Leisureworld
SENIOR CARE CORPORATION

Q3 2013

Report to Shareholders

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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") for Leisureworld Senior Care Corporation ("LSCC") summarizes the financial results for the third quarter and year to date periods ended September 30, 2013. 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 Leisureworld's consolidated financial performance, cash flows and financial position for the quarter and year to date periods ended September 30, 2013 should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes contained in this financial report and the audited consolidated financial statements and related notes for the year ended December 31, 2012. Additional information relating to Leisureworld is available on System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com, or by calling Manny DiFilippo, Chief Financial Officer, at 905.477.4006. This MD&A is dated as of November 13, 2013, the date on which this report was approved by the Board of Directors of Leisureworld and reflects all material events up to that date.

Leisureworld is a public company listed on the Toronto Stock Exchange (the "TSX"), under the trading symbol LW. As of November 12, 2013, the following securities of LSCC were outstanding: 29,321,387 common shares; 6,353,750 subscription receipts ("Subscription Receipts") (TSX symbol: LW.N), each representing the right to receive one common share upon the closing of the Specialty Care Acquisition, described in the Significant Events section; and $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 an initial maturity date of January 2, 2014, which will be extended to June 30, 2018 upon the closing of the Specialty Care Acquisition, described below, which is anticipated to close in December 2013.

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, 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 discussion and analysis, and Leisureworld and management assume no obligation to update or revise them to reflect new events or circumstances except as required by securities laws. Leisureworld and management caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Non-IFRS Performance Measures

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

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

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

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

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

Corporate Profile

LSCC was incorporated under the *Business Corporations Act* (Ontario) on February 10, 2010 and was continued under the *Business Corporations Act* (British Columbia) on March 18, 2010. Leisureworld closed the initial public offering of its common shares (the "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 27 long-term care ("LTC") homes (representing an aggregate of 4,498 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates five retirement residences ("RR") (representing 686 suites) and one independent living residence ("IL") (representing 53 apartments) in the Provinces of Ontario and British Columbia, which combined constitute the 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.

		LONG-TERM CARE (Beds)				RETIREMENT (Suites)	TOTAL
ASSET CLASS	PROPERTIES	Basic and Other	Semi-Privates	Privates - $18.00 Premium	Privates - Up to $21.50 Premium	Total	Beds / Suites
LONG-TERM CARE	**27**	2,103	848	153	1,394	-	**4,498**
RETIREMENT	**6**	-	-	-	-	739	**739**
TOTAL	**33**	**2,103**	**848**	**153**	**1,394**	**739**	**5,237**

Company Objectives

The objectives of Leisureworld are to:

(i) provide excellence in resident care and services;

(ii) provide shareholders with stable monthly dividends derived from operating cash flows generated from income-producing LTC homes, seniors' housing investments and community-based services;

(iii) grow the portfolio through accretive acquisitions and construction of new LTC and seniors' living homes and other healthcare related business opportunities; and

(iv) continue to foster a growing and skilled management team to assure continuity of quality service and the efficient deployment of resources.

Industry Overview

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

Outlook

Leisureworld expects to continue to benefit from its strong performance in its LTC and Home Care segments. As part of its growth and business strategy, since 2011, Leisureworld has entered into seniors' retirement living with its acquisition of five high end retirement communities. The past performance for the retirement portfolio has not met Management's expectation. Under the direction of the new CEO, there is a focused plan resulting in numerous improvements in sales, marketing, operations, services and care. In addition a team of retirement experts, contracted through Specialty Care are now fully engaged. The improvements achieved in the third quarter in occupancy and NOI are expected to continue providing strong organic growth.

The Specialty Care Acquisition is expected to close in December of 2013. Over the coming year, Leisureworld will be focusing on integration and realizing the benefits of a strong management team, retirement home expertise, the third party management business and efficiencies.

Over the past quarter, Leisureworld management has made significant progress on refining the debt and financial risk strategies for refinancing the $294 million of outstanding 4.814% Series A Senior Secured Notes due November 24, 2015. We expect to commence executing these strategies in the first quarter of 2014 and with the current favourable interest rate environment expect positive AFFO accretion as a result.

With its strong balance sheet and this additional expertise, Leisureworld is well positioned for further acquisitions in the seniors services sector that deliver reliable shareholder returns.

Quarterly Financial Information

	2013			2012				2011
Thousands of Dollars, except per share data	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Revenue	**86,575**	**83,229**	**83,704**	85,516	82,939	76,090	74,738	79,028
Operating expenses (excluding depreciation and amortization)	**70,322**	**67,674**	**69,734**	70,544	67,546	62,029	62,827	66,961
Administrative expenses	**3,302**	**4,542**	**4,168**	3,479	3,872	3,269	3,374	4,682
Income from operations before the undernoted	**12,951**	**11,013**	**9,802**	11,493	11,521	10,792	8,537	7,385
Net loss	**(706)**	**(968)**	**(1,362)**	(1,347)	(139)	(5,039)	(2,609)	(3,344)
Per share and diluted per share	**(0.02)**	**(0.03)**	**(0.05)**	(0.05)	(0.00)	(0.19)	(0.11)	(0.14)
FFO - Basic	**8,019**	**6,901**	**6,226**	6,882	7,164	7,261	4,949	4,760
Per share	**0.27**	**0.24**	**0.21**	0.24	0.25	0.27	0.20	0.19
FFO - Diluted	**8,470**	**7,157**	**6,226**	6,882	7,164	7,261	4,949	4,760
Per share - including subscription receipts	**0.22**	**0.20**	**0.21**	0.24	0.24	0.27	0.20	0.19
Per share - excluding subscription receipts	**0.26**	**0.23**	**0.21**	0.24	0.24	0.27	0.20	0.19
AFFO - Basic [1]	**8,957**	**8,568**	**8,180**	8,289	9,289	9,563	7,141	6,754
Per share	**0.31**	**0.29**	**0.28**	0.28	0.32	0.36	0.29	0.28
AFFO - Diluted, excluding subscription receipts [1]	**9,408**	**8,824**	**8,180**	8,289	9,289	9,563	7,141	6,754
Per share - including subscription receipts	**0.25**	**0.25**	**0.28**	0.28	0.32	0.36	0.29	0.28
Per share - excluding subscription receipts	**0.29**	**0.28**	**0.28**	0.28	0.32	0.36	0.29	0.28
Dividends declared	**6,598**	**6,594**	**6,587**	6,341	6,217	5,879	5,202	5,202
Per share	**0.23**	**0.23**	**0.23**	0.22	0.21	0.21	0.21	0.21

Notes:

(1) AFFO for 2012 has been adjusted to include the add-back for deferred share unit plan compensation paid to the Board of Directors. The amount added back to each quarter for 2012 for Q1 to Q4 is $nil, $68, $194 and $244, respectively, to comply with the current year presentation. This amount has also been adjusted in the Basic and Diluted AFFO per share presentation.

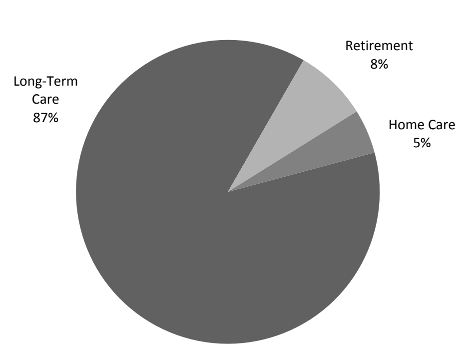
The quarterly results of Leisureworld are subject to various factors including, but not limited to the timing of acquisitions, the seasonality of utility expenses, the timing of government funding rate increases and the timing of revenue recognition to match spending within the flow-through envelopes,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

A discussion of the results for the quarter and year to date periods ended September 30, 2013 compared to the same periods in the prior year is provided under the section "Operating Results".

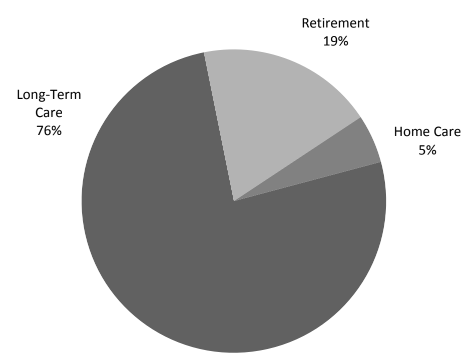
Business Overview

The following is the business segment contribution to revenues and NOI for the nine months ended September 30, 2013.

Revenue Contribution by Segment



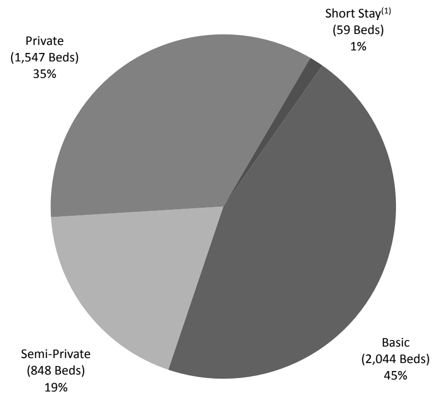
NOI Contribution by Segment



Long-Term Care

The LTC portfolio currently generates approximately 87% of Leisureworld's net revenues and approximately 76% of the NOI. Approximately 54% of Leisureworld's LTC beds are designated as preferred accommodation (private and semi-private rooms). Approximately 4% of the revenues and 23% of the NOI from Leisureworld's LTC operations are generated from charging residents the regulated premiums on these types of accommodations.

Summary of LTC Beds by Accommodation Type



Note:

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

Retirement and Independent Living Residence

Leisureworld's retirement portfolio consists of five luxury retirement properties, three of which are in British Columbia (the "BC Portfolio") and two in Ontario (the "Ontario Portfolio") and one independent living community in Ontario. This segment, while still growing its revenue base, currently generates approximately 8% of net revenues, and approximately 19% of the NOI for Leisureworld.

			Acquisition	Occupancy at	Occupancy at Quarter End								
Property	**Location**	**Suites**	**Date**	**Acquisition**	**Q3 2011**	**Q4 2011**	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**	**Q1 2013**	**Q2 2013**	**Q3 2013**
Scarborough IL	Scarborough, ON	53	--	--	90.6%	88.7%	88.7%	84.9%	98.1%	98.1%	98.1%	96.2%	94.3%
The Royale Kanata	Kanata, ON	158	April 27, 2011	41.8%	52.5%	60.1%	58.9%	66.5%	68.4%	71.5%	68.4%	69.0%	67.7%
The Royale Kingston	Kingston, ON	136	April 27, 2011	52.9%	57.4%	64.7%	65.4%	72.8%	71.3%	69.9%	68.4%	76.5%	76.5%
The Royale Astoria	Port Coquitlam, BC	135	May 24, 2012	59.3%	--	--	--	59.3%	58.5%	57.0%	55.6%	59.3%	65.9%
The Royale Pacifica	Surrey, BC	130	May 24, 2012	94.6%	--	--	--	90.0%	88.5%	89.2%	93.1%	93.1%	100.0%
The Royale Peninsula	Surrey, BC	127	May 24, 2012	94.5%	--	--	--	92.9%	83.5%	82.7%	83.5%	78.0%	84.3%
TOTAL		**739**		**67.2%**	**60.2%**	**66.3%**	**66.0%**	**76.3%**	**75.4%**	**75.5%**	**75.1%**	**76.3%**	**79.4%**

Home Care Services

PHCS operates Leisureworld's Home Care segment. PHCS offers home care, education and training, and relief staffing services. PHCS broadens Leisureworld's presence across the continuum of seniors' care. PHCS has been providing professional nursing and personal support services in Ontario since 1987. Leisureworld's Home Care segment contributes approximately 5% of its revenue and approximately 5% of its NOI.

