Q3 2014

Leisureworld
SENIOR CARE CORPORATION

Report to Shareholders

Q3 2014

Leisureworld
SENIOR CARE CORPORATION

Management's Discussion and Analysis

(in thousands of Canadian Dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Leisureworld Senior Care Corporation ("**LSCC**" or the "**Company**") summarizes the financial results for the three and nine months ended September 30, 2014. Unless otherwise indicated or the context otherwise requires, reference herein to "Leisureworld" refers to LSCC and its direct and indirect subsidiary entities. All financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted. This discussion and analysis of LSCC's consolidated financial performance, cash flows and financial position for the three and nine months ended September 30, 2014 should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes contained in this financial report and the audited consolidated financial statements, related notes and the MD&A for the year ended December 31, 2013.

Leisureworld is listed on the Toronto Stock Exchange (the "TSX") under the trading symbol LW. As of November 12, 2014, the following securities of Leisureworld were outstanding: 36,265,458 common shares; $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

Additional Information

Additional information relating to Leisureworld is available on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com, on Leisureworld's website at www.leisureworld.ca, or by contacting Nitin Jain, Chief Financial Officer, at 905-477-4006 x2006 or nitin.jain@leisureworld.ca.

Review and Approval By the Board of Directors

This MD&A is dated as of November 12, 2014, the date on which this report was approved by the Board of Directors of Leisureworld and reflects all material events up to that date.

Forward-Looking Statements

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

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

Non-IFRS Performance Measures

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

NOI is defined as revenue net of operating expenses.

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

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

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

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

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

Key Performance Indicators

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

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

The following table presents the Key Performance Indicators for the periods ended September 30:

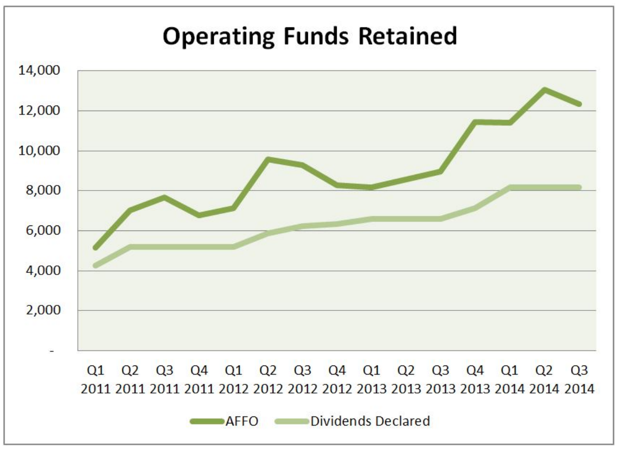
	Three Months Ended			Nine Months Ended		
Thousands of Dollars, except occupancy, share and ratio data	**2014**	2013	Change	**2014**	2013	Change
OCCUPANCY						
LTC - Average total occupancy	**98.9%**	99.0%	-0.1%	**98.6%**	98.9%	-0.3%
LTC - Average private occupancy	**99.9%**	99.6%	0.3%	**99.3%**	99.2%	0.1%
Retirement - Average occupancy (including respite) (1)	**84.3%**	78.5%	5.8%	**83.5%**	76.8%	6.7%
Retirement - As at occupancy (including respite) (1)	**84.9%**	79.4%	5.5%	**84.9%**	79.4%	5.5%
FINANCIAL						
NOI	**21,419**	16,253	5,166	**61,122**	45,778	15,344
OFFO	**11,071**	8,019	3,052	**31,327**	21,146	10,181
AFFO	**12,341**	8,957	3,384	**37,092**	25,705	11,387
PER SHARE INFORMATION						
OFFO per share, basic	**0.305**	0.273	0.032	**0.864**	0.722	0.142
OFFO per share, diluted (2)	**0.294**	0.264	0.030	**0.834**	0.707	0.127
AFFO per share, basic	**0.340**	0.305	0.035	**1.023**	0.877	0.146
AFFO per share, diluted (2)	**0.327**	0.293	0.034	**0.982**	0.855	0.127
Dividends per share	**0.225**	0.225	—	**0.675**	0.675	—
Payout ratio (basic AFFO)	**66.2%**	73.8%	-7.6%	**66.0%**	77.0%	-11.0%
FINANCIAL RATIOS						
Debt Service Coverage Ratio (3)	**2.3**	2.6	(0.3)	**2.1**	2.4	(0.3)
Debt to Gross Book Value as at period end	**56.8%**	48.1%	8.7%	**56.8%**	48.1%	8.7%
Weighted Average Cost of Debt as at period end	**3.9%**	4.5%	-0.6%	**4.0%**	4.5%	-0.5%
Leverage Ratio	**8.0**	8.2	(0.2)	**8.3**	7.9	0.4
Interest Coverage Ratio	**3.3**	2.9	0.4	**3.0**	2.8	0.2
Average term to maturity as at period end	**5.0**	3.2	1.8	**5.0**	3.2	1.8

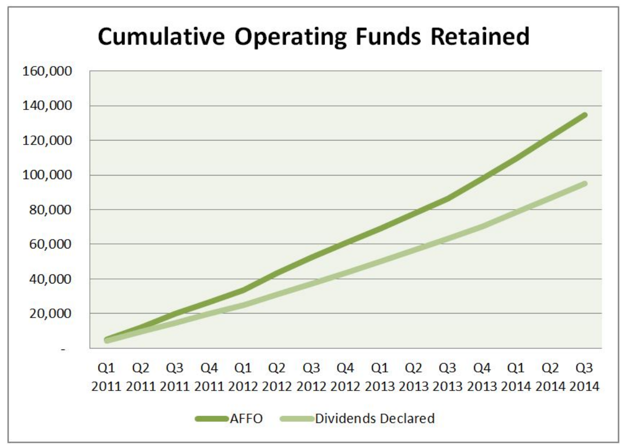
	2014 v. 2013	2014 v. 2013
SAME PROPERTY PERCENT CHANGE IN NOI		
Long-Term Care	0.7%	1.7%
Retirement (4)	-4.7%	7.6%
Home Care (5)	-17.0%	-8.1%
Total	-1.1%	2.4%

Notes:

1. The comparative periods exclude respite occupancy data as it was not captured for periods prior to 2014.
2. Prior year OFFO and AFFO diluted calculations exclude the impact of the subscription receipts. For a reconciliation of the calculation including subscription receipts please refer to the Adjusted Funds from Operations table.
3. The Series B Debentures issued on February 3, 2014 require the funding of a principal reserve fund to fund the eventual repayment of the debenture. For the third quarter of 2014, $1,292 was contributed to the principal reserve fund, for the nine months ended September 30, 2014 $3,431, which contribution is included in the calculation of the debt service coverage ratio.
4. The prior year third quarter operating expenses for the retirement segment were approximately $174 lower than the average quarterly expenditures due to timing. If not for this impact on the prior year operating expenses, the year over year same property performance for the three and nine months ended September 30, 2014 would have been 0.9% and 9.8%, respectively.
5. This year over year decline in performance was the result of margin pressures on the personal support contract volumes and a decline in the private pay activity.

Note on NOI:
Prior year Ministry of Health and Long-Term Care ("**MOHLTC**") reconciliation adjustments were recorded for the three and nine months ended September 30, 2014 that decreased revenue and NOI by $69 and $1,025, respectively. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings. The adjustments primarily relate to the 2007 through 2011 reconciliation years. These adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts.





Operating funds retained is equal to AFFO less dividends declared.

Corporate Profile

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

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

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

ASSET CLASS	COMMUNITIES	LONG-TERM CARE (Beds) Basic and Other	Semi-Private	Private - $18.00 Premium	Private - Up to $23.25 Premium	RETIREMENT (Suites) Total	TOTAL Beds / Suites
LONG-TERM CARE	**35**	2,609	857	240	2,027	—	**5,733**
RETIREMENT	**10**	—	—	—	—	1,065	**1,065**
TOTAL	**45**	**2,609**	**857**	**240**	**2,027**	**1,065**	**6,798**

Our Vision

To awaken our communities to the positive possibilities of life's next chapters.

Our Mission

To help you live fully, every day.

Our Values...

Respect

We value each other. From our clients and residents to our coworkers, we take the time to appreciate each person's story, understand their perspective, and recognize their contribution.

Passion

This job isn't for everybody. We love working with older people. We feel it's a privilege to have them in our lives, and there's nothing more important to us than their safety and well-being.

Teamwork

To honour someone's voice and advocate for their choice, it's up to every one of us to communicate, collaborate, and support one another. We're in this together - coworkers, volunteers, physicians and healthcare providers, suppliers, communities, families, clients, and residents.

Responsibility

Holding ourselves to the highest standards of safety and quality is only the beginning. If we see a problem or an opportunity, we own it. If we say we'll do something, we do it. "Not my job" is not in our vocabulary.

Growth

We are always pushing ourselves - To learn, to develop, to find a better way and we strive to help our clients, residents and staff grow, encouraging them to stretch and do more than they might have thought possible.

Company Objectives

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

Industry Overview

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

Outlook

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

Long-Term Care

During the third quarter, Leisureworld's same property LTC NOI continued to have a strong and stable performance. As of September 1, 2014 new residents admitted to A class home private accommodation are paying the new rate of $23.25 per day. Leisureworld continues the conversion to the new private accommodation rates with 49.7% of its A private beds now at the increased rates of $19.75, $21.50 or $23.25 per resident per day (17.4%, 31.2% and 1.1% respectively). It is expected to take approximately three years (fall of 2017) to achieve the $23.25 preferred premium in all private 2,027 class A beds in the portfolio. Leisureworld continues to experience strong demand for private occupancy at 99.9%.

The Associate Minister of Health and Long-Term Care recently announced the Enhanced LTC Home Renewal Strategy to support operators in redeveloping older LTC homes which includes:

- Establishing a dedicated project office to support the renewal strategy
- Increasing the Construction Funding Subsidy
- Supporting increases to preferred accommodation premiums
- Extending the maximum LTC licence term for A homes to 30 years
- Scheduling LTC homes for redevelopment

The MOHLTC has committed to striking a stakeholder committee including, long-term care operators, to work out the details of the LTC renewal strategy, which is expected to take several months.

Management is engaged in the initial planning process to prepare for redevelopment and expects to participate in the program, over a number of years to redevelop its 14 B and C class homes which will provide residents with much needed improvements in accommodation and provides a growth opportunity for the Company.

In September, the MOHLTC announced a 2% increase in the funding for the flow-through envelopes (Nursing and Programs), effective April 1, 2014. The Other Accommodation envelope (which is funded through the resident co-payment) increased 0.68%, effective July 1, 2104. The 0.68% increase is less than the Consumer

Price Index ("**CPI**") increase and would compress LTC NOI margins; however, with management's focus on disciplined expense management, stable same property performance is expected.

There is a high demand for LTC beds as there is a provincial wait list in excess of 21,000 seniors waiting for a long-term care bed. Management expects Leisureworld to continue to experience high occupancy rates in excess of 97%.

Retirement

Retirement homes continue to experience high attrition rates, as residents move to a LTC home when their health needs increase. With the high level of attrition, and the properties being in well supplied, competitive markets, lease up is taking longer than expected. Management expects to continue to slowly increase occupancy in the four lease up homes (Astoria, Peninsula, Kingston and Kanata) well into 2015.

