5,461	4,938
Finance income		
Interest income on construction funding receivable	**757**	761
Other interest income	**21**	48
Gain on interest rate swap contracts	**299**	315
	1,077	1,124
Net finance charges	**4,384**	3,814

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

7 Income taxes

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

	Quarter ended March 31,	
	2013	2012
Loss before income taxes	**(1,682)**	(3,395)
Canadian combined income tax rate	**26.47%**	26.25%
Income tax recovery	**(445)**	(891)
Adjustments to income tax recovery:		
Non-deductible items	**125**	19
Other items	**-**	86
Recovery of income taxes	**(320)**	(786)

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, 2012	(62,926)	(7,395)	2,736	4,748	(2,845)	(65,682)
Credit (charge) to net loss	839	329	(270)	(200)	77	775
As at March 31, 2013	**(62,087)**	**(7,066)**	**2,466**	**4,548**	**(2,768)**	**(64,907)**

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

	March 31, 2013	December 31, 2012
Within one year	**(2,490)**	(2,136)
One to four years	**(10,495)**	(9,795)
After four years	**(51,922)**	(53,751)
Total	**(64,907)**	(65,682)

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

8 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, 2012	24,490,149	233,207
Issued common shares	4,680,500	54,470
Shares issued to vendor	82,988	1,000
Long-term incentive plan, net of loans receivable	19,252	173
Deferred income tax rate change	-	115
Share-based compensation	-	133
Balance, December 31, 2012	29,272,889	289,098
Long-term incentive plan, net of loans receivable (Note 10)	9,435	6
Share-based compensation (Note 10)	-	5
Balance, March 31, 2013	**29,282,324**	**289,109**

During the quarter ended March 31, 2013, the Company issued 9,435 shares to senior executives (“Participants”) related to the long-term incentive plan (“LTIP”). On the grant date, the Participants paid $6 of their loans, which was recorded as an increase in share capital.

9 Dividends

The Company paid dividends at $0.075 per month per common share totaling $6,587 for the quarter ended March 31, 2013 (2012 - $5,202). Dividends of $2,196 are included in accounts payable and accrued liabilities as of March 31, 2013 (December 31, 2012 - $2,196). Subsequent to March 31, 2013, the Board of Directors declared dividends of $0.075 per common share for April 2013 totaling $2,196. These dividends have not been recorded in these condensed interim consolidated financial statements.

10 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

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

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 21, 2013, 9,435 shares were granted to the Participants under this plan. Related to the LTIP in the quarter ended March 31, 2013, the Company recorded an increase of $6 in share capital (2012 - $nil) and $17 in contributed surplus (2012 - $nil). Included as a reduction to shareholders' equity is an outstanding loan balance of $185 (December 31, 2012 - $74). Total expense related to the LTIP for the quarter ended March 31, 2013 was $17 (2012 - $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 21, 2013
Fair value at grant date	$12.72
Volatility	15.67%
Monthly discrete dividend	$0.075
Risk-free rate	1.79%
Annual interest rate on participant's loan - prime rate	3.00%
Forfeiture rate	0.00%

Restricted Share Units ("RSUs")

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 21, 2013, 9,435 RSUs were granted to the Participants under this plan. Total expense related to the RSU plan for the quarter ended March 31, 2013 was $28 (2012 - $nil), which was recognized in administrative expenses. During the quarter ended March 31, 2013, 6,859 RSUs vested and were settled in cash, resulting in a decrease of $87 (2012 - $nil) to share-based compensation liability. The total liability recorded as a part of the share-based compensation liability as of March 31, 2013 was $35 (December 31, 2012 - $94).

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

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

	Number of RSUs
Outstanding, January 1, 2012	-
Granted	19,252
Forfeited	(8,719)
Dividends reinvested	956
Outstanding, December 31, 2012	11,489
Granted	9,435
Dividends reinvested	222
Settled in cash	(6,859)
Outstanding, March 31, 2013	**14,287**

Deferred Share Units ("DSUs")

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 quarter ended March 31, 2013 was $428 (2012 - $nil), which was recognized in administrative expenses. The total liability recorded as a part of the share-based compensation liability as at March 31, 2013 was $934 (December 31, 2012 - $506).

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 vested in three equal installments on the first, second and third anniversary of the grant date and had trading restrictions imposed. The fair value of these shares was determined to be approximately $1,147 based on the Black-Scholes option pricing model.

Total expense related to this plan for the quarter ended March 31, 2013 was $5 (2012 - $53), which was recognized in administrative expenses with a corresponding increase in share capital. As at March 31, 2013, there were no unvested shares.

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

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

	Shares awarded	Weighted average exercise price (dollars)
Unvested, January 1, 2012	66,667	N/A
Vested	(58,333)	N/A
Unvested, December 31, 2012	8,334	N/A
Vested	(8,334)	N/A
Unvested, March 31, 2013	**-**	**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%

11 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,	
	2013	2012
Salaries and short-term employee benefits	**127**	526
Share-based compensation	**478**	53
	605	579

12 Related party transactions

During the quarter ended March 31, 2013, 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 earned from Spencer House Inc. for the quarter ended March 31, 2013 was $488 (2012 - $480). Included in accounts receivable is $128 owing from Spencer House Inc. at March 31, 2013 (December 31, 2012 - $71). 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.

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

As at March 31, 2013, the Company has amounts outstanding from certain key executives of $185 (December 31, 2012 - $74) (Note 10) in relation to LTIP issuances, which have been recorded as a reduction to shareholders' equity.

13 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, 2013, the Company received approximately $54,824 (2012 - $51,302), in respect of these licences for operating revenues and other MOHLTC funded initiatives.