Significant Events

Retirement Occupancy

The BC properties have improved occupancy over the past quarter. Pacifica has exceeded the occupancy levels at acquisition, finishing the quarter at 100%, while Peninsula continues to regain lost occupancy with solid recoveries in the last quarter.

In Ontario, Kingston has been able to maintain its prior quarter end occupancy levels while Kanata has slightly eroded.

Management is cautiously optimistic that the investments made in our retirement platform will result in occupancy and NOI improvement through 2014.

Specialty Care Acquisition Update

On April 4, 2013, Leisureworld entered into acquisition agreements to acquire from Specialty Care Inc. and certain other related parties (collectively "Specialty Care") a portfolio of 10 properties in Ontario consisting of six LTC homes, two RRs and two properties containing both LTC and RR components ("Specialty Care Acquisition"). The Specialty Care Acquisition comprises in total 1,235 LTC beds and 326 retirement suites, as well as the third party seniors living management businesses operated by Specialty Care Inc. Approval from the Ministry of Health and Long-Term Care ("MOHLTC") and typical lender consents, or alternative financing, are required to close the transaction. Leisureworld anticipates the completion of the Specialty Care Acquisition will occur in December 2013. In order to obtain MOHLTC consent to the licence transfers in a timely manner, the acquisition was structured in such a way to make the assumption of existing property debt unfeasible. Leisureworld has negotiated replacement debt on more favourable terms which will result in lower interest costs. However, it was necessary to renegotiate the cost sharing arrangement with the vendor such that Leisureworld's upfront costs will exceed the $2,500 previously agreed by approximately $1,000 to $1,500.

Impact of Subscription Receipts and Debenture Offering on FFO and AFFO

In April 2013, concurrent with the announcement to purchase Specialty Care, Leisureworld completed a public offering of the Subscription Receipts and the Convertible Debentures to finance the acquisition. This resulted in total proceeds of $124.8 million, with the Subscription Receipt proceeds of $78.8 million to be held in escrow until the acquisition closes, which is anticipated to be in December of 2013.

In the third quarter, 6,353,750 subscription receipts were outstanding which provide no cash flow benefit until the funds are invested in the Specialty Care Acquisition. As a result, this has had a temporary dilutive impact on the FFO and AFFO per share. For the periods ended September 30, the impact is as follows:

	Three Months Ended			Nine Months Ended		
	2013	2012	Change	**2013**	2012	Change
Weighted average common shares outstanding - Diluted, including subscription receipts	**38,421,406**	29,272,889	9,148,517	**34,598,414**	26,759,402	7,839,012
Subscription receipts, dilutive adjustment	**(6,353,750)**	-	(6,353,750)	**(3,700,536)**	-	(3,700,536)
Weighted average common shares outstanding - Diluted, excluding subscription receipts	**32,067,656**	29,272,889	2,794,767	**30,897,878**	26,759,402	4,138,476
Diluted FFO per share, including subscription receipts	**$0.220**	$0.245	($0.025)	**$0.632**	$0.724	($0.092)
Diluted FFO per share, excluding subscription receipts	**$0.264**	$0.245	$0.019	**$0.707**	$0.724	($0.017)
Diluted AFFO per share, including subscription receipts	**$0.245**	$0.317	($0.072)	**$0.763**	$0.971	($0.208)
Diluted AFFO per share, excluding subscription receipts	**$0.293**	$0.317	($0.024)	**$0.855**	$0.971	($0.116)

Once Leisureworld closes the acquisition, the economic benefits will be realized and this should provide steady growth throughout 2014.

Launch of Normal Course Issuer Bid

On September 5, 2013, Leisureworld announced that the TSX had accepted its notice of intention to make a Normal Course Issuer Bid (“NCIB”) for a portion of its common shares.

Pursuant to the notice, Leisureworld may, during the 12-month period commencing September 10, 2013 and ending September 9, 2014, purchase for cancellation up to a maximum of 1,466,069 common shares, or approximately 5% of the outstanding common shares. As at September 30, 2013, no shares have been acquired for cancellation under the NCIB.

Temporary Repayment of $20,000 of Long-Term Debt

On September 27, 2013, Leisureworld used $20,000 of its available cash to temporarily reduce the outstanding revolving facility secured against the Ontario Portfolio properties. This reduced the total borrowings on these properties to $26,000. In December 2013, the $20,000 will be redrawn and used for the anticipated closing of the Specialty Care Acquisition.

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”)
- **FFO per Share**: Management uses FFO as an operating and financial performance measure. (See “Non-IFRS Measures”)
- **AFFO per Share**: This indicator is used by management to measure its ability to pay dividends. (See “Non-IFRS Measures”)
- **Payout Ratio**: Management monitors this ratio to ensure that Leisureworld adheres to its dividend obligations, 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 as well as its ability to access further debt if required.

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

Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended			Nine Months Ended		
	2013	2012	Change	**2013**	2012	Change
OCCUPANCY						
LTC - Average total occupancy	**99.0%**	99.1%	-0.1%	**98.9%**	98.7%	0.2%
LTC - Average private occupancy	**99.6%**	99.0%	0.6%	**99.2%**	98.2%	1.0%
Retirement - Average occupancy	**78.5%**	74.8%	3.7%	**76.8%**	72.7%	4.1%
FINANCIAL						
NOI	**16,253**	15,393	860	**45,778**	41,365	4,413
FFO	**8,019**	7,164	855	**21,146**	19,374	1,772
AFFO	**8,957**	9,289	(332)	**25,705**	25,993	(288)
PAYOUT RATIOS						
FFO per share, basic	**0.273**	0.245	0.028	**0.722**	0.725	(0.003)
FFO per share, diluted	**0.264**	0.245	0.019	**0.707**	0.724	(0.017)
AFFO per share, basic	**0.305**	0.318	(0.013)	**0.877**	0.973	(0.096)
AFFO per share, diluted	**0.293**	0.317	(0.024)	**0.855**	0.971	(0.116)
Dividends per share	**0.225**	0.213	0.012	**0.675**	0.638	0.037
Payout ratio (basic AFFO)	**73.8%**	66.8%	7.0%	**77.0%**	65.5%	11.5%
FINANCIAL RATIO (1)						
Debt Service Coverage Ratio(2)	**2.4**	2.4	0.0	**2.2**	2.3	(0.1)
Debt to Gross Book Value	**52.7%**	52.2%	0.5%	**52.7%**	52.2%	0.5%

Notes:

(1) The following financial ratios exclude the impact of the subscription receipts and the associated dividend equivalents.

(2) Year to Date values are based on a rolling four quarter calculation.

Growth Strategies of Leisureworld

Management has identified both organic and external growth opportunities for Leisureworld.

Organic

Leisureworld will benefit from organic growth as the four retirement communities currently in lease up, make progress towards stabilized occupancy and NOI growth throughout 2014.

Preferred Health Care Services is expected to continue to experience growth associated with the demand for community-based services for seniors, caregiver support and education.

Leisureworld continues to invest in technology, back office process improvements and disciplined cost management which should lead to strong NOI performance.

External

As the Specialty Care assets, management team and third party management business are acquired by the end of this year, Leisureworld will begin to benefit from the NOI growth.

Throughout 2014, the focus will be on the integration of the team and systems to further strengthen Leisureworld's expertise and operating platform in LTC, Retirement, Home Care and management services in order to position Leisureworld for further acquisitions and growth in all of these business lines.

Operating Results

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

	Three Months Ended			Nine Months Ended		
Thousands of Dollars	**2013**	2012	Change	**2013**	2012	Change
Revenue	**86,575**	82,939	3,636	**253,508**	233,767	19,741
Expenses						
Operating expenses	**70,322**	67,546	2,776	**207,730**	192,402	15,328
Administrative expenses	**3,302**	3,872	(570)	**12,012**	10,515	1,497
	73,624	71,418	2,206	**219,742**	202,917	16,825
Income from operations before the undernoted	**12,951**	11,521	1,430	**33,766**	30,850	2,916
Other expenses						
Depreciation and amortization	**7,081**	7,113	(32)	**21,043**	20,768	275
Net finance charges	**6,249**	4,470	1,779	**16,019**	12,598	3,421
Total other expenses	**13,330**	11,583	1,747	**37,062**	33,366	3,696
Impairment loss	**-**	-	-	**-**	2,697	(2,697)
Loss before income taxes	**(379)**	(62)	(317)	**(3,296)**	(5,213)	1,917
Provision for (recovery of) income taxes						
Current	**897**	682	215	**1,773**	1,401	372
Deferred	**(570)**	(605)	35	**(2,033)**	1,173	(3,206)
	327	77	250	**(260)**	2,574	(2,834)
Net loss	**(706)**	(139)	(567)	**(3,036)**	(7,787)	4,751
Total assets	**826,498**	762,601	63,897	**826,498**	762,601	63,897
Total debt	**522,526**	429,157	93,369	**522,526**	429,157	93,369

For the Quarter

Revenue

Revenues were higher by $3,636, or 4.4%, totaling $86,575 for the third quarter. Of note, LTC revenue increased by $3,229 to $75,906 due to the following:

- The acquisition of the Madonna property in July 2012 had incremental revenues of $557 in the quarter.
- The additional LTC beds at the Muskoka property generated revenues of $351.
- LTC same property revenues increased $2,321, primarily as a result of funding rate changes and the timing of revenue recognition related to the flow-through envelopes.

The retirement portfolio revenues increased to $6,831, compared to $6,615 last year. The increase of $216 was due to the following:

- For the BC and Ontario Portfolios, higher overall occupancy contributed approximately $165 to the incremental revenue.

- Rental rate increases for the BC and Ontario Portfolios generated incremental revenue of approximately $140.
- The conversion of the Muskoka retirement property into LTC beds decreased retirement revenues by $63.

Home Care's net revenue of $3,838 was $191 higher than the prior year. Home Care continues to benefit from higher volumes for service contracts.

Operating Expenses

Operating expenses totaled $70,322 for the quarter which represents a $2,776, or 4.1%, increase compared to the same period last year. LTC represented $63,611 of the total expenses, compared to $60,766 last year. The $2,845 increase in LTC operating expenses were attributed to:

- Same property expenses increased by approximately $2,020, primarily due to higher flow-through expenses of $2,126.
- Higher expenses related to the acquisition of the Madonna property in mid-July of 2012 totaling $504.
- Increased expenses of $321 relating to the change in use of the Muskoka property from retirement to LTC.