Management continues to focus on improvements in dining, sales and marketing initiatives and implementing assisted living services in response to residents changing needs and to enable existing residents to stay longer slowing attrition rates and attract new residents.

Home Care

The home care sector continues to experience a transition period as seniors prefer to stay at home as long as possible and more services become available to support seniors in their homes.

Preferred Health Care Services, continues to experience growth in personal support worker volumes through Community Care Access Centers ("**CCAC**"), which was partly offset by a decline in private pay volume as seniors access the publicly provided home care services. The CCAC business is experiencing margin compression, related to increased expenses to meet new requirements.

While stable performance is expected over time, organic growth may be limited in our home care division in the near term.

Management Services

Management believes that there is good opportunity in the third party management business and this division will grow over time, given that both the long-term care and retirement sectors are highly regulated and very complex to manage.

General and Administrative Expenses

Management is making excellent progress on the integration of the acquisition made in 2013. In early 2015, management will be launching a new brand strategy to better reflect all four lines of business. It is expected there will continue to be some one time transition costs associated with restructuring, strengthening and modernizing the back office to support the recent and future growth of the Company.

Acquisitions

With the successful integration of the acquisition, management has demonstrated the ability to execute on acquisitions and achieve strong performance. With the integration of the acquisition on track, management will pursue new strategic acquisition opportunities, focused in Ontario and British Columbia.

As a result of Leisureworld's diversified strategy the company is well positioned to respond to changing preferences in seniors living and government policy changes over time. In the near term, management expects stable financial performance. In the longer term, management remains confident of a very exciting future for the organization, its staff, clients and shareholders with tremendous opportunity for stable and predictable returns, a secure dividend and significant future growth.

Significant Events

Completed the Issuance of Series B Senior Secured Debentures

On February 3, 2014, Leisureworld Senior Care LP ("**LSCLP**"), a wholly-owned subsidiary of LSCC, issued $322 million of aggregate principal amount of 3.474% Series B Senior Secured Debentures with a maturity date of February 3, 2021 (the "**Series B Debentures**").

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

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

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

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

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

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

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

Quarterly Financial Information

Thousands of Dollars, except occupancy and per share data	2014 Q3	2014 Q2	2014 Q1	2013 [2] Q4	2013 [2] Q3	2013 [2] Q2	2013 [2] Q1	2012 [2] Q4
Revenue	**115,029**	**111,674**	**112,340**	99,815	86,575	83,229	83,704	85,516
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**17,031**	**15,702**	**15,304**	13,512	13,467	11,761	10,801	11,529
Net income (loss)	**1,643**	**376**	**(18,064)**	(6,348)	(706)	(968)	(1,362)	(1,347)
Per share and diluted per share	**0.05**	**0.01**	**(0.50)**	(0.20)	(0.02)	(0.03)	(0.05)	(0.05)
OFFO - Basic [1]	**11,071**	**10,892**	**9,364**	9,812	8,019	6,901	6,226	6,882
Per share	**0.31**	**0.30**	**0.26**	0.31	0.27	0.24	0.21	0.24
Per share diluted - excluding subscription receipts	**0.29**	**0.29**	**0.25**	0.30	0.26	0.23	0.21	0.24
Per share diluted - including subscription receipts	**n/a**	**n/a**	**n/a**	0.27	0.22	0.20	n/a	n/a
AFFO - Basic [1]	**12,341**	**13,047**	**11,704**	11,429	8,957	8,568	8,180	8,289
Per share	**0.34**	**0.36**	**0.32**	0.36	0.31	0.29	0.28	0.28
Per share diluted - excluding subscription receipts	**0.33**	**0.35**	**0.31**	0.35	0.29	0.28	0.28	0.28
Per share diluted - including subscription receipts	**n/a**	**n/a**	**n/a**	0.31	0.25	0.25	n/a	n/a
Dividends declared	**8,160**	**8,159**	**8,158**	7,116	6,598	6,594	6,587	6,341
Per share	**0.23**	**0.23**	**0.23**	0.23	0.23	0.23	0.23	0.22
Occupancy								
LTC - Average total occupancy	**98.9%**	**98.5%**	**98.5%**	98.7%	99.0%	99.0%	98.7%	99.1%
LTC - Average private occupancy	**99.9%**	**99.1%**	**98.7%**	99.4%	99.6%	99.4%	98.7%	99.2%
Retirement - Average occupancy (including respite) [2]	**84.3%**	**83.0%**	**82.7%**	81.8%	78.5%	76.0%	76.0%	76.7%
Retirement - As at occupancy (including respite) [2]	**84.9%**	**83.0%**	**82.5%**	82.9%	79.4%	76.3%	75.1%	75.5%
Total assets	**953,394**	**956,746**	**969,355**	977,024	826,498	844,362	744,868	744,067
Total debt [3]	**618,970**	**621,915**	**624,837**	598,703	440,880	460,667	425,543	425,225

Notes:

1. In Q2 2014 Management has decided to add back the impact of the MOHLTC reconciliation adjustments (discussion below) to OFFO and AFFO. Also, due to the immaterial nature of the adjustment in prior years Management has elected not to restate the 2013 or 2012 information presented above.
2. The comparative periods exclude respite occupancy data as it was not captured for for periods prior to 2014.
3. Total debt includes the convertible debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

The quarterly financial results of Leisureworld are impacted by various factors including, but not limited to, the timing of acquisitions, seasonality of utility expenses, timing of co-payment changes, government funding rate increases and the timing of revenue recognition to match spending within the flow-through envelopes, and capital market and financing activities.

For the second quarter ended June 30, 2014 and the third quarter ended September 30, 2014, the Company recorded MOHLTC reconciliation adjustments of $956 and $69, respectively. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings. The adjustment primarily relates to the 2007 through 2011 reconciliation years. These adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts.

During the first quarter of 2014, $322 million of Series B Debentures were issued to provide proceeds to redeem the Series A Debentures in full resulting in the payment of an $18.4 million redemption premium and associated expenses. The Series A Debentures and Series B Debentures were both outstanding for a 21 day period during the first quarter.

In December 2013, Leisureworld completed the Specialty Care Acquisition, which contributed approximately $1,783 to NOI for the one month.

In the fourth quarter of 2012, Leisureworld paid a one-time redemption premium of $1,095 relating to the partial repurchase and cancellation of Series A Debentures with a face value of $15,674. This premium was included in the financing costs.

A discussion of the results for the three and nine months ended September 30, 2014 compared to the same periods in the prior year is provided under the section "Operating Results".

Business Overview

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

Operating Results

The following are the Operating Results for the periods ended September 30:

Thousands of Dollars	Three Months Ended			Nine Months Ended		
	2014	2013	Change	**2014**	2013	Change
Revenue	**115,029**	86,575	28,454	**339,043**	253,508	85,535
Expenses						
Operating	**93,610**	70,322	23,288	**277,921**	207,730	70,191
Administrative	**4,388**	2,786	1,602	**13,085**	9,749	3,336
	97,998	73,108	24,890	**291,006**	217,479	73,527
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**17,031**	13,467	3,564	**48,037**	36,029	12,008
Other expenses						
Depreciation and amortization	**9,651**	7,081	2,570	**29,693**	21,043	8,650
Net finance charges	**5,380**	6,249	(869)	**40,286**	16,019	24,267
Transaction costs	**57**	516	(459)	**716**	2,263	(1,547)
Total other expenses	**15,088**	13,846	1,242	**70,695**	39,325	31,370
Income (loss) before the provision for (recovery of) income taxes	**1,943**	(379)	2,322	**(22,658)**	(3,296)	(19,362)
Provision for (recovery of) income taxes						
Current	**240**	897	(657)	**(1,938)**	1,773	(3,711)
Deferred	**60**	(570)	630	**(4,675)**	(2,033)	(2,642)
	300	327	(27)	**(6,613)**	(260)	(6,353)
Net income (loss)	**1,643**	(706)	2,349	**(16,045)**	(3,036)	(13,009)
Total assets	**953,394**	826,498	126,896	**953,394**	826,498	126,896
Total debt (net of principal reserve fund)	**618,970**	522,526	96,444	**618,970**	522,526	96,444

Revenue Breakdown

The following revenue breakdown is for the periods ended September 30:

	Three Months Ended			Nine Months Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Long-Term Care						
Same property	**77,793**	75,906	1,887	**229,724**	222,203	7,521
Transactions	**22,091**	—	22,091	**65,624**	—	65,624
Total Long-Term Care Revenue (1)	**99,884**	75,906	23,978	**295,348**	222,203	73,145
Retirement						
Same property	**6,902**	6,831	71	**20,739**	19,849	890
Transactions	**3,290**	—	3,290	**9,631**	—	9,631
Total Retirement Revenue	**10,192**	6,831	3,361	**30,370**	19,849	10,521
Home Care						
Same property	**4,685**	4,112	573	**13,373**	12,409	964
Transactions	**—**	242	(242)	**—**	729	(729)
Total Home Care Revenue	**4,685**	4,354	331	**13,373**	13,138	235
Management Services						
Same property	**—**	—	—	**—**	—	—
Transactions	**605**	—	605	**1,817**	—	1,817
Total Management Services Revenue	**605**	—	605	**1,817**	—	1,817
Total Revenue						
Same property	**89,380**	86,849	2,531	**263,836**	254,461	9,375
Transactions	**25,986**	242	25,744	**77,072**	729	76,343
MOHLTC reconciliation adjustments (1)	**(69)**	—	(69)	**(1,025)**	—	(1,025)
Intersegment eliminations	**(268)**	(516)	248	**(840)**	(1,682)	842
Total Revenue	**115,029**	86,575	28,454	**339,043**	253,508	85,535

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

Note

1. For the three and nine months ended September 30, 2014, the Company recorded MOHLTC reconciliation adjustments that decreased revenue and NOI by $69 and $1,025, respectively. The year-to-date adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings. The current adjustment primarily relates to the 2007 through 2011 reconciliation years. These adjustments are based on current period confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts.