14 Expenses by nature

	Quarter ended March 31,	
	2013	2012
Salaries, benefits and people costs	**55,456**	49,883
Depreciation and amortization	**7,100**	8,118
Food	**3,219**	2,972
Property taxes	**2,641**	2,463
Utilities	**2,705**	2,355
Other	**9,881**	8,528
Total expenses	**81,002**	74,319

15 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 as at March 31, 2013:

- 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;
- Home Care – Home Care is an accredited provider of professional nursing, personal support and education services for both community-based home care and LTC homes; and
- Corporate, Eliminations and Other – This segment represents the results of head office and intercompany eliminations 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, 2012.

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

	Quarter ended March 31, 2013				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**74,861**	**6,529**	**4,400**	**6,587**	**92,377**
Less: Internal revenue	**1,445**	**-**	**641**	**6,587**	**8,673**
Net revenue	**73,416**	**6,529**	**3,759**	**-**	**83,704**
Income (loss) from operations before the undernoted	**10,434**	**2,716**	**820**	**(4,168)**	**9,802**
Depreciation of property and equipment	**3,739**	**1,278**	**1**	**-**	**5,018**
Amortization of intangible assets	**68**	**1,781**	**233**	**-**	**2,082**
Finance costs	**4,190**	**1,271**	**-**	**-**	**5,461**
Finance income	**(952)**	**(125)**	**-**	**-**	**(1,077)**
Income tax recovery	**-**	**-**	**-**	**(320)**	**(320)**
Net income (loss)	**3,389**	**(1,489)**	**586**	**(3,848)**	**(1,362)**
Purchase of property and equipment	**928**	**8**	**-**	**4**	**940**

	Quarter ended March 31, 2012				
	Long-Term Care	Retirement	Home 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, 2013				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Total assets	**482,156**	**251,798**	**8,373**	**2,541**	**744,868**
Goodwill	**84,945**	**-**	**6,521**	**-**	**91,466**
Intangible assets	**79,686**	**13,708**	**12**	**-**	**93,406**

	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

16 Subsequent events

Commencement of a convalescent care and interim LTC program in Muskoka
Subsequent to March 31, 2013, the Company completed the renovation of its former Muskoka retirement residence to accommodate 12 convalescent care and 12 interim short-stay residents. On April 4, 2013, the Company began operations and is receiving funding for its convalescent care and interim LTC program.

Acquisition of a portfolio of Ontario LTC homes and RRs
On April 4, 2013, the Company entered into acquisition agreements to acquire from Specialty Care Inc., Specialty Care Investments Inc. (collectively “Specialty Care”) and certain other parties, a portfolio of 10 properties in Ontario consisting of 6 LTC homes, 2 RRs and 2 properties containing both LTC and RR components (the “Acquisition”). The Acquisition comprises in total 1,235 LTC beds and 326 retirement suites, as well as the third party seniors living management businesses operated by Specialty Care Inc. This transaction is in line with the Company’s focus on its core market and growth of its primary business.

The purchase price is approximately $254,000, which does not reflect a mark-to-market adjustment on assumed debt as of the closing date, estimated at approximately $10,000, and working capital adjustments on closing. The Company intends to finance the Acquisition as follows: (a) the assumption of approximately $140,000 in existing book value long-term debt (which does not reflect the mark-to-market adjustment estimated at $10,000), (b) the issuance of $7,000 of common shares of the Company to Specialty Care, and (c) cash derived from a portion of the proceeds of the public offering described below. The purchase price payable for the Acquisition is subject to customary post-closing adjustments and other adjustments.

Completion of the Acquisition is subject to customary closing conditions for transactions of this nature including the receipt of all necessary third party consents and regulatory approvals, including approval from the MOHLTC. Leisureworld expects the completion of the Acquisition to occur in the fourth quarter of 2013.

An acquisition related deposit of $2,000 has been included in prepaid expenses and deposits in the condensed interim consolidated statement of financial position for the quarter ended March 31, 2013. Subsequent to March 31, 2013, the Company made an additional $8,000 deposit related to the Acquisition.

Completion of public offering of subscription receipts and debentures
In conjunction with the Acquisition, the Company completed a bought deal offering of subscription receipts and extendible convertible unsecured subordinated debentures (the “Debentures”) on April 25, 2013. The syndicate of underwriters exercised the over-allotment option in full, resulting in a total of 6,353,750 subscription receipts at $12.40 per subscription receipt and $46,000 aggregate principal amount of Debentures being issued for total gross proceeds of $124,787. The subscription receipts are liabilities and only convert to equity on closing, and are refundable if the transaction does not close. The Debentures are non-refundable.

Completion of licence acquisition from Christie Gardens Apartments and Care Inc.

On June 22, 2010, Leisureworld announced an agreement to acquire 88 LTC licences from Christie Gardens Apartments and Care Inc., conditional on approval by the MOHLTC. On April 19, 2013, the licences were acquired in accordance with the approved terms by the MOHLTC at a cost of $2,200. These licences are in the Toronto area and, when made operational, will increase the total number of the Compnay's LTC beds by approximately 2%.

Refinancing of Pacifica Credit Facility

On April 19, 2013 the Company received a commitment letter from MCAP Financial Corporation for a Canadian Mortgage and Housing Corporation ("CMHC") first mortgage on the Pacifica property. This will be used to replace the credit facility that matures on May 24, 2013. The net proceeds from the mortgage are for $17,392 bearing interest at a maximum rate of 3.5% for a 10-year term and a 25-year amortization period. The difference between the amount borrowed under the credit facility and the mortgage amount will be settled in cash.