Retirement operating expenses for the quarter were $3,641, compared to $3,721 last year. The $80, or 2.1%, decrease in operating expenses was due to reduced operating costs at the Muskoka retirement property which was being wound down last year. Through effective cost management, the BC and Ontario Portfolios were able to maintain their cost base while increasing occupancy.

Home Care's operating expenses increased by $22, which principally related to the higher volume of personal support contracts associated with the higher revenues.

Administrative Expenses

Administrative expenses totaled $3,302, a decrease of $570, compared to last year, which was primarily the result of lower public company costs of $380. The administrative expenses include transaction costs of $516 and $529, respectively. The current year transaction costs relate principally to the Specialty Care Acquisition. These transaction costs do not impact FFO.

Depreciation and Amortization

Depreciation and amortization were consistent with the prior year at $7,081, compared to $7,113. The main components of depreciation and amortization charges were property and equipment of $5,080 and resident relationships of $1,983.

Net Finance Charges

Net finance charges increased to $6,249, compared to $4,470 last year. The $1,779 increase was the result of the following:

- Dividend equivalents on Subscription Receipts, net of interest earned on the escrow account, amounted to $1,214, which is recorded as a finance charge for accounting purposes.

- Convertible Debentures net interest expense of $687.
- The above noted increases were partly offset by lower interest of $172 on the 2015 Notes due to the partial repurchase of $15,674 face value, in the fourth quarter of 2012.

Income Taxes

The total tax provision for the period is $327, compared to $77 last year. The current income taxes have been calculated at the weighted combined corporate tax rate of 26.47%. Current taxes increased by $215, which related to the improved performance. Deferred taxes remained relatively consistent with the comparative quarter.

For the Year to Date

Revenue

Leisureworld had total revenue of $253,508, an increase of $19,741 or 8.4%, compared to $233,767 in 2012. LTC revenue of $222,203 increased 6.1%, or $12,802. This increase was the result of:

- Revenue attributable to the acquisition of the Madonna property which had total incremental revenue of $6,142 for the period.
- The change in use of the Muskoka property generated $973 of LTC revenue.
- Same property revenues increased by $5,687, primarily due to funding rate increases.

The retirement portfolio revenues were $19,849, compared to $13,862 last year. The $5,987 increase was primarily due to the following:

- The BC Portfolio, acquired in May 2012, generated incremental revenue for the period of $5,627.
- The Ontario Portfolio had increased revenues of $632 principally due to increased occupancy.
- The Muskoka change in use decreased revenues by approximately $314 for the period.

Home Care's external revenue increased by $952, or 9.1%. Home Care continues to benefit from higher volumes for service contracts, and the current year operating results also include an increase in revenues from educational services and products.

Operating Expenses

Total operating expenses were $207,730, an increase of $15,328, or 8.0%, compared to the same period in 2012. LTC expenses totaled $187,408, an increase of 6.6%, or $11,681. This increase was due to the following:

- The Madonna property, acquired in the second half of 2012, incurred incremental operating expenses of $5,704 for the period.
- Same property operating expenses increased by $5,059. The same property variances were mainly due to increased expenditures related to the flow-through envelopes of $4,112. Other increases related to property administration of $215, maintenance expenses of $172, dietary services of $158 and laundry services of $146.
- The converted Muskoka property incurred operating expense of $918 in the period.

Retirement portfolio operating expenses totaled $11,229, an increase of $3,110 in the period. The increase was the result of the following:

- The BC Portfolio expenses increased by $3,260, principally as a result of the timing of the acquisition in the prior year.
- The Ontario Portfolio's expenses increased by $324, primarily related to increased occupancy levels.
- The increases noted above were partly offset by decreased costs due to the wind down of Muskoka as a retirement property.

Home Care's operating expenses were $10,775, an increase of $661, primarily related to the higher volume of personal support contracts associated with the higher revenues.

Administrative Expenses

Administrative expenses were $12,012, as compared to $10,515 last year. The administrative expenses include transaction costs of $2,263 and $1,412, respectively. The current year transaction costs relate principally to the Specialty Care Acquisition. These transaction costs do not impact FFO. The overall increase in administrative expenses of $1,497 was the result of:

- Increased transaction costs of $851, principally related to the Specialty Care Acquisition.
- Higher people related costs of $432 primarily arising from the prior year's reversal of executive compensation expense.
- Incremental consulting expenses of $358.

Depreciation and Amortization

Depreciation and amortization was $21,043, consistent with the prior year of $20,768. The marginal increase was attributable to LTC resident relationships arising from the IPO which were fully amortized at the end of the first quarter in 2012 offset by the increases in depreciation and amortization related to the BC Portfolio. The main components of depreciation and amortization related to property and equipment at $15,110, resident relationships at $5,647 and service contracts at $231.

Net Finance Charges

Net finance charges totaled $16,019, as compared to $12,598 for last year. The $3,421 increase related to the following:

- Finance charges of $2,485 for the dividend equivalents due on the Subscription Receipts, net of interest earned on the escrow account balance. The dividend equivalents are recorded as a finance charge for accounting purposes.
- Interest on the Convertible Debentures of $1,139.
- Incremental charges from BC Portfolio acquisitions of $952.
- Incremental interest charges of $422 related to the Madonna property acquired in 2012.
- The above noted increases were partly offset by lower finance charges on the 2015 Notes of $572, as a result of the partial bond repurchase late last year.
- Favourable variances of $677 on the interest rate swap contracts' mark-to-market adjustments.

Impairment Loss

During the second quarter of 2012, Leisureworld determined that the carrying amount of the HRIS being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a $2,697 impairment of intangible assets. Refer to the December 31, 2012 MD&A for a fulsome discussion.

Income Taxes

Current income taxes have been calculated at the weighted combined corporate tax rate of 26.47%. The total income tax recovery for the period was $260, compared to an expense of $2,574 in 2012. Current taxes increased year over year by $372, which related to the operating performance as a result of the timing of acquisitions. The change in deferred taxes of $3,206 principally arose from a charge of $3,759 recorded last year relating to the change in corporate tax rates and the timing of the reversal of certain tax values.

Business Performance

Net Operating Income Reconciliation

The following is a reconciliation of the net loss to NOI for the periods ended September 30.

	Three Months Ended			Nine Months Ended		
Thousands of Dollars	**2013**	2012	Change	**2013**	2012	Change
Net loss	**(706)**	(139)	(567)	**(3,036)**	(7,787)	4,751
Expense (recovery) of income taxes	**327**	77	250	**(260)**	2,574	(2,834)
Loss before income taxes	**(379)**	(62)	(317)	**(3,296)**	(5,213)	1,917
Depreciation and amortization	**7,081**	7,113	(32)	**21,043**	20,768	275
Net finance charges	**6,249**	4,470	1,779	**16,019**	12,598	3,421
Impairment loss	**-**	-	-	**-**	2,697	(2,697)
Income from operations before the undernoted	**12,951**	11,521	1,430	**33,766**	30,850	2,916
Administrative expenses	**3,302**	3,872	(570)	**12,012**	10,515	1,497
Net Operating Income (NOI)	**16,253**	15,393	860	**45,778**	41,365	4,413

Funds from Operations and Adjusted Funds from Operations

The following is a summary of the FFO and AFFO for the periods ended September 30.

	Three Months Ended			Nine Months Ended		
Thousands of Dollars, except and per share data	**2013**	2012	Change	**2013**	2012	Change
Net Operating Income (NOI)	**16,253**	15,393	860	**45,778**	41,365	4,413
Interest income on construction funding receivable	**744**	791	(47)	**2,252**	2,282	(30)
Net finance charges[(1)]	**(5,295)**	(5,016)	(279)	**(15,367)**	(13,865)	(1,502)
Current income taxes	**(897)**	(682)	(215)	**(1,773)**	(1,401)	(372)
Administrative expenses[(2)]	**(3,302)**	(3,851)	549	**(12,007)**	(10,419)	(1,588)
Transaction costs	**516**	529	(13)	**2,263**	1,412	851
Funds from Operations (FFO)	**8,019**	7,164	855	**21,146**	19,374	1,772
HRIS expense	**-**	-	-	**-**	52	(52)
Deferred share unit plan compensation	**(78)**	194	(272)	**697**	262	435
Income support	**31**	928	(897)	**694**	2,872	(2,178)
Construction funding principal	**1,540**	1,468	72	**4,600**	4,266	334
Maintenance capex[(3), (4)]	**(555)**	(465)	(90)	**(1,432)**	(833)	(599)
Adjusted Funds from Operations (AFFO)	**8,957**	9,289	(332)	**25,705**	25,993	(288)
Basic FFO per share	**$0.273**	$0.245	$0.028	**$0.722**	$0.725	($0.003)
Basic AFFO per share	**$0.305**	$0.318	($0.013)	**$0.877**	$0.973	($0.096)
Weighted average common shares outstanding - Basic	**29,321,387**	29,239,556		**29,296,846**	26,717,554	
Diluted FFO per share[(5)]	**$0.264**	$0.245	$0.019	**$0.707**	$0.724	($0.017)
Diluted AFFO per share[(5)]	**$0.293**	$0.317	($0.024)	**$0.855**	$0.971	($0.116)
Weighted average common shares outstanding - Diluted[(5)]	**32,067,656**	29,272,889		**30,897,878**	26,759,402	

Notes:

(1) Net finance charges is reconciled as follows:

	2013	2012	Change	2013	2012	Change
Reported Net Finance Charges per Statement of Operations	**6,249**	4,470	1,779	**16,019**	12,598	3,421
Net accretion of fair value adjustments on long-term debt	**(435)**	(481)	46	**(1,289)**	(1,593)	304
Dividend equivalents accrued on subscription receipts	**(1,430)**	-	(1,430)	**(2,859)**	-	(2,859)
Interest income on subscription receipt funds held in escrow	**216**	-	216	**374**	-	374
Interest income on construction funding receivable	**744**	791	(47)	**2,252**	2,282	(30)
Gain on the interest rate swap contracts	**195**	344	(149)	**1,439**	763	676
Amortization of deferred financing charges	**(244)**	(108)	(136)	**(569)**	(185)	(384)
Net Finance Charges for FFO	**5,295**	5,016	279	**15,367**	13,865	1,502

(2) The presented administrative expenses have been decreased by $nil, $21, $5, and $96 respectively for share-based compensation expense related to stock issued to senior management in relation to the IPO, the effect being a reduction in proceeds to the seller.

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

(4) Maintenance capex for the quarter and nine month periods adjusted for redevelopment costs related to the Muskoka property of $(5) and $627.

(5) The following is a reconciliation of the Basic FFO and AFFO to the Diluted FFO and AFFO used for the purposes of the calculations above.