Operating Expense Breakdown

The following operating expense breakdown is for the periods ended September 30:

	Three Months Ended			Nine Months Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Long-Term Care						
Same property	**65,411**	63,611	1,800	**194,325**	187,408	6,917
Transactions	**18,328**	—	18,328	**55,000**	—	55,000
Total Long-Term Care Expenses	**83,739**	63,611	20,128	**249,325**	187,408	61,917
Retirement						
Same property	**3,861**	3,641	220	**11,465**	11,229	236
Transactions	**1,984**	—	1,984	**5,918**	—	5,918
Total Retirement Expenses	**5,845**	3,641	2,204	**17,383**	11,229	6,154
Home Care						
Same property	**4,138**	3,453	685	**11,522**	10,395	1,127
Transactions	**—**	133	(133)	**—**	380	(380)
Total Home Care Expenses	**4,138**	3,586	552	**11,522**	10,775	747
Management Services						
Same property	**—**	—	—	**—**	—	—
Transactions	**156**	—	156	**531**	—	531
Total Management Services Expenses	**156**	—	156	**531**	—	531
Total Operating Expenses						
Same property	**73,410**	70,705	2,705	**217,312**	209,032	8,280
Transactions	**20,468**	133	20,335	**61,449**	380	61,069
Intersegment eliminations	**(268)**	(516)	248	**(840)**	(1,682)	842
Total Expenses	**93,610**	70,322	23,288	**277,921**	207,730	70,191

Net Operating Income Breakdown

The following net operating income breakdown is for the periods ended September 30:

	Three Months Ended			Nine Months Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Long-Term Care						
Same property	**12,382**	12,295	87	**35,399**	34,795	604
Transactions	**3,763**	—	3,763	**10,624**	—	10,624
Total Long-Term Care NOI	**16,145**	12,295	3,850	**46,023**	34,795	11,228
Retirement						
Same property	**3,041**	3,190	(149)	**9,274**	8,620	654
Transactions	**1,306**	—	1,306	**3,713**	—	3,713
Total Retirement NOI	**4,347**	3,190	1,157	**12,987**	8,620	4,367
Home Care						
Same property	**547**	659	(112)	**1,851**	2,014	(163)
Transactions	**—**	109	(109)	**—**	349	(349)
Total Home Care NOI	**547**	768	(221)	**1,851**	2,363	(512)
Management Services						
Same property	**—**	—	—	**—**	—	—
Transactions	**449**	—	449	**1,286**	—	1,286
Total Management Services NOI	**449**	—	449	**1,286**	—	1,286
Total NOI						
Same property	**15,970**	16,144	(174)	**46,524**	45,429	1,095
Transactions	**5,518**	109	5,409	**15,623**	349	15,274
MOHLTC reconciliation adjustments	**(69)**	—	(69)	**(1,025)**	—	(1,025)
Total NOI	**21,419**	16,253	5,166	**61,122**	45,778	15,344

For the Quarter

Revenue

Revenues for the third quarter of 2014 increased by $28,454, or 32.9%, to $115,029. The increase, principally related to the LTC revenue which increased by $23,978 to $99,884, is due to the following:

- The former Specialty Care LTC homes (acquired in December 2013) contributed revenues for the third quarter of 2014 in the amount of $22,091.
- LTC same property revenues increased $1,887, primarily as a result of funding changes and the timing of revenue recognition related to the flow-through envelopes.

The Company also recorded MOHLTC reconciliation adjustments in the current quarter that decreased revenue by $69.

The retirement portfolio revenues increased by $3,361 to $10,192 due to the following:

- The former Specialty Care RR homes (acquired in December 2013) contributed revenues of $3,290 during the third quarter of 2014.
- The increase of $71 in the same property retirement revenues is attributable to higher ancillary revenues.

Home Care's revenue increased by $331 to $4,685. On a same property comparison, revenue increased by $573 to $4,685, primarily due to the higher personal support contract service volumes. The transactions revenue decline relates to the professional services that serviced the LTC homes which were internally transitioned, along with the related expenses, to LTC for internal management reporting purposes.

Operating Expenses

Operating expenses increased to $93,610 for the quarter compared to $70,322 in the same period last year. Of this $23,288 increase, LTC represented $20,128, which was attributed to:

- The former Specialty Care LTC homes (acquired in December 2013) incurred expenses of $18,328 for the third quarter of 2014.
- Same property expenses increased by approximately $1,800, due primarily to higher flow-through expenses of $1,239, which is consistent with the increased revenues in the flow-through envelopes.
- Other same property expense increases included utility costs of $121, dietary services $101 and maintenance costs of $70.

Retirement operating expenses for the quarter were $5,845, compared to $3,641 last year. The increase of $2,204 was related to:

- The former Specialty Care RR homes (acquired in December 2013) incurred expenses of $1,984 for the third quarter of 2014.
- Same property operating expenses increased by $220 to $3,861. Consistent with managements' continued focus on cost constraint, expenses for the current quarter are consistent with the average expenditures incurred this year. In the prior year, expenses for the quarter were lower than the average run rate by approximately $174 due to timing.

Home Care's operating expenses increased by $552 to $4,138. On a same property basis, expenses increased by $685, which is primarily attributable to the higher personal support contract volumes, inclusive of recent changes in government policy which increased the wage rate for personal support workers working in the funded home care sector by $1.50 per hour effective April 1, 2014. The transactions expenses relating to the professional services that serviced the LTC homes was internally transitioned, along with the related expenses, to LTC for internal management reporting purposes.

Administrative Expenses

Administrative expenses increased to $4,388, during the third quarter of 2014, compared to $2,786 for the third quarter of 2013. The increase of $1,602 was primarily the result of:

- Higher people related costs of approximately $976 mainly as a result of the Specialty Care Acquisition which closed in December 2013, due to the increase in staffing of the head office team to support the significant growth of the Company and to strengthen the retirement home management expertise.
- Incremental costs of $218 associated with integration and back office automation.
- Increased public company costs of $245, primarily due to the year over year change in the deferred share unit mark-to-market adjustment related to the movement in the share price.

Depreciation and Amortization

Depreciation and amortization increased to $9,651 for the quarter, from $7,081 for the same period last year. The increase was principally related to the incremental depreciation and amortization of the acquired assets.

Net Finance Charges

Net finance charges for the three months ended September 30, 2014 were $5,380, compared to $6,249, for the same period last year. The decrease of $869 was principally the result of:

- In the prior year, the Company incurred charges of $1,214 related to the dividend equivalent accounting treatment on the subscription receipts that were issued in April 2013 in conjunction with the Specialty Care Acquisition.
- Lower finance charges related to the Series B Debentures of approximately $1,196 for the quarter compared to the prior year.
- Interest income on construction funding was higher by $314, mainly attributable to the Specialty Care Acquisition which closed in December 2013.

Partly offset by:

- Finance charges related to the former Specialty Care homes acquired in December 2013 totaled $1,391.
- A loss on the mark-to-market adjustment of the interest rate swaps, where hedge accounting has not been applied, of $31 compared to gain of $195 in the comparable period of 2013.

Income Taxes

The income tax expense for the three months ended September 30, 2014 was $300 compared to $327 in the comparable period last year. The current tax expense of $240 is $657 lower than the prior year. The decrease in current taxes is primarily due to the tax shield related to the Series A Debenture refinancing. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. The deferred tax expense of $60 in the quarter represents an increase of $630 over the comparable period last year primarily as a result of timing differences.

NOI

Leisureworld generated NOI of $21,419 for the period ended September 30, 2014. This represented an increase of $5,166 over the comparable quarter of 2013.

LTC NOI increased by $3,850 for the quarter, due primarily to the Specialty Care Acquisition which closed in December 2013.

The retirement segment generated NOI of $4,347, an increase of $1,157 over the same period last year due primarily to the Specialty Care Acquisition which closed in December 2013.

Home Care's NOI of $547 reflects a decrease of $112 over the comparable period for the same property. This year over year performance was the result of margin pressures on the personal support contract volumes and a decline in the private pay activity.

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

For the Year to Date

Revenue

Revenues for the nine months ended September 30, 2014 increased by $85,535, or 33.7%, to $339,043. The increase, principally related to the LTC revenue which increased by $73,145 to $295,348, was due to the following:

- The former Specialty Care LTC homes (acquired in December 2013) contributed revenues of $65,624.
- LTC same property revenues increased by $7,521, primarily as a result of funding changes and the timing of revenue recognition related to the flow-through envelopes.

The retirement portfolio revenues increased by $10,521 to $30,370 due to the following:

- The former Specialty Care RR homes (acquired in December 2013) contributed revenues of $9,631, during the first nine months of 2014.
- The change in the same property retirement revenues of $890 is primarily attributable to higher average occupancy.

Home Care's revenue increased by $235 to $13,373. On a same property period over period basis, revenue increased $964 to $13,373. This increase was primarily related to higher support services contract volumes, partly offset by the decline in private pay services. The transactions revenues related to the professional services that serviced the LTC homes which were internally transitioned, along with the related expenses, to LTC for internal management reporting purposes.

Operating Expenses

Operating expenses increased to $277,921 for the nine months ended September 30, 2014, compared to $207,730 in the same period last year. Of this $70,191 increase, LTC accounted for $61,917, which was attributed to:

- The former Specialty Care LTC homes (acquired in December 2013) incurred expenses of $55,000, during the first nine months of 2014.
- Same property expenses increased by approximately $6,917, due primarily to higher flow-through expenses, which is consistent with the increased revenues in the flow-through envelopes.
- Other same property expense increases included utility costs of $418, dietary services of $210 and property maintenance costs of $158. The increases are primarily due to the extreme winter conditions experienced during the first quarter of 2014.

Retirement operating expenses for the year to date period were $17,383, compared to $11,229 last year. The increase of $6,154 was related to:

- The former Specialty Care RR homes (acquired in December 2013) incurred expenses of $5,918 for the nine months ended September 30, 2014.
- Same property expenses increased slightly, primarily as a result of the quarterly variance previously discussed.

Home Care's expenses of $11,522 increased by $747 over the same period for the prior year. On a same property basis, expenses increased by $1,127, which is attributable to the higher volume of personal support contracts associated with the higher revenues, as well as the associated increase in the personal support worker pay rate as described in the quarter. The transaction expenses related to the professional services that serviced the LTC homes which were internally transitioned, along with the related expenses, to LTC for internal management reporting purposes.

Administrative Expenses

Administrative expenses increased to $13,085 during the nine months ended September 30, 2014, compared to $9,749 for the same period in 2013. The increase of $3,336 was primarily the result of:

- Higher people related costs of approximately $2,710 mainly as a result of the Specialty Care Acquisition which closed in December 2013, due to the increase in staffing of the head office team to support the significant growth of the Company and to strengthen the retirement home management expertise.
- Incremental costs of $629 associated with integration and back office automation.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2014 increased to $29,693 from $21,043 for the same period last year. The increase was principally related to the incremental depreciation and amortization of the acquired assets.

Net Finance Charges

Net finance charges for the nine months ended September 30, 2014 were $40,286, compared to $16,019, for the same period last year. The increase of $24,267 was principally the result of:

- The redemption of the Series A Debentures resulted in incremental finance charges of approximately $23,353, as discussed in the first quarter results.
- Finance charges related to the former Specialty Care homes acquired in December 2013 totaled $4,262.
- The convertible debentures incurred incremental interest of $816.

- There was a loss on the mark-to-market adjustment of the interest rate swaps, where hedge accounting has not been applied, of $543 compared to a gain of $1,439 in the comparable period of 2013.

This was partly offset by:

- Lower interest incurred on the Series B Debentures of approximately $2,233.
- The prior year included a charge for the dividend equivalent accounting treatment on the subscription receipts of $2,485.
- Higher interest income on construction funding of $892.

Transaction Costs

For the nine months ended September 30, 2014, transaction costs were $716, and primarily related to restructuring charges associated with the Specialty Care Acquisition.

Income Taxes

The income tax recovery for the nine months ended September 30, 2014 was $6,613 compared to $260 in the comparable period last year. The current tax recovery of $1,938 was primarily the result of the tax shield created by the redemption premium paid on the Series A Debentures and the settlement of a bond-lock hedge recorded in the first quarter. In addition, there was a book to filing adjustment of approximately $452 recorded in the second quarter. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.47%. The deferred tax recovery of $4,675 is an increase of $2,642 over last year primarily as a result of the tax shields discussed in the previous quarter.