	2013	2012	Change	2013	2012	Change
FFO, Basic	**8,019**	7,164	855	**21,146**	19,374	1,772
Interest expense on convertible debt	**569**	-	569	**962**	-	962
Current income tax expense adjustment	**(118)**	-	(118)	**(255)**	-	(255)
FFO, Diluted	**8,470**	7,164	1,306	**21,853**	19,374	2,479
AFFO, Basic	**8,957**	9,289	(332)	**25,705**	25,993	(288)
FFO dilutive adjustments above, net	**451**	-	451	**707**	-	707
AFFO, Diluted	**9,408**	9,289	119	**26,412**	25,993	419

The following is the reconciliation of the weighted average shares outstanding per IFRS to the outstanding shares excluding subscription receipts, used in the above.

	2013	2012	Change	2013	2012	Change
Weighted average common shares outstanding - Diluted, including subscription receipts	**38,421,406**	29,272,889	9,148,517	**34,598,414**	26,759,402	7,839,012
Subscription receipts, dilutive adjustment	**(6,353,750)**	-	(6,353,750)	**(3,700,536)**	-	(3,700,536)
Weighted average common shares outstanding - Diluted, excluding subscription receipts	**32,067,656**	29,272,889	2,794,767	**30,897,878**	26,759,402	4,138,476
Diluted FFO per share, including subscription receipts	**$0.220**	$0.245	($0.025)	**$0.632**	$0.724	($0.092)
Diluted AFFO per share, including subscription receipts	**$0.245**	$0.317	($0.072)	**$0.763**	$0.971	($0.208)

For the Quarter

NOI

Leisureworld generated NOI of $16,253 for the three months ended September 30, 2013, compared to $15,393 last year, an increase of $860 or 5.6%. LTC NOI increased by $384 to $12,295 for the quarter. The increase of 3.2% was principally attributed to the increased accommodation revenues.

The retirement portfolio generated NOI of $3,190, an increase of $296 from the same period in 2012. The Ontario Portfolio NOI increased by $176, while the BC Portfolio NOI improved by $92. The remaining increase was the result of the favourable savings associated with the winding down of the Muskoka retirement property in the prior year. The NOI improvement in Ontario was the result of increased revenues resulting from higher occupancy levels and increased rental rates. The BC Portfolio NOI was also driven from increased revenues, primarily as a result of higher occupancy levels.

Home Care's NOI of $768 reflects an increase of $180, or 30.6% over the comparable period. The increase was the result of increased contributions from personal support contract volumes.

FFO

FFO totaled $8,019, compared to $7,164 in the same quarter last year, an increase of $855, or 11.9%. The lower administrative expenses of $536, excluding transactions costs, were primarily the result of lower public company related costs compared to last year. This favourability was offset by the increase in net finance charges and higher current income taxes. The increase in net finance charges principally related to the interest on the Convertible Debentures, partly offset by lower interest on the 2015 Notes and the reduced debt outstanding on the Ontario Portfolio. The incremental taxes were the result of the improved earnings in the quarter.

AFFO

AFFO totaled $8,957, compared to $9,289 last year, a decrease of $332, or 3.6%. The improved FFO performance, noted above, was offset by the decrease in income support related to the Astoria and the Ontario Portfolio properties as well as the adjustment for the deferred share unit plan in the quarter.

For the Year to Date

NOI

Leisureworld's NOI was $45,778, compared to $41,365 last year, reflecting a 10.7% increase. The LTC segment generated NOI of $34,795 which was an increase of $1,121 year over year. The Madonna acquisition contributed $439 of incremental NOI principally due to the timing of the acquisition. The remaining increase was attributable to higher NOI from same property operations.

The retirement portfolio NOI totaled $8,620, an increase of $2,877 over the same period last year. The BC Portfolio contributed $2,367 of the increase, primarily as a result of the timing of the acquisition last year. The Ontario Portfolio had a year over year increase in NOI of $440 as a result of higher occupancy.

Home Care's NOI was $2,363 which represents an increase of $415, or 21.3%, compared to the same period a year ago. This was the result of increased personal support contract volumes and higher contributions from educational services.

FFO

FFO for the period totaled $21,146, an increase of $1,772, or 9.1%. This improvement was due to the improved NOI, noted above, which was partly offset by the increase in net finance charges of $1,502 and $737 of higher administrative expenses, excluding transaction costs. The increase in net finance charges primarily related to $962 of incremental interest on the Convertible Debentures, $965 of higher interest on the debt related to the BC portfolio, $432 of additional interest related to the mortgage on the Madonna property, partly offset by $578 of reduced interest on the 2015 Notes. The higher administrative expenses were primarily the result of a prior year's reversal adjustment related to executive compensation.

AFFO

Leisureworld generated AFFO of $25,705, consistent with the prior year. The FFO increase was offset by the decrease in income support of $2,178, as the Ontario income support draws were substantially completed in the second quarter of 2012 as well as the Astoria income support utilization. Further, maintenance capex increased by $599 compared to the prior year. AFFO was also impacted by the offset of the $435 incremental add-back for deferred share unit compensation and higher construction funding received.

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	**2013**	2012	Change	**2013**	2012	Change
Cash flow from operations before non-cash working capital items	**12,888**	11,751	1,137	**34,558**	31,309	3,249
Non-cash changes in working capital	**3,743**	3,236	507	**6,227**	(1,065)	7,292
Interest, interest swap settlements and taxes paid	**(1,645)**	(1,832)	187	**(12,225)**	(11,572)	(653)
Cash provided by (used in):						
Operating activities	**14,986**	13,155	1,831	**28,560**	18,672	9,888
Investing activities	**1,809**	(1,056)	2,865	**(7,473)**	(89,248)	81,775
Financing activities	**(27,082)**	(26,409)	(673)	**(6,025)**	68,514	(74,539)
Increase (decrease) in cash and cash equivalents	**(10,287)**	(14,310)	4,023	**15,062**	(2,062)	17,124
Cash and cash equivalents	**24,305**	19,859	4,446	**24,305**	19,859	4,446

For the Quarter

Operating Activities

For the current year, operating activities provided $14,986 of cash primarily as a result of:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $12,888.

- Decrease in accounts receivables and other assets of $365 due to the timing of receipts.
- 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.
- Interest paid and net settlement in interest rate swap contracts used $1,187 of cash.

For the prior year, operating activities provided $13,155 of cash primarily as a result of:

- Cash from operating activities before the non-cash changes in working capital, interest and taxes totaled $11,751.
- Increase in accounts payable and accrued liabilities of $3,807 as a result of the timing of payroll related accruals and payments.
- Decrease in income support of $1,048, due to the completion of the escrow drawdown on the Ontario Portfolio and the remaining amount related to the Astoria property that was part of the BC Portfolio acquisition.
- Increase in accounts receivables and other assets of $759 arising from the timing of settlements.
- Unfavourable changes in the net balances of government funding of $997 primarily as a result of the timing of revenue recognition as it relates to the expenditures incurred as Leisureworld has not had significant adjustments relating to the settlement of prior year balances.
- Interest paid and net settlement in interest rate swap contracts used $1,373 of cash.

Investing Activities

Investing activities for the quarter provided $1,809 of cash. Funds received from construction funding were $2,284, partly offset by the purchases of property and equipment of $550 in the quarter.

In the prior year, investing activities utilized $1,056 of cash. This was due to the funds used for the acquisition of the Madonna property of $2,724 and property and equipment purchases of $465, which were partially offset by amounts received from construction funding of $2,233.

Financing Activities

Financing activities in the quarter utilized $27,082 of cash. This was primarily related to the following:

- Repayment of long-term debt on the Ontario Portfolio of $20,000.
- Dividends paid in the quarter of $6,598.

For the prior year, financing activities used $26,409 of cash as a result of:

- Repayment of long-term debt associated with the Ontario Portfolio of $20,000.
- Dividend payments of $6,217.

For the Year to Date

Operating Activities

Operating activities for the period provided $28,560 of cash, $34,558 from operations net of usage of $5,998, which was primarily the result of changes in non-cash working capital, interest paid, net settlement on interest rate swap contracts and taxes, as follows:

- Favourable changes in the net balances of government funding of $3,111.
- Decrease in accounts receivable and other assets of $2,154 as a result of timing of receipts.
- Increase in accounts payable and accrued liabilities of $1,412, primarily due to the timing of wage and benefit accruals and payments, partly offset by lower trade payable balances.
- Decrease in income support of $945.
- Partly offset by an increase in prepaid expenses and deposits of $1,395.
- Interest paid and net settlement of interest rate swap contracts totaled $10,772
- Income taxes paid in the period totaled $1,453.

For the prior year, operating activities provided $18,672 of cash, $31,309 related to operations and changes in non-cash working capital items, interest paid, net settlement of interest rate swap contracts and taxes used cash of $12,637 as a result of the following:

- Increase in prepaid expenses and deposits of $1,752.
- Increase in accounts receivable and other assets of $924 which was related to higher receivable balances.
- Partly offset by lower income support totaling $1,020 as a result of the drawdown of the escrow in relation to the Ontario Portfolio, offset by establishing the escrow amount in relation to the BC Portfolio, net of drawdowns.
- Increased accounts payable and accrued liabilities of $882 primarily related to the movement in payroll related accruals, partly offset by lower trade payables and accrued liabilities.
- Interest paid and net settlement of interest rate swap contracts totaled $10,255.
- Income taxes paid in the period totaled $1,317.

Investing Activities
Investing activities used $7,473 of cash for the period as a result of the following:

- Deposit for the acquisition of the Specialty Care portfolio, $10,000.
- Purchase of the Christie Garden licences for $2,200.
- Purchase of property and equipment totaling $2,125.
- Partly offset by construction funding received of $6,852.

In 2012, investing activities utilized $89,248 of cash related to:

- Acquisition of the BC Portfolio properties totaling $91,710.
- Acquisition of the Madonna property for $2,724.
- Purchase of property and equipment totaling $833.
- Purchase of intangible assets for $435.
- Partly offset by construction funding received of $6,522.

Financing Activities

Financing activities utilized $6,025 resulting from:

- Repayment of long-term debt totaling $46,905.
- Dividend payments of $19,776.
- Partly offset by proceeds from the Convertible Debentures of $44,160.
- Proceeds from the issuance of long-term debt of $17,974.

In the prior year, financing activities provided $68,514 of cash from the following:

- Issuance of common shares provided $53,787 for the BC Portfolio acquisition.
- Issuance of long-term debt totaled $51,919 related to the BC Portfolio acquisition.
- Partly offset by repayment of long-term debt of $20,222.
- Dividend payments of $16,960.

Capital Resources

Leisureworld's total debt as at September 30, 2013 was $522,526 compared to $425,225 as at December 31, 2012. The increase of $97,301 primarily relates to the issuance of Convertible Debentures in the period which totaled $43,689, net of issuance related costs, as well as the associated issuance of the Subscription Receipts of $81,646, which includes the related dividend equivalent accrual. This was partly offset by the temporary repayment of $20,000 related to the credit facility on the Ontario Portfolio, as well as the conversion of the Pacifica credit facility to a mortgage. The mortgage net proceeds were $17,363, which was $8,705 less than the balance of the credit facility outstanding at the end of the previous quarter which included financing on the 15 strata units owned in an adjacent building. The difference was settled in cash. Upon the completion of the Specialty Care Acquisition anticipated in December 2013, the $78,787 of Subscription Receipts will be converted to equity. As at September 30, 2013, Leisureworld had a committed revolving credit facility of $10,000 with a Canadian chartered bank, with no amounts drawn under this credit facility. Leisureworld also has access to an additional undrawn amount on an existing credit facility of $35,500.

As of September 30, 2013, Leisureworld had negative working capital of $42,638 primarily arising from the $43,689 net proceeds of the Convertible Debentures issued, of which $20,000 was temporarily used to reduce the debt on the Ontario Portfolio. The Convertible Debentures are initially due January 2, 2014, and they will automatically be extended to June 30, 2018 upon the closing of the Specialty Care Acquisition. To support Leisureworld's working capital deficiency, it can use its current leverage ratio and its access to additional equity financing to provide flexibility in meeting current obligations not covered from operating cash flows. There can be no assurances that the amounts or terms of refinancing would be favourable to Leisureworld.

Capital Commitments and Liquidity

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.

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

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 access to capital, on commercially reasonable terms, without exceeding its debt capacity or by taking on undue risks;
(ii) maintain financial flexibility in order to meet financial obligations, including debt servicing payments and reliable 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 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 2015 Notes and the $10,000 revolving credit facility are collateralized by all assets of Leisureworld Senior Care LP ("LSCLP"). Under the indenture governing the 2015 Notes, LSCLP is subject to certain financial and non-financial covenants including the maintenance of a certain debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The debts incurred as part of the acquisition of the Ontario Portfolio and Astoria are secured by each of the properties' assets, guaranteed by LSCC and are subject to certain customary financial and non-financial covenants. The mortgages assumed in connection with the acquisition of the Peninsula and Madonna properties 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

On November 24, 2005, LSCLP issued the 2015 Notes, collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships.

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

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

On June 29, 2012, the Bridge Loan was converted to a $61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets. This facility is guaranteed by LSCC 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, 2013, Leisureworld has drawn $26,000 from this credit facility.

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 credit facilities are secured by each of the properties' assets, are guaranteed by LSCC and are subject to certain customary financial and non-financial covenants. Interest on the credit facilities is payable in advance each month. In obtaining the credit facilities, Leisureworld incurred financing costs of $181. These costs have been recorded as a reduction of the total financing received and are expensed over the term of each loan.

On May 23, 2013, Leisureworld refinanced the Pacifica credit facility in part with a first mortgage on the Pacifica property advanced by MCAP Financial Corporation and insured by the Canadian Housing and Mortgage Corporation. The net proceeds from the mortgage were $17,363, bearing interest at a rate of 3.04% for a 10-year term and a 25-year amortization period. The difference between the amount settled under the credit facility and the mortgage amount was settled in cash. The mortgage is collateralized by a first collateral mortgage on the Pacifica property and a general security agreement providing a first charge on all assets and undertakings is guaranteed by LSCC up to $5,400 and is subject to certain customary financial and non-financial covenants. Interest and principal on the mortgage is due on the first day of each month.

On June 28, 2013, the maturity of the Astoria credit facility was extended to May 23, 2015.

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 mortgage assumed bears interest at 5.18% per annum and matures on January 1, 2017. The mortgage is collateralized by a first collateral mortgage on the Peninsula property and a general security agreement providing a first charge on all assets and undertakings. Interest and principal on the mortgage is due on the first day of each month.

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

On April 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 closes, which is anticipated to be in December 2013, the maturity date of the Convertible Debentures will automatically be 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 at any time 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 plus accrued and unpaid interest. If 90% or more of the Convertible Debenture holders do so, Leisureworld has the right, but not obligation, to redeem all 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, which includes the deferred tax impact of $108. The liability portion of the Convertible Debentures is recorded at amortized cost. Leisureworld incurred financing costs of $2,111, which are amortized over the term of the Convertible Debentures using the effective interest method and recognized as part of net finance charges.

Concurrent with the Convertible Debenture offering on April 25, 2013, Leisureworld completed a bought deal offering of 6,353,750 Subscription Receipts at a price of $12.40 per Subscription Receipt for gross proceeds of $78,787. The purchased Subscription Receipts included 828,750 Subscription Receipts made available for issuance pursuant to the exercise of the over allotment option granted to the syndicate of underwriters. The Subscription Receipts began trading on the TSX on April 25, 2013 under the ticker symbol "LW.N". The Subscription Receipts, classified as financial liabilities for accounting purposes, each represent the right to acquire one common share of LSCC upon closing of the Specialty Care Acquisition. The proceeds, net of transaction costs, are held by an escrow agent pending closing of the Specialty Care Acquisition and are reported on the condensed interim consolidated statements of financial position as subscription receipts funds held in escrow. Leisureworld incurred issuance costs of $2,040, which includes 50% of total underwriters' fees in the amount of $1,576 paid out of the gross proceeds of the Subscription Receipts. Each Subscription Receipt is, upon completion of the Specialty Care Acquisition, entitled to a dividend equivalent payment equal to the dividend per share paid on the issued and outstanding common shares of Leisureworld for each dividend period that lapses before the completion of the Specialty Care Acquisition. The dividend equivalents on the Subscription Receipts are recognized as part of net finance charges.

Interest expense on long-term debt, Convertible Debentures and Subscription Receipts for the quarter and year to date periods ended September 30, 2013 were $7,351 and $19,650, respectively (2012 - $5,465 and $15,252, respectively). This includes non-cash interest of $679 and $1,858, respectively (2012 - $589 and $1,778, respectively).

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

Operating Leases

Leisureworld has a 10-year lease with respect to its corporate office, which expires on December 31, 2015. As well, there are various operating leases for office and other equipment that expire over the next five years and thereafter, are as follows:

	Operating Leases	Long-Term Debt	Subscription Receipts	Convertible Debentures	Total
2013	168	356	-	-	**524**
2014	605	1,459	78,787	46,000	**126,851**
2015	534	347,852	-	-	**348,386**
2016	127	1,592	-	-	**1,719**
2017	-	22,218	-	-	**22,218**
Thereafter	-	28,937	-	-	**28,937**
	1,434	**402,414**	**78,787**	**46,000**	**528,635**

Acquisitions

On April 4, 2013, Leisureworld announced its intention to complete the Specialty Care Acquisition, described above.

On April 19, 2013, Leisureworld completed its previously announced acquisition of a licence to operate 88 LTC beds from Christie Gardens Apartments and Care Inc. for $2,200.

On July 16, 2012, one of Leisureworld's subsidiaries, The Royale Development LP, completed the acquisition of Madonna, a 160 bed, Class A LTC home in Orleans, Ontario, a suburb of Ottawa. The net purchase price for the transaction was $3,035, net of assumed debt of $15,718. The net purchase price was settled in cash. As part of the acquisition of Madonna, Leisureworld assumed a mortgage in the amount of $15,718 described above under the heading "Contractual Obligations and Other Commitments".

On May 24, 2012, Leisureworld's subsidiaries, The Royale LP and The Royale West Coast LP completed the acquisition of the BC Portfolio. The net purchase price was $92,710 including a $1,000 mark-to-market adjustment on assumed debt. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, Leisureworld raised gross proceeds of $56,400, issuing 4,680,500 common shares (including the over-allotment of 610,500 common shares) at a price of $12.05 per common share, and issued 82,988 common shares to one of the sellers at an issue price of $12.05 per common share. The balance of the purchase price was financed through short-term bridge financing based on floating rates.

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 an LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the quarter ended

September 30, 2013 was $499 (2012 – $484) and nine months ended September 30, 2013 was $1,487 (2012 - $1,444). Included in accounts receivable and other assets is $92 owing from Spencer House Inc. at September 30, 2013 (December 31, 2012 - $71). These transactions are in the normal course of operations and have been valued at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As of September 30, 2013, Leisureworld had amounts owing from certain key executives of $181 (December 31, 2012 - $74) which have been recorded as a contra to equity in relation to the Long-Term Incentive Plan issuance. These amounts outstanding bear interest at the prime rate prevailing at the time of the advance.

On May 24, 2013, Leisureworld loaned the CEO $500 to effect the purchase of Leisureworld's common shares. The outstanding loan balance as of September 30, 2013 was $494, 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:

Government funding

Ontario's LTC sector is regulated and funded by the MOHLTC according to a defined funding model. This model contributes to the stability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: Nursing and Personal Care ("NPC"), Programs and Support Services ("PSS") and Other Accommodations. Approximately 70% of LTC revenue is received from the MOHLTC. Leisureworld also receives capital cost funding of $10.35 per bed, per day from the MOHLTC for Class A homes, as well as 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.

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

Occupancy levels enhance cash flow

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

Under current MOHLTC policy, a LTC home that provides basic accommodation for at least 40% of residents 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 July 1, 2013, the MOHLTC increased the private room premium up to $21.50 per day and $10.00 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 beds designated as private accommodation and has converted approximately 35% of the resident base from the previous daily rates to the new prescribed rates.

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

Disciplined cost management is key to operating profitability

Leisureworld enjoys economies of scale in areas such as hiring, purchasing and administration. LTC operators in Ontario receive funding from the provincial government. Operators must return any funding that is not spent for the NPC, PSS, and Raw Food ("RF") envelopes to the government. Any spending in excess of the government funding is paid by the LTC operator. Leisureworld prudently manages its costs in line with the established funding levels for NPC, PSS and RF and it continues to provide quality accommodation and services to residents, while maximizing operating profit. Effective for 2013, the MOHLTC has provided the ability to balance between the envelopes with the exception of the RF envelope, which will not have a significant impact on financial results.

Ensuring high-quality care and services to all residents

A culture of quality is fostered throughout Leisureworld under the leadership of an internal group, referred to as the Quality Council, which measures, monitors and audits Leisureworld's performance in care and services, and resident satisfaction. Employees at all levels are engaged in quality improvement initiatives aimed at improving the resident and family experience. The outcome of this information exchange supports the establishment of best practices, revisions to benchmarks and is used to develop educational initiatives.

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

Management of each home is supported by education, orientation, programs developed by regional teams and networking, with other homes through internal conferences, home comparative management reports and involvement in project teams.

Ensuring continued maintenance and upgrade of properties

Five year capital forecasts, 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, which helps ensure all building assets are well maintained and operate efficiently and competitively.

Significant Judgments and Estimates

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

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, annuity, 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, 2013, the Management's Discussion and Analysis filed for the year ended December 31, 2012, and the Short Form Prospectus issued April 17, 2013.

Critical Accounting Estimates and Accounting Policies

Current Estimates and Accounting Policies

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

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

Changes in Accounting Policies

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

IFRS 10, Consolidated Financial Statements

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

IFRS 13, Fair Value Measurement

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

Accounting Standards Issued But Not Yet Applied

Other than those disclosed in the audited consolidated financial statements for the year ended December 31, 2012, there are no 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, 2013, the Management's Discussion and Analysis filed for the year ended December 31, 2012, and the Short-Form Prospectus filed on April 17, 2013, all of which are available at www.sedar.com, contain detailed discussions of risks and uncertainties that could affect 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 changes in Leisureworld'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 Leisureworld's control environment.