NOI

Leisureworld generated NOI of $61,122 for the nine months ended September 30, 2014. This represented an increase of $15,344 over the same period of 2013.

LTC NOI increased by $11,228 for the period, due primarily to the Specialty Care Acquisition which closed in December 2013 and a 1.7% improvement in same property performance.

The retirement segment generated NOI of $12,987, an increase of $4,367 over the same period last year due primarily to the Specialty Care Acquisition which closed in December 2013 and a 7.6% improvement in same property performance.

Home Care's NOI of $1,851 reflects a decrease of $512 over the comparable period. Same property NOI declined by $163. The year over year same property performance is primarily due to the decrease in NOI attributable to the lower private pay services, and the increases in administrative expenses only partly offset by the increased volumes for the personal support contracts which were negatively impacted by the increase in personal support worker wage rates.

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

Business Performance

Adjusted Funds from Operations

The following is a reconciliation of net income (loss) to FFO, OFFO and AFFO for the periods ended September 30.

Thousands of Dollars, except share and per share data	Three Months Ended			Nine Months Ended		
	2014	2013	Change	**2014**	2013	Change
Net income (loss)	**1,643**	(706)	2,349	**(16,045)**	(3,036)	(13,009)
Deferred income tax provision (recovery)	**60**	(570)	630	**(4,675)**	(2,033)	(2,642)
Depreciation and amortization	**9,651**	7,081	2,570	**29,693**	21,043	8,650
Transaction costs	**57**	516	(459)	**716**	2,263	(1,547)
Net settlement payment on interest rate swap contracts	**89**	95	(6)	**275**	456	(181)
Loss (gain) on interest rate swap contracts	**31**	(195)	226	**543**	(1,439)	1,982
Funds from operations (FFO)	**11,531**	6,221	5,310	**10,507**	17,254	(6,747)
Net accretion of fair value increment on long-term debt	**(205)**	435	(640)	**3,383**	1,289	2,094
Amortization of deferred financing charges	**284**	244	40	**1,365**	569	796
Amortization of loss on bond forward contract	**200**	—	200	**518**	—	518
Net settlement payment on interest rate swap contracts	**(89)**	(95)	6	**(275)**	(456)	181
Redemption premium on Series A Debentures	**—**	—	—	**18,392**	—	18,392
Tax shield due to redemption premium on Series A Debentures	**(700)**	—	(700)	**(1,666)**	—	(1,666)
Tax shield due to the settlement of the bond-lock hedge	**—**	—	—	**(1,650)**	—	(1,650)
Interest income on subscription receipt funds held in escrow	**—**	(216)	216	**—**	(374)	374
MOHLTC reconciliation adjustment (after tax)	**50**	—	50	**753**	—	753
One-time share based compensation	**—**	—	—	**—**	5	(5)
Dividend equivalents on subscription receipts	**—**	1,430	(1,430)	**—**	2,859	(2,859)
Operating funds from operations (OFFO)	**11,071**	8,019	3,052	**31,327**	21,146	10,181
Deferred share unit compensation earned	**178**	(78)	256	**617**	697	(80)
Deferred share unit settlement	**—**	—	—	**(73)**	—	(73)
Income support	**76**	31	45	**582**	694	(112)
Construction funding principal	**2,212**	1,540	672	**6,666**	4,600	2,066
Maintenance capex	**(1,196)**	(555)	(641)	**(2,027)**	(1,432)	(595)
Adjusted funds from operations (AFFO)	**12,341**	8,957	3,384	**37,092**	25,705	11,387
Adjusted funds from operations (AFFO)	**12,341**	8,957	3,384	**37,092**	25,705	11,387
Dividends declared	**(8,160)**	(6,598)	(1,562)	**(24,477)**	(19,779)	(4,698)
Operating cash flow retained	**4,181**	2,359	1,822	**12,615**	5,926	6,689
Basic FFO per share	**0.318**	0.212	0.106	**0.290**	0.589	(0.299)
Basic OFFO per share	**0.305**	0.273	0.032	**0.864**	0.722	0.142
Basic AFFO per share	**0.340**	0.305	0.035	**1.023**	0.877	0.146
Weighted average common shares outstanding - Basic	**36,265,458**	29,321,387		**36,260,492**	29,296,846	
Diluted FFO per share	**0.306**	0.208	0.098	**0.301**	0.581	(0.280)
Diluted OFFO per share	**0.294**	0.264	0.030	**0.834**	0.707	0.127
Diluted AFFO per share	**0.327**	0.293	0.034	**0.982**	0.855	0.127
Weighted average common shares outstanding - Diluted[1]	**39,011,727**	32,067,656		**39,006,761**	30,897,878	

Reconciliation of diluted FFO, OFFO and AFFO

Thousands of Dollars, except share and per share data	Three Months Ended **2014**	2013	Change	Nine Months Ended **2014**	2013	Change
FFO, Basic	**11,531**	6,221	5,310	**10,507**	17,254	(6,747)
Interest expense on convertible debt	**557**	569	(12)	**1,654**	962	692
Current income tax expense adjustment	**(147)**	(118)	(29)	**(438)**	(255)	(183)
FFO, Diluted	**11,941**	6,672	5,269	**11,723**	17,961	(6,238)
OFFO, Basic	**11,071**	8,019	3,052	**31,327**	21,146	10,181
FFO dilutive adjustment, net	**410**	451	(41)	**1,216**	707	509
OFFO, Diluted	**11,481**	8,470	3,011	**32,543**	21,853	10,690
AFFO, Basic	**12,341**	8,957	3,384	**37,092**	25,705	11,387
OFFO dilutive adjustment, net	**410**	451	(41)	**1,216**	707	509
AFFO, Diluted	**12,751**	9,408	3,343	**38,308**	26,412	11,896

Note 1: For the prior year presentation, the weighted average number of shares outstanding excludes the Subscription Receipts that were issued in conjunction with the Specialty Care Acquisition. The reconciliation of the diluted weighted average shares outstanding and the impact on the FFO, OFFO and AFFO are as follows:

	Three Months 2014	2013	Nine Months 2014	2013
Weighted average common shares outstanding - Diluted, including subscription receipts	**n/a**	38,421,406	**n/a**	34,598,414
Subscription receipts, dilutive adjustment	**n/a**	(6,353,750)	**n/a**	(3,700,536)
Weighted average common shares outstanding - Diluted, excluding subscription receipts	**n/a**	32,067,656	**n/a**	30,897,878
Diluted FFO per share, including subscription receipts	**n/a**	0.174	**n/a**	0.519
Diluted FFO per share, excluding subscription receipts	**n/a**	0.208	**n/a**	0.581
Diluted OFFO per share, including subscription receipts	**n/a**	0.220	**n/a**	0.632
Diluted OFFO per share, excluding subscription receipts	**n/a**	0.264	**n/a**	0.707
Diluted AFFO per share, including subscription receipts	**n/a**	0.245	**n/a**	0.763
Diluted AFFO per share, excluding subscription receipts	**n/a**	0.293	**n/a**	0.855

For the Quarter

FFO

FFO was $11,531 during the three months ended September 30, 2014, compared to $6,221 in the same quarter of 2013. The change of $5,310 was primarily due to the contributions from transactional activity, lower net finance costs and the tax shield benefits associated with the Series A Debenture redemptions in the first quarter. These were partly offset by the increase in administrative expenses.

OFFO

OFFO, which reflects the Company's historical presentation of FFO, totaled $11,071, an increase of $3,052 over the same quarter last year. The increase was principally related to the contributions from the transaction activity, partly offset by higher net finance charges related to the Specialty Care Acquisition and an increase in administrative expenses.

AFFO

AFFO totaled $12,341, an increase of $3,384 over the same quarter of 2013. The increase was principally related to the improved OFFO performance noted above in addition to the incremental construction funding received as a result of the Specialty Care Acquisition which closed in December 2013 and the increase in the add back for the deferred share unit compensation. This was partly offset by higher maintenance capex.

For the Year to Date

FFO

FFO was $10,507 during the nine months ended September 30, 2014, compared to $17,254 in the same period of 2013. The change of $6,747 was primarily due to the costs incurred for the redemption of the Series A Debentures (the impacts of which are not adjusted as per the REALpac FFO definition), increased administrative expenses and the impact of the MOHLTC reconciliation adjustments. This was partly offset by contributions from transactional activity and the improved NOI contributions from the same property activities.

OFFO

OFFO, which reflects the Company's historical presentation of FFO, totaled $31,327, an increase of $10,181 over the same nine month period last year. The increase was principally related to transactional activity and the improved NOI performance from same property activities, partly offset by the increase in administrative expenses.

AFFO

AFFO totaled $37,092, an increase of $11,387 over the same period of 2013. The increase was principally related to the improved OFFO performance noted above in addition to the incremental construction funding received as a result of the Specialty Care Acquisition which closed in December 2013. This was partly offset by the increase in maintenance capex.

Liquidity and Capital Resources

Financial Position Analysis

The following is a summary of cash flows for the periods ended September 30.

	Three Months Ended			Nine Months Ended		
Thousands of Dollars	**2014**	2013	Change	**2014**	2013	Change
Cash flow from operations before non-cash working capital items	**17,215**	12,888	4,327	**48,153**	34,558	13,595
Non-cash changes in working capital	**7,269**	3,743	3,526	**2,846**	6,227	(3,381)
Bond forward settlement, redemption premium, interest paid and other items	**(6,054)**	(1,645)	(4,409)	**(41,627)**	(12,225)	(29,402)
Cash provided by (used in):						
Operating activities	**18,430**	14,986	3,444	**9,372**	28,560	(19,188)
Investing activities	**744**	1,809	(1,065)	**4,370**	(7,473)	11,843
Financing activities	**(9,908)**	(27,082)	17,174	**(5,578)**	(6,025)	447
Increase (decrease) in cash	**9,266**	(10,287)	19,553	**8,164**	15,062	(6,898)
Cash	**23,787**	24,305	(518)	**23,787**	24,305	(518)

For the Quarter

Operating Activities

For the current quarter ended September 30, 2014, operating activities provided $18,430 of cash due to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $17,215.
- Accounts payable and accrued liabilities increase of $7,157, primarily related to the timing wage and benefit accruals, increased trade payables, partly offset by the timing of interest payments.
- The change in income tax balances for the period of $2,284, mainly related to the receipt of the prior year tax refund.
- Decrease in accounts receivable and other assets of $902 as a result of timing of receipts.
- This was partly offset by interest paid on long-term debt of $8,249, which is higher than the prior year due to the timing of the semi-annual payments on the Series B Debentures versus the Series A Debentures.

For the third quarter of 2013, operating activities provided $14,986 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $12,888.
- Increase in accounts payable and accrued liabilities of $2,962, primarily related to the timing of wage and benefit accruals and payments.
- Favourable changes in the net balances of government funding of $426.

- Decrease in accounts receivables and other assets of $365 due to the timing of receipts.
- This was partly offset by interest payments of $1,092.

Investing Activities

Investing activities for the quarter provided $744 of cash. The principal source of cash is related to:

- Construction funding received in the amount of $3,270.
- This was partly offset by an increase in restricted cash of $1,337, primarily for the funding of the Series B Debentures principal reserve fund in the amount of $1,292.
- Purchase of equipment of $1,207.