Leisureworld
SENIOR CARE CORPORATION

Q3 2013

Condensed Interim Consolidated Financial Statements

(Unaudited)

(in thousands of Canadian Dollars)

Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
Thousands of dollars

	Notes	**September 30, 2013**	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	5	**24,305**	9,243
Subscription receipts funds held in escrow	10	**77,420**	-
Accounts receivable and other assets	18	**4,971**	6,943
Income support		**-**	945
Prepaid expenses and deposits	6	**16,291**	3,004
Government funding receivable		**5,552**	4,371
Construction funding receivable		**6,346**	6,157
		134,885	30,663
Government funding receivable		**122**	567
Restricted cash	7	**416**	255
Construction funding receivable		**64,957**	69,746
Property and equipment		**442,897**	455,882
Intangible assets	8	**91,755**	95,488
Goodwill		**91,466**	91,466
Total assets		**826,498**	744,067
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	15	**46,990**	40,869
Subscription receipts	10	**81,646**	-
Convertible debentures	11	**43,689**	-
Government funding payable		**3,180**	2,072
Current portion of long-term debt	9	**1,598**	27,206
Interest rate swap contracts		**61**	336
Income taxes payable		**359**	39
		177,523	70,522
Long-term debt	9	**395,593**	398,019
Deferred income taxes	13	**63,541**	65,682
Government funding payable		**6,036**	3,297
Share-based compensation liability	16	**1,283**	600
Interest rate swap contracts		**627**	1,791
Total liabilities		**644,603**	539,911
SHAREHOLDERS' EQUITY			
Share capital	14	**289,120**	289,098
Equity component of convertible debentures	11	**515**	-
Contributed surplus		**27**	10
Deficit		**(107,767)**	(84,952)
Total shareholders' equity		**181,895**	204,156
Total liabilities and shareholders' equity		**826,498**	744,067

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
Thousands of dollars

	Notes	**Share capital**	**Equity portion of convertible debentures**	**Contributed surplus**	**Deficit**	**Total shareholders' equity**
Balance, January 1, 2013		**289,098**	**-**	**10**	**(84,952)**	**204,156**
Issuance of convertible debentures	**11**	**-**	**515**	**-**	**-**	**515**
Net loss		**-**	**-**	**-**	**(3,036)**	**(3,036)**
Long-term incentive plan	**16**	**11**	**-**	**17**	**-**	**28**
Share purchase loan	**18**	**6**	**-**	**-**	**-**	**6**
Share-based compensation	**16**	**5**	**-**	**-**	**-**	**5**
Dividends	**15**	**-**	**-**	**-**	**(19,779)**	**(19,779)**
Balance, September 30, 2013		**289,120**	**515**	**27**	**(107,767)**	**181,895**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
Balance, January 1, 2012		233,207	-	-	(52,179)	181,028
Issuance of shares	14	55,470	-	-	-	55,470
Net loss		-	-	-	(7,787)	(7,787)
Long-term incentive plan	16	155	-	10	-	165
Deferred tax rate change		115	-	-	-	115
Share-based compensation	16	96	-	-	-	96
Dividends	15	-	-	-	(17,298)	(17,298)
Balance, September 30, 2012		289,043	-	10	(77,264)	211,789

See accompanying notes.

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

Thousands of dollars, except share and per share data

	Notes	Three months ended September 30 **2013**	2012	Nine months ended September 30 **2013**	2012
Revenue	18, 19	**86,575**	82,939	**253,508**	233,767
Expenses					
Operating		**70,322**	67,546	**207,730**	192,402
Administrative		**3,302**	3,872	**12,012**	10,515
Depreciation and amortization		**7,081**	7,113	**21,043**	20,768
Impairment loss		**-**	-	**-**	2,697
	20	**80,705**	78,531	**240,785**	226,382
Income from operations		**5,870**	4,408	**12,723**	7,385
Finance costs		**7,479**	5,695	**20,245**	15,830
Finance income		**(1,230)**	(1,225)	**(4,226)**	(3,232)
Net finance charges	12	**6,249**	4,470	**16,019**	12,598
Loss before income taxes		**(379)**	(62)	**(3,296)**	(5,213)
Provision for (recovery of) income taxes					
Current		**897**	682	**1,773**	1,401
Deferred		**(570)**	(605)	**(2,033)**	1,173
	13	**327**	77	**(260)**	2,574
Net loss and comprehensive loss attributable to shareholders		**(706)**	(139)	**(3,036)**	(7,787)
Basic and diluted loss per share		**($0.02)**	($0.00)	**($0.10)**	($0.29)
Weighted average number of common shares outstanding		**29,321,387**	29,239,556	**29,296,846**	26,717,554

See accompanying notes.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Thousands of dollars

	Notes	Three months ended September 30 2013	Three months ended September 30 2012	Nine months ended September 30 2013	Nine months ended September 30 2012
OPERATING ACTIVITIES					
Net loss		**(706)**	(139)	**(3,036)**	(7,787)
Add (deduct) items not affecting cash					
Depreciation of property and equipment		**5,080**	5,041	**15,110**	13,931
Amortization of intangible assets		**2,001**	2,072	**5,933**	6,837
Current income taxes		**897**	682	**1,773**	1,401
Deferred income taxes		**(570)**	(605)	**(2,033)**	1,173
Share-based compensation	16	**(63)**	230	**792**	459
Net finance charges	12	**6,249**	4,470	**16,019**	12,598
Impairment loss		**-**	-	**-**	2,697
		12,888	11,751	**34,558**	31,309
Non-cash changes in working capital					
Accounts receivable and other assets		**365**	(759)	**2,154**	(924)
Prepaid expenses and deposits		**(57)**	137	**(1,395)**	(1,752)
Accounts payable and accrued liabilities		**2,962**	3,807	**1,412**	882
Income support		**47**	1,048	**945**	1,020
Government funding, net		**426**	(997)	**3,111**	(291)
		3,743	3,236	**6,227**	(1,065)
Interest paid on long-term debt		**(1,092)**	(1,219)	**(10,316)**	(9,772)
Net settlement payment on interest rate swap contracts		**(95)**	(154)	**(456)**	(483)
Income taxes paid		**(458)**	(459)	**(1,453)**	(1,317)
Cash provided by operating activities		**14,986**	13,155	**28,560**	18,672
INVESTING ACTIVITIES					
Purchase of property and equipment		**(550)**	(465)	**(2,125)**	(833)
Purchase of intangible assets	8	**-**	-	**(2,200)**	(435)
Amounts received from construction funding		**2,284**	2,233	**6,852**	6,522
Interest received from cash and cash equivalents		**75**	90	**161**	187
Acquisition of the Madonna LTC, net of cash acquired		**-**	(2,724)	**-**	(2,724)
Acquisition of the Astoria property		**-**	10	**-**	(36,718)
Acquisition of the Pacifica property		**-**	37	**-**	(39,731)
Acquisition of the Peninsula property		**-**	18	**-**	(15,261)
Acquisition related deposit	6	**-**	-	**(10,000)**	-
Change in restricted cash		**-**	(255)	**(161)**	(255)
Cash provided by (used in) investing activities		**1,809**	(1,056)	**(7,473)**	(89,248)
FINANCING ACTIVITIES					
Net proceeds from issuance of subscription receipts	10	**-**	-	**77,211**	-
Subscription receipts issuance costs	10	**-**	-	**(464)**	-
Subscription receipts funds held in escrow	10	**(209)**	-	**(77,420)**	-
Interest received from subscription receipts funds held in escrow	10	**209**	-	**209**	-
Net proceeds from issuance of convertible debentures	11	**-**	-	**44,160**	-
Repayment of long-term debt		**(20,352)**	(20,182)	**(46,905)**	(20,222)
Proceeds from issuance of long-term debt		**-**	-	**17,974**	51,919
Deferred financing costs		**(132)**	(10)	**(1,014)**	(10)
Dividends paid	15	**(6,598)**	(6,217)	**(19,776)**	(16,960)
Net proceeds from issuance of common shares		**-**	-	**-**	53,787
Cash provided by (used in) financing activities		**(27,082)**	(26,409)	**(6,025)**	68,514
Increase (decrease) in cash and cash equivalents during the period		**(10,287)**	(14,310)	**15,062**	(2,062)
Cash and cash equivalents, beginning of period	5	**34,592**	34,169	**9,243**	21,921
Cash and cash equivalents, end of period	5	**24,305**	19,859	**24,305**	19,859

See accompanying notes.

1 Organization

General information and nature of operations

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

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

Leisureworld and its predecessors have been operating since 1972. Through its subsidiaries, the Company owns and operates 27 long-term care ("LTC") homes (representing an aggregate of 4,498 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates five retirement residences ("RR") (representing 686 suites) and one independent living residence ("IL") (representing 53 apartments) in the Provinces of Ontario and British Columbia, which combined constitute the retirement segment. An ancillary business of the Company 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.

The Company is a public company listed on the Toronto Stock Exchange (the "TSX") under the ticker symbol LW. As of September 30, 2013, the following securities of the Company were outstanding: 29,321,387 common shares; 6,353,750 subscription receipts (TSX symbol: LW.N), which represent the right to receive one common share upon closing of the Specialty Care Acquisition (Note 10); and $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 11).

Pending acquisition

On April 4, 2013, the Company entered into acquisition agreements to acquire from Specialty Care Inc. and certain other related parties (collectively "Specialty Care") a portfolio of 10 properties in Ontario consisting of six LTC homes, two RRs and two properties containing both LTC and RR components ("Specialty Care Acquisition"). The Specialty Care Acquisition comprises in total 1,235 LTC beds and 326 retirement suites, as well as the third party seniors living management businesses operated by Specialty Care Inc. Approval from the Ministry of Health and Long-Term Care ("MOHLTC") and typical lender consents, or alternate financing, are required to close the transaction. The Company anticipates the completion of the Specialty Care Acquisition will occur in December 2013. In order to obtain MOHLTC consent to the licence transfers in a timely manner, the acquisition was structured in such a way to make the assumption of existing property debt unfeasible. Leisureworld has negotiated replacement debt on more favourable terms which will result in lower interest costs. However, it was necessary to renegotiate the cost sharing arrangement with the vendor such that Leisureworld's upfront costs will exceed the $2,500 previously agreed by approximately $1,000 to $1,500.

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 the Company's annual audited consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim consolidated financial statements were approved by the Board of Directors for issue on November 13, 2013.

3 Summary of significant accounting policies, judgments and estimation uncertainty

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

Changes in accounting policies

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

IFRS 10, Consolidated Financial Statements

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

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

IFRS 13, Fair Value Measurement

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

Significant judgments and estimates

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2012.