For the comparable quarter of 2013, investing activities provided $1,809 of cash, primarily as a result of construction funding of $2,284, partly offset by the purchase of equipment of $550.

Financing Activities

Financing activities in the quarter used $9,908 of cash. This was primarily related to dividends paid in the quarter of $8,160 and repayment of long-term debt of $1,720.

For the comparable period last year, financing activities used $27,082 of cash primarily as a result of the repayment of long-term debt of $20,352 and dividend payments in the amount of $6,598.

For the Year to Date

Operating Activities

For the current nine months ended September 30, 2014, operating activities provided $9,372 of cash due to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $48,153.
- Increase of accounts payable and accrued liabilities of $1,413, primarily related to the timing of wage and benefit accruals partly offset by decrease in trade payables and accruals.
- The change in income taxes balances for the period of $1,367 mainly related to the receipt of the prior year tax refund.
- Cash provided by the movement in net government funding balances of $1,192.
- This was partly offset by the redemption premium on the settlement of the Series A Debentures which used $18,392 of cash.
- Interest paid on long-term debt of $18,093.
- Increase in prepaid expenses and deposits of $1,018 as a result of timing.

For the nine months ended of the comparable period last year, operating activities provided $28,560 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $34,558.
- Cash provided by the movement in net government funding balances of $3,111.
- Lower accounts receivable and other assets of $2,154 as a result of timing of receipts.

- Accounts payable and accrued liabilities increased by $1,412, primarily due to the timing of wage and benefit accruals and payments, partly offset by lower trade payable balances.
- This was partly offset by interest payments of $10,316.
- Income taxes paid for the period of $1,453, mainly related to installment payments.
- Increase in prepaid expenses and deposits of $1,395 related to timing.

Investing Activities

Investing activities for the first nine months of 2014 provided $4,370 of cash. The principal source of cash is related to:

- Receipt of construction funding in the amount of $9,810.
- This was partly offset by an increase in restricted cash of $3,671, primarily for the funding of the Series B Debentures principal reserve fund.
- Additions to property and equipment of $2,038.

For the comparable period of 2013, investing activities used cash of $7,473, primarily as a result of:

- Deposit of $10,000 associated with the Specialty Care Acquisition.
- Purchase of the Christie Garden licences for $2,200.
- Purchase of equipment of $2,125.
- This was partly offset by the receipt of construction funding of $6,852.

Financing Activities

Financing activities used $5,578 of cash for the nine months ended September 30, 2014 which comprised of:

- Proceeds of $322,000 from the issuance of the Series B Debentures, which was offset by the repayment of long-term debt of $299,463, principally related to the Series A Debentures.
- Dividends paid of $24,475.
- Payment of deferred financing costs of $3,640 related to the issuance of the Series B Debentures.

For the comparable period last year, financing activities used $6,025 of cash primarily as a result of:

- Repayment of long-term debt of $46,905.
- Dividend payments in the amount of $19,776.
- This was partly offset by issuance of the convertible debentures for net proceeds of $44,160.
- Proceeds from the issuance of long-term debt of $17,974.

Capital Resources

Leisureworld's total debt as at September 30, 2014 was $618,970, excluding the Series B Debentures principal reserve fund of $3,431, compared to $598,703 as at December 31, 2013. The increase of $20,267 primarily relates to the issuance of the Series B Debentures. As at September 30, 2014, Leisureworld had committed and undrawn facilities of $26,000.

As of September 30, 2014, Leisureworld had a working capital deficiency of $115,539 arising from the current portion of long-term debt of $106,632, primarily relating to the $73,000 of credit facilities on Astoria and the

Ontario retirement homes maturing within a twelve-month period and the debt assumed in connection with the Specialty Care Acquisition maturing in the fourth quarter of the current year. In the Company's efforts to build a 10-year debt maturity ladder of amortizing debt, certain portions will be maturing in a 12-month period, and, as such, reflected as a current liability. This is considered the normal course of business. Management has entered into discussions with lenders to extend certain maturities and is anticipating settling part of the short term debt in cash provided by operations and refinancing the remaining components. To support Leisureworld's working capital deficiency, Leisureworld will use its operating cash flows and, if necessary, undrawn credit facilities.

Liquidity and Capital Commitments

Liquidity

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

Capital Commitments

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

Debt Strategy

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

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

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

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

Interest Coverage Ratio

Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations. In general, higher ratios indicate a lower risk of default. The interest coverage ratio is calculated as follows for the periods ending September 30:

	Three Months Ended		Nine Months Ended	
Thousands of Dollars, except ratio	**2014**	2013	**2014**	2013
Net finance charges	**5,380**	6,249	**40,286**	16,019
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**205**	(435)	**(3,383)**	(1,289)
Amortization of deferred financing charges	**(284)**	(244)	**(1,365)**	(569)
Amortization of loss on bond forward contracts	**(200)**	—	**(518)**	—
Redemption premium on Series A Debentures	**—**	—	**(18,392)**	—
Dividend equivalents on subscription receipts	**—**	(1,430)	**—**	(2,859)
Interest income on construction funding receivable	**1,058**	744	**3,144**	2,252
Interest income on subscription receipts funds held in escrow	**—**	216	**—**	374
Other interest income	**22**	75	**273**	161
Gain (loss) on interest rate swap contracts	**(31)**	195	**(543)**	1,439
Net finance charges, adjusted	**6,150**	5,370	**19,502**	15,528
EBITDA	**20,370**	15,751	**58,872**	42,881
Interest coverage ratio	**3.3**	2.9	**3.0**	2.8

The following is the reconciliation of net income (loss) to EBITDA for the periods ending September 30:

	Three Months Ended		Nine Months Ended	
Thousands of Dollars	**2014**	2013	**2014**	2013
Net income (loss)	**1,643**	(706)	**(16,045)**	(3,036)
Net finance charges	**5,380**	6,249	**40,286**	16,019
Provision for (recovery of) income taxes	**300**	327	**(6,613)**	(260)
Depreciation and amortization	**9,651**	7,081	**29,693**	21,043
Transaction costs	**57**	516	**716**	2,263
MOHLTC reconciliation adjustments	**69**	—	**1,025**	—
Proceeds from construction funding	**3,270**	2,284	**9,810**	6,852
EBITDA	**20,370**	15,751	**58,872**	42,881

Debt Service Coverage Ratio

Debt service coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations; as well, maintaining the debt service coverage ratio forms part of Leisureworld's debt covenant requirements. In general, higher ratios indicate a lower risk of default. The following calculation takes into consideration the payments into the Series B Debentures principal reserve fund as part of the debt service costs. EBITDA adjusted, as referenced below, is presented in accordance with defined terms in certain covenant calculations. The following is the calculation for the periods ended September 30:

Thousands of Dollars, except ratio	Three Months Ended 2014	2013	Nine Months Ended 2014	2013
Net finance charges	**5,380**	6,249	**40,286**	16,019
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**205**	(435)	**(3,383)**	(1,289)
Amortization of deferred financing charges	**(284)**	(244)	**(1,365)**	(569)
Amortization of loss on bond forward contracts	**(200)**	—	**(518)**	—
Redemption premium on Series A Debentures	**—**	—	**(18,392)**	—
Dividend equivalents on subscription receipts	**—**	(1,430)	**—**	(2,859)
Interest income on construction funding receivable	**1,058**	744	**3,144**	2,252
Interest income on subscription receipts funds held in escrow	**—**	216	**—**	374
Other interest income	**22**	75	**273**	161
Gain (loss) on interest rate swap contracts	**(31)**	195	**(543)**	1,439
Net finance charges, adjusted	**6,150**	5,370	**19,502**	15,528
Principal repayments	**1,720**	352	**5,137**	805
Principal reserve fund	**1,292**	—	**3,431**	—
Total debt service	**9,162**	5,722	**28,070**	16,333
EBITDA	**20,370**	15,751	**58,872**	42,881
Add (deduct):				
Maintenance capex	**(1,196)**	(555)	**(2,027)**	(1,432)
Cash income taxes	**2,284**	(458)	**1,367**	(1,453)
EBITDA, adjusted	**21,458**	14,738	**58,212**	39,996
Debt service coverage ratio	**2.3**	2.6	**2.1**	2.4

Leverage Ratio

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

Thousands of Dollars, except ratio	Three Months Ended 2014	2013	Nine Months Ended 2014	2013
Weighted average debt				
Series A Senior Secured Debentures	**—**	294,326	**89,436**	294,326
Series B Senior Secured Debentures	**322,000**	—	**263,293**	—
Series B Senior Secured Debentures - Principal Reserve Fund	**(1,292)**	—	**(3,431)**	—
Credit facilities	**73,000**	71,130	**73,000**	85,283
Mortgages	**172,092**	56,088	**172,092**	46,802
Construction loan	**13,351**	—	**13,351**	—
Convertible debentures	**46,000**	46,000	**46,000**	26,960
	625,151	467,544	**653,741**	453,371
EBITDA (Nine Months Ended Annualized)	**78,496**	57,175	**78,496**	57,175
Debt to EBITDA	**8.0**	8.2	**8.3**	7.9

Debt Profile

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

	Weighted Average Debt							
	Three Months Ended				Nine Months Ended			
	2014	**Rate (%)**	2013	Rate (%)	**2014**	**Rate (%)**	2013	Rate (%)
Fixed Rate								
Debenture	**322,000**	**3.47%**	294,326	4.81%	**342,373**	**3.71%**	294,326	4.81%
Mortgage	**172,092**	**4.67%**	56,088	4.50%	**172,092**	**4.67%**	46,802	4.79%
Convertible Debenture	**46,000**	**4.65%**	46,000	4.65%	**46,000**	**4.65%**	26,960	4.65%
Total Fixed	**540,092**	**3.95%**	396,414	4.75%	**560,465**	**3.95%**	368,088	4.80%
Floating Rate								
Credit Facility	**73,000**	**3.03%**	71,130	3.03%	**73,000**	**3.03%**	85,283	3.03%
Construction Loan	**13,351**	**4.25%**	—	—%	**13,351**	**4.25%**	—	—%
Total Floating	**86,351**	**3.22%**	71,130	3.03%	**86,351**	**3.22%**	85,283	3.03%
Total Debt	**626,443**	**3.85%**	467,544	4.49%	**646,816**	**3.96%**	453,371	4.47%

Debt to Gross Book Value

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

	As at September 30,	
Thousands of Dollars, except ratio	**2014**	2013
Total indebtedness		
Series A Senior Secured Debentures	—	294,326
Series B Senior Secured Debentures	**322,000**	—
Series B Senior Secured Debentures - Principal reserve fund	**(3,431)**	—
Credit facilities	**73,000**	52,000
Mortgages	**172,092**	56,088
Construction loan	**13,351**	—
Convertible debentures	**46,000**	46,000
	623,012	448,414
Total assets	**953,394**	826,498
Accumulated depreciation on property and equipment	**87,937**	63,977
Accumulated amortization on intangible assets	**54,731**	41,196
Gross book value	**1,096,062**	931,671
Debt to Gross Book Value	**56.8%**	48.1%

Capital Disclosure

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

Leisureworld's objectives when managing capital are to:

(i) maintain a capital structure that provides options to Leisureworld for accessing capital, on commercially reasonable terms, without exceeding its debt capacity, pursuant to limitations in its credit facilities, or taking on undue risks;
(ii) maintain financial flexibility in order to meet financial obligations, including debt service payments and regular dividend payments; and
(iii) deploy capital to provide an appropriate investment return to its shareholders.

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

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

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

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

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

Contractual Obligations and Other Commitments

Long-Term Debt

Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Construction Loans	Amortizing Debt: Regular Principal Payments	Amortizing Debt: Principal Due at Maturity	Total	% of Total	Weighted Average Interest on Maturing Debt
2014	—	—	—	13,351	1,709	13,243	28,303	4.5%	4.6%
2015	—	73,000	—	—	6,444	—	79,444	12.7%	3.0%
2016	—	—	—	—	6,745	10,020	16,765	2.7%	4.2%
2017	—	—	—	—	5,595	32,506	38,101	6.1%	4.8%
2018	—	—	46,000	—	5,109	22,217	73,326	11.7%	5.0%
2019	—	—	—	—	3,938	37,860	41,798	6.7%	4.3%
2020	—	—	—	—	1,181	—	1,181	0.2%	—%
2021	322,000	—	—	—	1,232	—	323,232	51.6%	3.5%
2022	—	—	—	—	1,284	—	1,284	0.2%	—%
2023	—	—	—	—	953	12,407	13,360	2.1%	3.0%
Thereafter	—	—	—	—	4,172	5,477	9,649	1.5%	5.2%
	322,000	73,000	46,000	13,351	38,362	133,730	626,443	100.0%	
Mark-to-market adjustment arising from acquisition							2,046		
Less: Deferred financing costs							(4,271)		
Less: Deferred financing costs convertible debentures							(1,302)		
Less: Equity component of convertible debentures							(515)		
							622,401		

Convertible Debentures

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

Operating Leases

Leisureworld has a 10-year lease with respect to its Markham corporate office, which expires on December 31, 2015. This lease was amended, effective November 1, 2014, to include additional space at the same location to accommodate all head office employees. The amendment includes the assignment of the assumed office lease in Vaughan which expires in August, 2019. The amendment is for a duration of 10 years and expires October 31, 2024. As well, there are various operating leases for office and other equipment that expire over the next five years and thereafter.

Related Party Transactions

A subsidiary of Leisureworld has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the three months ended September 30, 2014 was $478 (2013 - $499) and nine months ended September 30, 2014 was $1,416 (2013 - $1,487). Included in accounts receivable is $79 owing from Spencer House Inc. at September 30, 2014 (December 31, 2013 - $94).

These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As at September 30, 2014, Leisureworld has amounts outstanding from certain key executives of $290 (December 31, 2013 - $178) in relation to the long-term incentive plan issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, Leisureworld loaned the Chief Executive Officer (the "**CEO**") $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as at September 30, 2014 was $473 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

Key Performance Drivers

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

Government funding

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

Occupancy levels enhance cash flow

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

Under current MOHLTC policy, a LTC home that provides basic accommodation for at least 40% of residents in Class A homes may offer the remaining residents private or semi-private accommodation at a regulated premium. The LTC home operator retains the premiums collected from residents for such accommodation. Effective for September 1, 2014, the MOHLTC will increase the private room premium to $23.25 per day and $11.00 per day for semi-private accommodations for all new admissions in Class A homes. Existing residents were grandfathered at the historic rates. Leisureworld has approximately 35% of its beds designated as private accommodation and has converted approximately 50% of the resident base from the previous daily rates to the new prescribed rates in the Class A homes.

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

Disciplined cost management

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

Ensuring continued maintenance and upgrade of properties

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

Significant Judgments and Estimates

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

Financial Instruments

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

Critical Accounting Estimates and Accounting Policies

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

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

Changes in Accounting Policies

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

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

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

IFRS Interpretation Committee ("IFRIC") 21, Levies

This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, contingent liabilities and contingent assets. The interpretation requires the recognition of a liability when the event, identified by the legislation as triggering the obligation to pay the levy occurs. The adoption of IFRIC 21 did not require any adjustments in the way Leisureworld accounts for paying a levy.

Accounting Standards Issued But Not Yet Applied

IFRS 9, Financial Instruments

IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, Financial instruments: recognition and measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on Leisureworld's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is chosen for financial liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income (loss), unless this creates an accounting mismatch. During the third quarter of 2014, IFRS 9 was amended to establish a mandatory effective date of January 1, 2018. Leisureworld has not adopted this standard and management has not yet determined the impact of this standard.

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

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

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

Controls and Procedures

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

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

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

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

Q3 2014

Leisureworld
SENIOR CARE CORPORATION

Consolidated Financial Statements
(in thousands of Canadian Dollars)

Condensed Interim Consolidated Financial Statements

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Condensed Interim Consolidated Statements of Financial Position (Unaudited)

Thousands of dollars

	Notes	**September 30, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash		**23,787**	15,623
Accounts receivable and other assets	14	**5,025**	5,670
Bond forward contracts		**—**	1,885
Income support		**718**	1,300
Prepaid expenses and deposits		**4,372**	3,546
Government funding receivable		**5,896**	6,113
Construction funding receivable		**9,256**	8,975
Income taxes receivable		**1,831**	1,260
		50,885	44,372
Government funding receivable		**1,112**	614
Interest rate swap contract		**286**	—
Restricted cash	5	**4,584**	913
Construction funding receivable		**86,926**	93,873
Property and equipment		**581,892**	598,489
Intangible assets		**128,905**	139,959
Goodwill		**98,804**	98,804
Total assets		**953,394**	977,024
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	11	**56,205**	53,818
Government funding payable		**3,464**	1,605
Current portion of long-term debt	6	**106,632**	34,079
Interest rate swap contract		**123**	43
		166,424	89,545
Long-term debt	6	**471,586**	520,796
Convertible debentures	7	**44,183**	43,828
Deferred income taxes	9	**58,503**	65,190
Government funding payable		**2,681**	3,067
Share-based compensation liability	12	**2,272**	1,677
Interest rate swap contract		**1,183**	435
Total liabilities		**746,832**	724,538
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**206,562**	252,486
Total liabilities and shareholders' equity		**953,394**	977,024

See accompanying notes.

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

"Dino Chiesa"

Dino Chiesa
Chairman and Director

"Janet Graham"

Janet Graham
Director

Thousands of dollars

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2014		**371,789**	**515**	**27**	**(121,231)**	**1,386**	**252,486**
Issuance of shares	**12**	**123**	**—**	**—**	**—**	**—**	**123**
Net loss		**—**	**—**	**—**	**(16,045)**	**—**	**(16,045)**
Other comprehensive loss		**—**	**—**	**—**	**—**	**(5,589)**	**(5,589)**
Long-term incentive plan	**12**	**16**	**—**	**32**	**—**	**—**	**48**
Share purchase loan	**14**	**16**	**—**	**—**	**—**	**—**	**16**
Dividends	**11**	**—**	**—**	**—**	**(24,477)**	**—**	**(24,477)**
Balance, September 30, 2014		**371,944**	**515**	**59**	**(161,753)**	**(4,203)**	**206,562**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2013		289,098	—	10	(84,952)	—	204,156
Issuance of convertible debentures	7	—	515	—	—	—	515
Net loss		—	—	—	(3,036)	—	(3,036)
Long-term incentive plan	12	11	—	17	—	—	28
Share purchase loan	14	6	—	—	—	—	6
Share-based compensation	12	5	—	—	—	—	5
Dividends	11	—	—	—	(19,779)	—	(19,779)
Balance, September 30, 2013		289,120	515	27	(107,767)	—	181,895

See accompanying notes.

Thousands of dollars, except per share and per share data

Consolidated Statements of Operations

	Notes	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Revenue	14, 15	**115,029**	86,575	**339,043**	253,508
Expenses					
Operating		**93,610**	70,322	**277,921**	207,730
Administrative		**4,388**	2,786	**13,085**	9,749
	16	**97,998**	73,108	**291,006**	217,479
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes		**17,031**	13,467	**48,037**	36,029
Depreciation and amortization		**9,651**	7,081	**29,693**	21,043
Net finance charges	8	**5,380**	6,249	**40,286**	16,019
Transaction costs		**57**	516	**716**	2,263
Total other expenses		**15,088**	13,846	**70,695**	39,325
Income (loss) before provision for (recovery of) income taxes		**1,943**	(379)	**(22,658)**	(3,296)
Provision for (recovery of) income taxes					
Current		**240**	897	**(1,938)**	1,773
Deferred		**60**	(570)	**(4,675)**	(2,033)
	9	**300**	327	**(6,613)**	(260)
Net income (loss)		**1,643**	(706)	**(16,045)**	(3,036)
Income (loss) per share - Basic and Diluted		**$0.05**	($0.02)	**($0.44)**	($0.10)
Weighted average number of common shares outstanding - Basic		**36,265,458**	29,321,387	**36,260,492**	29,296,846
Weighted average number of common shares outstanding - Diluted		**39,011,727**	38,421,406	**39,006,761**	34,598,414

Consolidated Statements of Comprehensive Income (Loss)

	Notes	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Net income (loss)		**1,643**	(706)	**(16,045)**	(3,036)
Items that may be subsequently reclassified to statement of operations:					
Realized gain (loss) on bond forward contracts, net of tax	6	**147**	—	**(5,589)**	—
Total comprehensive income (loss)		**1,790**	(706)	**(21,634)**	(3,036)

See accompanying notes.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

Thousands of dollars

	Notes	Three months ended September 30		Nine months ended September 30	
		2014	2013	**2014**	2013
OPERATING ACTIVITIES					
Net income (loss)		**1,643**	(706)	**(16,045)**	(3,036)
Add (deduct) items not affecting cash					
Depreciation of property and equipment		**6,220**	5,080	**18,635**	15,110
Amortization of intangible assets		**3,431**	2,001	**11,058**	5,933
Current income taxes		**240**	897	**(1,938)**	1,773
Deferred income taxes		**60**	(570)	**(4,675)**	(2,033)
Share-based compensation	12	**241**	(63)	**832**	792
Net finance charges	8	**5,380**	6,249	**40,286**	16,019
		17,215	12,888	**48,153**	34,558
Non-cash changes in working capital					
Accounts receivable and other assets		**902**	365	**677**	2,154
Prepaid expenses and deposits		**415**	(57)	**(1,018)**	(1,395)
Accounts payable and accrued liabilities		**7,157**	2,962	**1,413**	1,412
Income support		**76**	47	**582**	945
Government funding, net		**(1,281)**	426	**1,192**	3,111
		7,269	3,743	**2,846**	6,227
Net settlement payment on bond forward contracts		**—**	—	**(6,234)**	—
Redemption premium paid on long-term debt		**—**	—	**(18,392)**	—
Interest paid on long-term debt		**(8,249)**	(1,092)	**(18,093)**	(10,316)
Net settlement payment on interest rate swap contracts		**(89)**	(95)	**(275)**	(456)
Income taxes refunded (paid)		**2,284**	(458)	**1,367**	(1,453)
Cash provided by operating activities		**18,430**	14,986	**9,372**	28,560
INVESTING ACTIVITIES					
Purchase of property and equipment		**(1,207)**	(550)	**(2,038)**	(2,125)
Purchase of intangible assets		**(4)**	—	**(4)**	(2,200)
Amounts received from construction funding		**3,270**	2,284	**9,810**	6,852
Interest received from cash		**22**	75	**273**	161
Acquisition related deposit		**—**	—	**—**	(10,000)
Change in restricted cash		**(1,337)**	—	**(3,671)**	(161)
Cash provided by (used in) investing activities		**744**	1,809	**4,370**	(7,473)
FINANCING ACTIVITIES					
Net proceeds from issuance of subscription receipts		**—**	—	**—**	77,211
Subscription receipts issuance costs		**—**	—	**—**	(464)
Subscription receipts funds held in escrow		**—**	(209)	**—**	(77,420)
Interest received from subscription receipts funds held in escrow		**—**	209	**—**	209
Net proceeds from issuance of convertible debentures		**—**	—	**—**	44,160
Repayment of long-term debt		**(1,720)**	(20,352)	**(299,463)**	(46,905)
Proceeds from issuance of long-term debt		**—**	—	**322,000**	17,974
Deferred financing costs		**(28)**	(132)	**(3,640)**	(1,014)
Dividends paid	11	**(8,160)**	(6,598)	**(24,475)**	(19,776)
Cash used in financing activities		**(9,908)**	(27,082)	**(5,578)**	(6,025)
Increase (decrease) in cash during the period		**9,266**	(10,287)	**8,164**	15,062
Cash, beginning of period		**14,521**	34,592	**15,623**	9,243
Cash, end of period		**23,787**	24,305	**23,787**	24,305

See accompanying notes.