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

4 Fair value of financial instruments

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

	Carrying value as at September 30, 2013				
	Assets / liabilities at fair value through profit and loss	**Loans and receivables**	**Other liabilities**	**Total carrying value**	**Fair value**
Financial Assets:					
Cash and cash equivalents	-	24,305	-	24,305	24,305
Subscription receipts funds held in escrow	-	77,420	-	77,420	77,420
Accounts receivable and other assets	-	4,971	-	4,971	4,971
Government funding receivable	-	5,674	-	5,674	5,674
Construction funding receivable	-	71,303	-	71,303	74,897
Restricted cash	-	416	-	416	416
Financial Liabilities:					
Accounts payable and accrued liabilities	-	-	46,990	46,990	46,990
Subscription receipts	-	-	81,646	81,646	68,748
Convertible debentures	-	-	43,689	43,689	45,811
Government funding payable	-	-	9,216	9,216	9,216
Long-term debt	-	-	397,191	397,191	421,899
Interest rate swap contracts	688	-	-	688	688

	Carrying value as at December 31, 2012				
	Assets / liabilities at fair value through profit and loss	Loans and receivables	Other liabilities	Total carrying value	Fair value
Financial Assets:					
Cash and cash equivalents	-	9,243	-	9,243	9,243
Accounts receivable and other assets	-	6,943	-	6,943	6,943
Government funding receivable	-	4,938	-	4,938	4,938
Construction funding receivable	-	75,903	-	75,903	82,631
Restricted cash	-	255	-	255	255
Financial Liabilities:					
Accounts payable and accrued liabilities	-	-	40,869	40,869	40,869
Government funding payable	-	-	5,369	5,369	5,369
Long-term debt	-	-	425,225	425,225	453,096
Interest rate swap contracts	2,127	-	-	2,127	2,127

Fair value hierarchy

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

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

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

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

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

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

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

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

	As at September 30, 2013			As at December 31, 2012		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Financial Liabilities:						
Interest rate swap contracts	**-**	**(688)**	**-**	-	(2,127)	-

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. The Company was in compliance with all covenants on its borrowings as at September 30, 2013. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of maturity.

The Company's convertible debentures in the amount of $46,000 mature on January 2, 2014. Subject to the closing of the acquisition of Specialty Care as discussed in Note 11, the term of the debentures will automatically be extended to June 30, 2018. Should the acquisition not close, the Company's alternatives to meet its obligations include drawing on the revolving credit facility and issuing additional debt or additional equity. There can be no assurances that the amounts or terms of any refinancing would be favourable to the Company.

5 Cash and cash equivalents

	September 30, 2013	December 31, 2012
Cash	**24,293**	9,160
Cash equivalents	**12**	83
Cash and cash equivalents	**24,305**	9,243

6 Prepaid expenses and deposits

	September 30, 2013	December 31, 2012
Prepaid expenses	**2,209**	1,063
Prepaid issuance costs (Note 10)	**2,040**	-
Acquisition related deposit	**10,000**	-
Other deposits	**2,042**	1,941
Prepaid expenses and deposits	**16,291**	3,004

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

7 Restricted cash

Restricted cash relates to the capital expenditure reserve required for the Madonna mortgage (Note 9).

8 Intangible assets

On April 19, 2013, the Company acquired a licence to operate 88 LTC beds from Christie Gardens Apartments and Care Inc. for $2,200.

9 Long-term debt

		Interest rate	Maturity date	September 30, 2013	December 31, 2012
Current					
Pacifica Credit Facility	(i)	Floating	May 23, 2013	-	26,068
Current Portion of Peninsula Mortgage	(ii)	5.180%	N/A	**742**	726
Current Portion of Pacifica Mortgage	(iii)	3.040%	N/A	**430**	-
Current Portion of Madonna Mortgage	(iv)	Floating	N/A	**426**	412
				1,598	27,206
Long-Term					
Revolving Credit Facility	(v)	Floating	April 26, 2015	**25,891**	45,926
Astoria Credit Facility	(i)	Floating	May 23, 2015	**25,925**	25,927
Series A Senior Secured Notes	(vi)	4.814%	November 24, 2015	**289,190**	287,516
Peninsula Mortgage	(ii)	5.180%	January 1, 2017	**22,946**	23,505
Pacifica Mortgage	(iii)	3.040%	June 1, 2023	**16,816**	-
Madonna Mortgage	(iv)	Floating	April 16, 2029	**14,825**	15,145
				395,593	398,019
				397,191	425,225

(i) On May 24, 2012, the Company entered into a one-year credit facility for $26,100 to finance the acquisition of the Pacifica property ("Pacifica Credit Facility") and a two-year credit facility for $26,000 to finance the acquisition of the Astoria property ("Astoria Credit Facility"). 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 the Company 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, the Company incurred financing costs of $181 directly associated with obtaining the financing. These costs have been recorded as a reduction of the total financing received and are expensed over the term of each loan. On May 23, 2013, the Pacifica Credit Facility matured and the Company repaid the $26,100 with net proceeds from the new Pacifica mortgage described in Note 9(iii). The difference between the amount settled under the Pacifica Credit Facility and the Pacifica Mortgage amount was settled in cash. On June 28, 2013, the Company extended the maturity date on the $26,000 Astoria Credit Facility to May 23, 2015.

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

(iii) On April 19, 2013, the Company entered into a $17,974 Canadian Mortgage and Housing Corporation 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 collateralized by a first collateral mortgage on the Pacifica property and a general security agreement providing a first charge on all assets and undertakings, is guaranteed by Leisureworld Senior Care Corporation as to $5,400, and is subject to certain customary financial and non-financial covenants. Interest and principal on the mortgage is due on the first day of each month. As part of the Pacifica Mortgage, the Company incurred financing costs of $611 directly associated with obtaining the financing.

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

(v) On June 29, 2012, the Company's $55,000 credit facility was converted to a $61,500 revolving credit facility ("Revolving Credit Facility") bearing interest at 187.5 bps per annum over the floating 30-day BA rate. The Revolving Credit Facility is secured by the Royale LP's (a subsidiary of the Company) interest in the Kingston and Kanata RRs, is guaranteed by the Company, and is subject to certain customary financial and non-financial covenants. On September 24, 2013, the Company extended the maturity date on this credit facility to April 26, 2015. As at September 30, 2013, the Company has drawn $26,000 under this credit facility (December 31, 2012 - $46,000). The Company, in conjunction with the $55,000 credit facility, entered into an interest rate swap contract to effectively fix the interest rate at 4.045%. The interest rate swap contract matured on April 26, 2013.

(vi) The 4.814% Series A Senior Secured Notes ("2015 Notes"), due November 24, 2015, have a remaining face value of $294,326 as at September 30, 2013 (December 31, 2012 - $294,326) and are collateralized by the assets of Leisureworld Senior Care LP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year.

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

10 Subscription receipts

On April 25, 2013, the Company completed a bought deal offering of 6,353,750 subscription receipts at a price of $12.40 per subscription receipt for gross proceeds of $78,787. The purchased subscription receipts included 828,750 subscription receipts made available for issuance pursuant to the exercise of the over allotment option granted to the syndicate of underwriters. Each subscription receipt entitles the holder to acquire one common share of the Company upon closing of the Specialty Care Acquisition. Conditional upon the closing of the Specialty Care Acquisition on or prior to January 2, 2014, each subscription receipt holder is also entitled to receive an amount equal to the per-share dividends declared by the Company from and including April 25, 2013 to the date immediately preceding the closing date of the Specialty Care Acquisition ("Dividend Equivalent").

The subscription receipts, classified as financial liabilities, are being carried at amortized cost, with the Dividend Equivalent recognized as part of net finance charges (Note 12). The offering proceeds, net of $1,576 representing 50% of total underwriters' fees, are held by an escrow agent pending closing of the Specialty Care Acquisition and are reported on the condensed interim consolidated statement of financial position as subscription receipts funds held in escrow. Included in subscription receipts funds held in escrow as at September 30, 2013 is interest received of $209. Interest earned on the subscription receipts funds held in escrow but not received, in the amount of $165 as of September 30, 2013, is included in accounts receivable and other assets. As of September 30, 2013, the Company incurred issuance costs of $2,040, which consisted of $1,576 in underwriters' fees and other issuance costs of $464. These issuance costs have been recorded in prepaid expenses and deposits.

11 Convertible debentures

On April 25, 2013, the Company 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 the Company at $16.75 per common share, for net proceeds of $44,160. If the Specialty Care Acquisition closes prior to January 2, 2014, the maturity date of the Convertible Debentures will automatically be 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 the Company 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 the Company 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 the Company 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 the Company 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, the Company has the right to redeem all of the remaining Convertible Debentures.

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

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 includes a deferred tax asset of $108. The liability portion of the Convertible Debentures is recorded at amortized cost. The Company 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.

12 Net finance charges

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Finance costs				
Interest expense on long-term debt	**4,673**	4,876	**13,971**	13,474
Interest expense on convertible debentures	**569**	-	**962**	-
Interest expense and fees on revolving credit facility	**33**	33	**139**	52
Net accretion of the fair value adjustments on long-term debt	**435**	481	**1,289**	1,593
Amortization of deferred financing charges	**244**	108	**569**	185
Net settlement payment on interest rate swap contracts	**95**	197	**456**	526
Dividend equivalent on subscription receipts	**1,430**	-	**2,859**	-
	7,479	5,695	**20,245**	15,830
Finance income				
Interest income on construction funding receivable	**744**	791	**2,252**	2,282
Interest income on subscription receipts funds held in escrow	**216**	-	**374**	-
Other interest income	**75**	90	**161**	187
Gain on interest rate swap contracts	**195**	344	**1,439**	763
	1,230	1,225	**4,226**	3,232
Net finance charges	**6,249**	4,470	**16,019**	12,598

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

13 Income taxes

Total income tax expense (recovery) for the period can be reconciled to the loss before income taxes in the condensed interim consolidated statements of operations and comprehensive loss as follows:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Loss before income taxes	**(379)**	(62)	**(3,296)**	(5,213)
Canadian combined income tax rate	**26.47%**	26.50%	**26.47%**	26.50%
Income tax recovery	**(100)**	(16)	**(872)**	(1,381)
Adjustments to income tax provision:				
Non-deductible items	**391**	93	**798**	144
Tax rate change	**-**	-	**-**	3,811
Other items	**36**	-	**(186)**	-
Income tax expense (recovery)	**327**	77	**(260)**	2,574

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at January 1, 2013	(62,926)	(7,395)	2,736	4,748	(2,845)	(65,682)
Credit (charge) to net loss	1,895	1,166	(810)	(596)	378	2,033
Credit to equity (Note 11)	-	-	-	-	108	108
As at September 30, 2013	**(61,031)**	**(6,229)**	**1,926**	**4,152**	**(2,359)**	**(63,541)**

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

	September 30, 2013	December 31, 2012
Within one year	**(1,228)**	(2,136)
One to four years	**(9,020)**	(9,795)
After four years	**(53,293)**	(53,751)
Total	**(63,541)**	(65,682)

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

14 Share capital

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

Issued and outstanding
Common shares

	Common shares	Amount
Balance, January 1, 2012	24,490,149	233,207
Issued common shares	4,680,500	54,470
Shares issued to vendor	82,988	1,000
Long-term incentive plan, net of loans receivable	19,252	173
Deferred income tax rate change	-	115
Share-based compensation	-	133
Balance, December 31, 2012	29,272,889	289,098
Long-term incentive plan, net of loans receivable (Note 16)	9,435	11
Share-based compensation (Note 16)	-	5
Issued common shares (Note 18)	39,063	6
Balance, September 30, 2013	**29,321,387**	**289,120**

15 Dividends

The Company paid dividends at $0.075 per month per common share totaling $6,598 for the three months ended and $19,776 for the nine months ended September 30, 2013, respectively (2012 - $6,217 and $16,960, respectively). Dividends of $2,199 are included in accounts payable and accrued liabilities as of September 30, 2013 (December 31, 2012 - $2,196). Subsequent to September 30, 2013, the Board of Directors declared dividends of $0.075 per common share for October 2013 totaling $2,199. These dividends have not been recorded in these condensed interim consolidated financial statements.