1 Organization

General information and nature of operations

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

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

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

Leisureworld is listed on the Toronto Stock Exchange (the "TSX") under the trading symbol LW. As of September 30, 2014, the following securities of Leisureworld were outstanding: 36,265,458 common shares; $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: LW.DB) which, in the aggregate, are convertible into 2,746,269 common shares (Note 7).

2 Basis of preparation

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

The interim consolidated financial statements were approved by the Board of Directors for issue on November 12, 2014.

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

3 Summary of significant accounting policies, judgments and estimation uncertainty

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

Changes in accounting policies

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

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

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

IFRS Interpretation Committee ("IFRIC") 21, Levies

This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, contingent liabilities and contingent assets. The interpretation requires the recognition of a liability when the event, identified by the legislation as triggering the obligation to pay the levy occurs. The adoption of IFRIC 21 did not require any adjustments in the way Leisureworld accounts for paying a levy.

Significant judgments and estimates

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

4 Financial instruments

Fair value of financial instruments

Leisureworld's use of unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3) in the valuation of financial instruments are as follows as at September 30, 2014 and December 31, 2013:

	As at September 30, 2014			
		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Financial Assets:				
Construction funding receivable	**96,182**	**—**	**—**	**100,880**
Interest rate swap contract	**286**	**—**	**286**	**—**
Financial Liabilities:				
Long-term debt	**578,218**	**—**	**591,602**	**—**
Convertible debentures	**44,183**	**46,575**	**—**	**—**
Interest rate swap contract	**1,306**	**—**	**1,306**	**—**

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

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

Liquidity risk

Liquidity risk is the risk Leisureworld may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. Leisureworld has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. Leisureworld was in compliance with all covenants on its borrowings as at September 30, 2014. A failure by Leisureworld to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at September 30, 2014, Leisureworld has negative working capital of $115,539 (December 31, 2013 - $45,173) resulting from certain mortgages, credit facilities and a construction loan becoming due within the next twelve months. Management has entered into discussions with lenders to extend certain maturities and is anticipating settling part of the short-term debt in cash provided by operations and refinancing the remaining components of mortgages totaling $13,389, credit facilities totaling $73,000 and a construction loan totaling $13,351. There can be no assurances that the amounts or terms of any refinancing would be favourable to Leisureworld. To support Leisureworld's working capital deficiency, Leisureworld will use its operating cash flows and, if necessary, undrawn credit facilities.

5 Restricted cash

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

	September 30, 2014	December 31, 2013
Capital maintenance reserve	**1,153**	913
Series B Debenture principal reserve fund	**3,431**	—
Restricted cash	**4,584**	913

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	**September 30, 2014**	December 31, 2013
Series A Senior Secured Debentures	4.814%	November 24, 2015	**—**	294,326
Series B Senior Secured Debentures	3.474%	February 3, 2021	**322,000**	—
Credit facilities	Floating	April/May 2015	**73,000**	73,000
Mortgages at fixed rates	3.02% - 7.11%	2014 - 2023	**157,267**	162,083
Mortgage at variable rate	Floating	April 16, 2029	**14,825**	15,146
Construction loan	Prime + 1.25%	December 31, 2014	**13,351**	13,351
			580,443	557,906
Mark-to-market adjustments on acquisition			**2,046**	(1,337)
Financing costs			**(4,271)**	(1,694)
Total debt			**578,218**	554,875
Less: current portion			**106,632**	34,079
			471,586	520,796

Series A and B Senior Secured Debentures

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

The Series B Debentures have a face value of $322,000 as at September 30, 2014 (December 31, 2013 - $nil) and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Interest on the Series B Debentures is payable semi-annually in arrears on February 3rd and August 3rd of each year.

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

Series B Debentures - Principal Reserve Fund

As part of the issuance of the Series B Debentures, a principal reserve fund was established by Leisureworld and is controlled by an external third party trustee for the benefit and security of the holders of the Series B Debentures. Leisureworld is required to fund the principal reserve fund in accordance with a defined schedule over the term of the Series B Debentures. Leisureworld can only use the fund to redeem, purchase or repay principal of the Series B Debentures. Leisureworld, in conjunction with the issuance of the Series B Debentures, entered into an interest rate swap contract, to effectively fix the interest rate earned on the principal reserve fund at 2.82%.

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

Required contributions to the principal reserve fund are as follows:

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

Offsetting of Financial Instruments

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

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset as at September 30, 2014 (December 31, 2013 - n/a), and shows in the 'Net amount' column what the net impact would be on Leisureworld's condensed interim consolidated statements of financial position if the set-off rights were exercised in the circumstance described above. As at September 30, 2014, no recognized financial instruments are offset in the condensed interim consolidated statements of financial position.

	As at September 30, 2014		
	Gross amount presented in the statement of financial position	Related accounts not set-off in the statement of financial position	Net amount
Financial Liabilities:			
Series B Senior Secured Debentures	322,000	(3,431)	318,569

Credit facilities

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

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

Mortgages at fixed rates

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

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

On December 2, 2013, Leisureworld completed the acquisition of the Specialty Care Inc. business (“Specialty Care Acquisition”). As part of the Specialty Care Acquisition, Leisureworld assumed mortgages in the amount of $59,229 with a fair value of $61,299. The assumed mortgages bear fixed interest rates ranging from 3.02% to 7.11% with maturity dates ranging from 2014 to 2018. The mortgages are secured by a first charge on all assets owned by Leisureworld and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

In addition, to fund the Specialty Care Acquisition, Leisureworld entered into new mortgages totaling $62,540 on December 2, 2013. The new mortgages bear interest rates ranging from 4.30% to 4.60% with maturity dates ranging from 2018 to 2019. The mortgages are secured by a first charge on all assets owned by Leisureworld and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

Mortgage at variable rate

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

Construction loan

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

7 Convertible debentures

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

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

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

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

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

8 Net finance charges

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Finance costs				
Interest expense on long-term debt	**5,444**	4,673	**17,461**	13,971
Interest expense on convertible debentures	**557**	569	**1,654**	962
Interest expense and fees on revolving credit facility	**60**	33	**112**	139
Net accretion of the fair value adjustments on long-term debt	**(205)**	435	**3,383**	1,289
Amortization of deferred financing charges	**284**	244	**1,365**	569
Amortization of loss on bond forward contract	**200**	—	**518**	—
Redemption premium on Series A Debentures (Note 6)	**—**	—	**18,392**	—
Net settlement payment on interest rate swap contracts	**89**	95	**275**	456
Dividend equivalent on subscription receipts	**—**	1,430	**—**	2,859
Loss (gain) on interest rate swap contract	**31**	(195)	**543**	(1,439)
	6,460	7,284	**43,703**	18,806
Finance income				
Interest income on construction funding receivable	**1,058**	744	**3,144**	2,252
Interest income on subscription receipts funds held in escrow	**—**	216	**—**	374
Other interest income	**22**	75	**273**	161
	1,080	1,035	**3,417**	2,787
Net finance charges	**5,380**	6,249	**40,286**	16,019

9 Income taxes

Total income tax expense (recovery) for the three and nine months ended September 30, 2014 can be reconciled to the condensed interim consolidated statements of operations and comprehensive income (loss) as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Income (loss) before provision for (recovery of) income taxes	**1,943**	(379)	**(22,658)**	(3,296)
Canadian combined income tax rate	**26.47%**	26.47%	**26.47%**	26.47%
Income tax expense (recovery)	**513**	(100)	**(5,998)**	(872)
Adjustments to income tax provision:				
Non-deductible items	**24**	391	**105**	798
Book to filing adjustment	**—**	—	**(452)**	—
Other items	**(237)**	36	**(268)**	(186)
Income tax expense (recovery)	**300**	327	**(6,613)**	(260)

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

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at December 31, 2013	(65,824)	(8,746)	2,414	7,762	(796)	(65,190)
Credit (charge) to net loss	1,288	2,020	(954)	(832)	2,755	4,277
Book to filing adjustment	1,121	—	—	(952)	76	245
Credit to other comprehensive loss	—	—	16	—	2,149	2,165
As at September 30, 2014	**(63,415)**	**(6,726)**	**1,476**	**5,978**	**4,184**	**(58,503)**

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

	September 30, 2014	December 31, 2013
Within one year	**(138)**	(3,409)
One to four years	**(8,000)**	(6,829)
After four years	**(50,365)**	(54,952)
Total	**(58,503)**	(65,190)

10 Share capital

Authorized

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

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2013	29,272,889	289,098
Long-term incentive plan, net of loans receivable	9,435	14
Share-based compensation	—	5
Issued common shares	39,063	12
Common shares issued in exchange of subscription receipts, net of tax and transaction costs	6,353,750	76,157
Common shares issued to vendor	564,516	6,503
Balance, December 31, 2013	36,239,653	371,789
Long-term incentive plan, net of loans receivable	10,396	16
Share-based compensation	—	16
Dividend reinvestment plan	—	(62)
Issued common shares	15,409	185
Balance, September 30, 2014	**36,265,458**	**371,944**

Dividend reinvestment plan

Leisureworld has established a dividend reinvestment plan for eligible holders of Leisureworld's common shares, which allows participants to reinvest their cash dividends paid in respect of their common shares in additional common shares at a 3% discount. Total costs incurred related to the dividend reinvestment plan for the nine months ended September 30, 2014 were $62. The dividend reinvestment plan will commence with the dividends to be paid on November 14, 2014 to shareholders on record as of October 31, 2014.

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

11 Dividends

Leisureworld paid dividends at $0.075 per month per common share totaling $8,160 for the three months ended and $24,475 for the nine months ended September 30, 2014, respectively (2013 - $6,598 and $19,776, respectively). Dividends of $2,720 are included in accounts payable and accrued liabilities as at September 30, 2014 (December 31, 2013 - $2,718). Subsequent to September 30, 2014, the Board of Directors declared dividends of $0.075 per common share for October 2014 totaling $2,720. These dividends have not been recorded in these condensed interim consolidated financial statements.

12 Share-based compensation

Leisureworld has share-based compensation plans described as follows:

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

On February 25, 2014 incentive amounts entitling Participants to acquire 10,396 shares were awarded under this plan. On the grant date, the Participants paid $6, which represents 5% of their aggregate incentive amounts. This payment was recorded as an increase in share capital. Related to the LTIP in the nine months ended September 30, 2014, Leisureworld recorded an increase of $16 in share capital (2013 - $11) and $32 in contributed surplus (2013 - $17). Included as a reduction to shareholders’ equity is an outstanding loan balance of $290 (December 31, 2013 - $178). Total expense related to the LTIP for the three and nine months ended September 30, 2014 were $nil and $32, respectively (2013 - $nil and $17, respectively).

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

Valuation date	February 25, 2014	February 21, 2013
Fair value at grant date	$12.30	$12.72
Volatility	16.46%	15.67%
Monthly discrete dividend	$0.075	$0.075
Risk-free rate	2.83%	1.79%
Annual interest rate on participant's loan - prime rate	3.00%	3.00%
Forfeiture rate	0.00%	0.00%

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

Restricted share units ("RSU")

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

During the nine months ended September 30, 2014, 23,730 RSUs were granted to certain Employees under this plan. Total expenses related to the RSU plan for the three and nine months ended September 30, 2014 were $63 and $271, respectively (2013 - $15 and $73, respectively), of which $63 and $183, respectively (2013 - $15 and $73, respectively), were recognized in administrative expenses and $nil and $88, respectively (2013 - $nil and $nil, respectively), were recognized in transaction costs relating to termination benefits. During the nine months ended September 30, 2014, one of the Employees resigned and 3,664 RSUs were forfeited causing a decrease of $11 to share-based compensation liability. During the same period, 18,200 RSUs vested and were settled in cash and shares, resulting in a decrease of $209 to share-based compensation liability. The total liability recorded as a part of the share-based compensation liability as at September 30, 2014 was $172 (December 31, 2013 - $121).

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

	Number of RSUs
Outstanding, January 1, 2013	11,489
Granted	20,190
Dividends reinvested	1,207
Settled in cash	(6,859)
Outstanding, December 31, 2013	26,027
Granted	23,730
Forfeited	(3,664)
Dividends reinvested	1,644
Settled in cash	(2,791)
Settled in shares	(15,409)
Outstanding, September 30, 2014	**29,537**

Deferred share units ("DSU")

Eligible members of the Board of Directors ("Members") can elect on an annual basis to receive their annual retainer fees up to 100% as DSUs, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using the Average Closing Price on the grant date. Leisureworld will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the DSUs, as long as the Member continues to serve on the Board of Directors, as additional notional units under DSU plan. The compensation, nominating and governance committee reserves the right to amend the eligible participants and compensation structure under this plan. The value of each

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DSU is measured at each reporting date and is equivalent to the fair market value of a common share of Leisureworld at the reporting date. Total expenses related to this plan for the three and nine months ended September 30, 2014 were $178 and $617, respectively (2013 - recovery of $78 and expense of $697, respectively), which was recognized in administrative expenses. The total liability recorded as a part of the share-based compensation liability as at September 30, 2014 was $2,100 (December 31, 2013 - $1,556).

13 Key management compensation

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Salaries and short-term employee benefits	**583**	420	**1,869**	803
Termination benefits	**—**	—	**232**	—
Share-based compensation	**236**	(63)	**816**	792
	819	357	**2,917**	1,595

Termination benefits have been included under the transaction costs line item on the condensed interim consolidated statements of operations and comprehensive income (loss).

14 Related party transactions

A subsidiary of Leisureworld has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the three months ended September 30, 2014 was $478 (2013 - $499) and nine months ended September 30, 2014 was $1,416 (2013 - $1,487). Included in accounts receivable is $79 owing from Spencer House Inc. at September 30, 2014 (December 31, 2013 - $94). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As at September 30, 2014, Leisureworld has amounts outstanding from certain key executives of $290 (December 31, 2013 - $178) (Note 12) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, Leisureworld loaned the Chief Executive Officer ("CEO") $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as at September 30, 2014 was $473 (December 31, 2013 - $489), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan which is personally guaranteed by the CEO.

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

15 Economic dependence

Leisureworld holds licences related to each of its LTC homes and receives funding from the MOHLTC related to these licences. Funding is received on or about the 22nd of each month. During the three and nine months ended September 30, 2014, Leisureworld received approximately $70,362 and $212,011, respectively (2013 - $56,394 and $163,604, respectively) in respect of these licences for operating revenues and other MOHLTC funded initiatives.

16 Expenses by nature

	Three months ended September 30		**Nine months ended September 30**	
	2014	2013	**2014**	2013
Salaries, benefits and people costs	**74,081**	56,359	**218,299**	166,739
Food	**5,167**	3,488	**14,002**	10,151
Property taxes	**3,258**	2,514	**9,987**	7,687
Utilities	**2,720**	1,932	**9,334**	6,525
Purchased services and non-medical supplies	**4,060**	3,287	**11,831**	9,750
Other	**8,712**	5,528	**27,553**	16,627
Total expenses	**97,998**	73,108	**291,006**	217,479

17 Segmented information

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

Leisureworld is comprised of the following main business segments:

- LTC business - LTC is the core business of Leisureworld;
- Retirement - Retirement includes 10 retirement residences;
- Home Care - Home Care is an accredited provider of professional nursing, personal support and education services for both community-based home care and LTC homes;
- Management Services - Management Services is a new division that is focused on the third party management business in both the LTC and retirement sectors; and
- Corporate, Eliminations and Other - This segment represents the results of head office, 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, 2013.

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

	Three months ended September 30, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**101,171**	**10,192**	**4,685**	**605**	**8,160**	**124,813**
Less: Internal revenue	**1,356**	**—**	**—**	**—**	**8,428**	**9,784**
Net revenue	**99,815**	**10,192**	**4,685**	**605**	**(268)**	**115,029**
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**16,076**	**4,347**	**547**	**449**	**(4,388)**	**17,031**
Transaction costs	**—**	**—**	**—**	**—**	**57**	**57**
Depreciation of property and equipment	**4,476**	**1,744**	**—**	**—**	**—**	**6,220**
Amortization of intangible assets	**541**	**2,497**	**1**	**392**	**—**	**3,431**
Finance costs	**4,443**	**1,353**	**—**	**5**	**659**	**6,460**
Finance income	**(1,071)**	**—**	**(1)**	**—**	**(8)**	**(1,080)**
Income tax expense	**—**	**—**	**—**	**—**	**300**	**300**
Net income (loss)	**7,687**	**(1,247)**	**547**	**52**	**(5,396)**	**1,643**
Purchase of property and equipment	**937**	**259**	**—**	**—**	**11**	**1,207**
Purchase of intangible assets	**4**	**—**	**—**	**—**	**—**	**4**

	Three months ended September 30, 2013					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	77,366	6,831	4,354	—	6,598	95,149
Less: Internal revenue	1,460	—	—	—	7,114	8,574
Net revenue	75,906	6,831	4,354	—	(516)	86,575
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	12,295	3,190	768	—	(2,786)	13,467
Transaction costs	—	—	—	—	516	516
Depreciation of property and equipment	3,696	1,384	—	—	—	5,080
Amortization of intangible assets	67	1,932	2	—	—	2,001
Finance costs	4,099	1,065	—	—	2,120	7,284
Finance income	(764)	(18)	—	—	(253)	(1,035)
Income tax expense	—	—	—	—	327	327
Net income (loss)	5,197	(1,173)	766	—	(5,496)	(706)
Purchase of property and equipment	324	226	—	—	—	550
Purchase of intangible assets	—	—	—	—	—	—

	Nine months ended September 30, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**298,346**	**30,370**	**13,373**	**1,817**	**24,477**	**368,383**
Less: Internal revenue	**4,023**	**—**	**—**	**—**	**25,317**	**29,340**
Net revenue	**294,323**	**30,370**	**13,373**	**1,817**	**(840)**	**339,043**
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**44,998**	**12,987**	**1,851**	**1,286**	**(13,085)**	**48,037**
Transaction costs	**—**	**—**	**—**	**—**	**716**	**716**
Depreciation of property and equipment	**13,402**	**5,232**	**1**	**—**	**—**	**18,635**
Amortization of intangible assets	**1,643**	**7,990**	**4**	**1,421**	**—**	**11,058**
Finance costs	**37,594**	**4,149**	**—**	**5**	**1,955**	**43,703**
Finance income	**(3,394)**	**—**	**(2)**	**—**	**(21)**	**(3,417)**
Income tax recovery	**—**	**—**	**—**	**—**	**(6,613)**	**(6,613)**
Net income (loss)	**(4,247)**	**(4,384)**	**1,848**	**(140)**	**(9,122)**	**(16,045)**
Purchase of property and equipment	**1,574**	**453**	**—**	**—**	**11**	**2,038**
Purchase of intangible assets	**4**	**—**	**—**	**—**	**—**	**4**

	Nine months ended September 30, 2013					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	226,560	19,849	13,138	—	19,779	279,326
Less: Internal revenue	4,357	—	—	—	21,461	25,818
Net revenue	222,203	19,849	13,138	—	(1,682)	253,508
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income	34,795	8,620	2,363	—	(9,749)	36,029
Transaction costs	—	—	—	—	2,263	2,263
Depreciation of property and equipment	11,170	3,939	1	—	—	15,110
Amortization of intangible assets	203	5,493	237	—	—	5,933
Finance costs	11,483	3,321	—	—	4,002	18,806
Finance income	(2,358)	(18)	—	—	(411)	(2,787)
Income tax recovery	—	—	—	—	(260)	(260)
Net income (loss)	14,297	(4,115)	2,125	—	(15,343)	(3,036)
Purchase of property and equipment	1,813	246	—	—	66	2,125
Purchase of intangible assets	2,200	—	—	—	—	2,200

	As at September 30, 2014					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Total assets	**689,585**	**248,142**	**8,250**	**6,978**	**439**	**953,394**
Goodwill	**89,322**	**2,511**	**6,521**	**450**	**—**	**98,804**
Intangible assets	**110,441**	**13,260**	**2**	**5,202**	**—**	**128,905**

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

	As at December 31, 2013					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Total assets	700,142	260,291	8,161	7,673	757	977,024
Goodwill	89,322	2,511	6,521	450	—	98,804
Intangible assets	112,080	21,250	6	6,623	—	139,959

18 Comparative figures

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

- On the condensed interim consolidated statements of operations and comprehensive income (loss), a new line item has been created for depreciation and amortization, which was previously included in operating expenses. In addition, a new line item has been created for transaction costs, which was previously included in administrative expenses.
- On the condensed interim consolidated statements of cash flows, interest paid has been reclassified from financing activities to operating activities.
- In the segmented information note, total assets previously reported are now adjusted to exclude intercompany balances.
- In the expenses by nature note, a new line item has been created for purchased services and non-medical supplies, which was previously included in other.

These reclassifications had no impact on the reported net income (loss).