16 Share-based compensation

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

Long-Term Incentive Plan ("LTIP")
Certain senior executives ("Participants") 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 the common shares on the TSX for the five trading days ("Average Closing Price") prior to date of grant. At most 95% of the eligible incentive amount may be financed by a loan from the Company to the Participant for the purpose of acquiring the common shares and bearing interest at the prime rate per annum, fixed at the time of the loan. The loan and interest are due and payable five years from the grant date. Until the loan has been repaid in full, the related shares will be pledged to the Company as security against the outstanding balance of the loan and any cash dividends declared on such shares will be applied against the outstanding balance of the loan; first to interest then to principal.

On February 21, 2013, incentive amounts entitling Participants to acquire 9,435 shares were awarded under this plan. On the grant date, the Participants paid $6, which represent 5% of their incentive amounts. This payment was recorded as an increase in share capital. Related to the LTIP in the nine months ended September 30, 2013, the Company recorded an increase of $11 in share capital (2012 - $155) and $17 in contributed surplus (2012 - $10). Included as a reduction to shareholders' equity is an outstanding loan balance of $181 (December 31, 2012 - $74). Total expenses related to the LTIP for the three and nine months ended September 30, 2013 were $nil and $17, respectively (2012 – reduction of $26, and expense of $10, respectively).

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

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

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

Restricted Share Units ("RSUs")

Participants may be awarded RSUs on an annual basis based on performance targets being achieved. Participants are awarded the number of notional shares equal to a portion of their compensation amount divided by the Average Closing Price as of the grant date. RSU plan Participants 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 year one, two and three from the grant date and the related compensation expense is recognized on a graded basis over the vesting periods. Upon vesting of the RSUs, the Participants have the option to redeem all or a portion of vested RSUs in cash or receive one common share of the Company for each RSU redeemed. Any lump sum payment in cash will be calculated by multiplying the number of RSUs to be redeemed for cash by the Average Closing Price 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 the Company at the reporting date.

On February 21, 2013, 9,435 RSUs were granted to certain Participants under this plan. On May 30, 2013, 5,105 RSUs were granted to certain Participants under this plan. Total expenses related to the RSU plan for the three and nine months ended September 30, 2013 were $15 and $73, respectively (2012 - $41, and $91, respectively), which were recognized in administrative expenses. During the nine months ended September 30, 2013, 6,859 RSUs vested and were settled in cash, resulting in a decrease of $87 to share-based compensation liability (2012 - $nil). No RSUs have vested during the three months ended September 30, 2013 (2012 - $nil). The total liability recorded as a part of the share-based compensation liability as of September 30, 2013 was $80 (December 31, 2012 - $94).

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

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

	Number of RSUs
Outstanding, January 1, 2012	-
Granted	19,252
Forfeited	(8,719)
Dividends reinvested	956
Outstanding, December 31, 2012	11,489
Granted	14,540
Dividends reinvested	885
Settled in cash	(6,859)
Outstanding, September 30, 2013	**20,055**

Deferred Share Units ("DSUs")

Eligible members of the Board of Directors ("Members") can elect on an annual basis to receive their annual retainer fees up to 100% as 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. The Company 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 the DSU plan. The compensation, nominating and governance committee reserves the right to amend the eligible participants and compensation structure under this plan. The value of each DSU is measured at each reporting date and is equivalent to the fair market value of a common share of the Company at the reporting date. Total recovery related to this plan for the three months ended September 30, 2013 was $78 (2012 – expense of $194). Total expense related to this plan for the nine months ended September 30, 2013 was $697 (2012 - $262). Recoveries and expenses related to this plan were recognized in administrative expenses. The total liability recorded as a part of the share-based compensation liability as of September 30, 2013 was $1,203 (December 31, 2012 - $506).

Shares awarded

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

Total expenses related to this plan for the three and nine months ended September 30, 2013 were $nil and $5, respectively (2012 - $21, and $96, respectively), which were recognized in administrative expenses with corresponding increases in share capital. As at September 30, 2013, there were no unvested shares.

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

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

	Shares awarded	Weighted average exercise price (dollars)
Unvested, January 1, 2012	66,667	N/A
Vested	(58,333)	N/A
Unvested, December 31, 2012	8,334	N/A
Vested	(8,334)	N/A
Unvested, September 30, 2013	**-**	**N/A**

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

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

17 Key management compensation

The remuneration of key management is set out below:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Salaries and short-term employee benefits	**420**	432	**803**	1,327
Share-based compensation	**(63)**	230	**792**	459
	357	662	**1,595**	1,786

18 Related party transactions

A subsidiary of the Company 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, 2013 was $499 (2012 – $484) and nine months ended September 30, 2013 was $1,487 (2012 - $1,444). Included in accounts receivable and other assets is $92 owing from Spencer House Inc. at September 30, 2013 (December 31, 2012 - $71). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As of September 30, 2013, the Company has amounts outstanding from certain key executives of $181 (December 31, 2012 - $74) (Note 16) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

During the nine months ended September 30, 2013, the Company loaned the CEO $500 to effect the purchase of the Company's common shares. The outstanding loan balance as of September 30, 2013 was

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$494 (December 31, 2012 - $nil), 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.

19 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the MOHLTC related to these licences. Funding is received on or about the 22nd of each month. During the three and nine months ended September 30, 2013, the Company received approximately $56,394 and $163,604, respectively in respect of these licences for operating revenues and other MOHLTC funded initiatives (2012 - $51,997 and $152,532, respectively).

20 Expenses by nature

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Salaries, benefits and people costs	**56,359**	53,980	**166,739**	154,094
Depreciation and amortization	**7,081**	7,113	**21,043**	20,768
Food	**3,488**	3,298	**10,151**	9,353
Property taxes	**2,514**	2,636	**7,687**	7,501
Utilities	**1,932**	1,981	**6,525**	5,892
Impairment loss	**-**	-	**-**	2,697
Other	**9,331**	9,523	**28,640**	26,077
Total expenses	**80,705**	78,531	**240,785**	226,382

21 Segmented information

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

The Company is comprised of the following main business segments as at September 30, 2013:

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

The significant accounting policies of the reportable operating segments are the same as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2012.

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

	Three months ended September 30, 2013				
	Long-Term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Gross revenue	**77,366**	**6,831**	**4,354**	**6,598**	**95,149**
Less: Internal revenue	**1,460**	**-**	**516**	**6,598**	**8,574**
Net revenue	**75,906**	**6,831**	**3,838**	**-**	**86,575**
Income (loss) from operations before the undernoted	**12,295**	**3,190**	**768**	**(3,302)**	**12,951**
Depreciation of property and equipment	**3,696**	**1,384**	**-**	**-**	**5,080**
Amortization of intangible assets	**67**	**1,932**	**2**	**-**	**2,001**
Finance costs	**4,294**	**1,065**	**-**	**2,120**	**7,479**
Finance income	**(959)**	**(18)**	**-**	**(253)**	**(1,230)**
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	**-**	**-**	**-**	**-**	**-**

	Three months ended September 30, 2012				
	Long-Term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Gross revenue	74,048	6,615	4,152	6,217	91,032
Less: Internal revenue	1,371	-	505	6,217	8,093
Net revenue	72,677	6,615	3,647	-	82,939
Income (loss) from operations before the undernoted	11,911	2,894	588	(3,872)	11,521
Depreciation of property and equipment	3,691	1,349	1	-	5,041
Amortization of intangible assets	32	1,781	259	-	2,072
Finance costs	4,443	1,252	-	-	5,695
Finance income	(1,016)	(209)	-	-	(1,225)
Income tax expense	-	-	-	77	77
Net income (loss)	4,761	(1,279)	328	(3,949)	(139)
Purchase of property and equipment	388	77	-	-	465
Purchase of intangible assets	-	-	-	-	-

	Nine months ended September 30, 2013				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**226,560**	**19,849**	**13,138**	**19,779**	**279,326**
Less: Internal revenue	**4,357**	**-**	**1,682**	**19,779**	**25,818**
Net revenue	**222,203**	**19,849**	**11,456**	**-**	**253,508**
Income (loss) from operations before the undernoted	**34,795**	**8,620**	**2,363**	**(12,012)**	**33,766**
Depreciation of property and equipment	**11,170**	**3,939**	**1**	**-**	**15,110**
Amortization of intangible assets	**203**	**5,493**	**237**	**-**	**5,933**
Finance costs	**12,751**	**3,492**	**-**	**4,002**	**20,245**
Finance income	**(3,626)**	**(189)**	**-**	**(411)**	**(4,226)**
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**

	Nine months ended September 30, 2012				
	Long-Term Care	Retirement	Home Care	Corporate, Eliminations and Other	Total
Gross revenue	213,514	13,862	12,062	17,298	256,736
Less: Internal revenue	4,113	-	1,558	17,298	22,969
Net revenue	209,401	13,862	10,504	-	233,767
Income (loss) from operations before the undernoted	33,674	5,743	1,948	(10,515)	30,850
Depreciation of property and equipment	10,961	2,968	2	-	13,931
Amortization of intangible assets	3,021	3,038	778	-	6,837
Finance costs	12,913	2,917	-	-	15,830
Finance income	(2,604)	(564)	-	(64)	(3,232)
Impairment loss	2,697	-	-	-	2,697
Income tax expense	-	-	-	2,574	2,574
Net income (loss)	6,686	(2,616)	1,168	(13,025)	(7,787)
Purchase of property and equipment	692	141	-	-	833
Purchase of intangible assets	435	-	-	-	435

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	As at September 30, 2013				
	Long-Term Care	**Retirement**	**Home Care**	**Corporate, Eliminations and Other**	**Total**
Total assets	**511,555**	**216,277**	**8,335**	**90,331**	**826,498**
Goodwill	**84,945**	**-**	**6,521**	**-**	**91,466**
Intangible assets	**81,751**	**9,996**	**8**	**-**	**91,755**

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

22 Comparative figures

Certain comparative figures have been reclassified from interim consolidated financial statements previously presented to confirm to the presentation adopted in the current period. Included among these reclassifications is a change in the presentation of interest paid, from financing activities to operating activities, as it is a better reflection of the uses of cash. These reclassifications had no impact on the reported net loss.