Leisureworld Senior Care Corporation

Financial Report

For the Quarter and Nine Months Ended September 30, 2011, Quarter Ended September 30, 2010 and Period from Incorporation, February 10, 2010, to September 30, 2010

(In Canadian Dollars)

Leisureworld Senior Care Corporation

Management's Discussion and Analysis
September 30, 2011

(In Canadian Dollars)

The following Management's Discussion and Analysis ("MD&A") for Leisureworld Senior Care Corporation ("Leisureworld", "LSCC" or the "Company") summarizes the financial results for the quarter and period ended September 30, 2011. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the quarter and period ended September 30, 2011 should be read in conjunction with the unaudited interim consolidated financial statements and related notes for the quarter and period ended September 30, 2011 as well as the audited consolidated financial statements for the Company for the period ended December 31, 2010. This and additional information relating to the Company is available on SEDAR at www.sedar.com. The information contained in this report reflects all material events up to November 9, 2011, the date on which this report was approved by the Board of Directors of Leisureworld.

The discussion and analysis of the operating results for the nine-month period compares the consolidated operations of Leisureworld to the combined results of Leisureworld Senior Care LP ("LSCLP") up to March 23, 2010, the date of acquisition, and the Company's results from March 23, 2010 to the end of the period. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted.

Forward-looking statements

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

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

Introduction

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

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

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

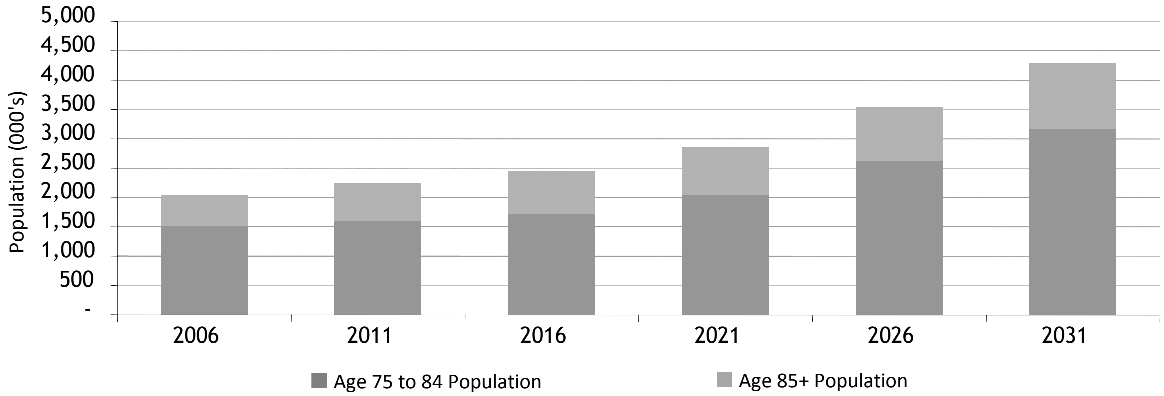
Industry overview
LTC homes are designed to accommodate seniors who require 24-hour per day care and suffer from cognitive or physical impairment. LTC homes offer higher levels of personal care and support than those typically offered by independent living facilities or retirement residences. All Ontario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

Retirement communities accommodate seniors who require minimal to moderate assistance with activities of daily living whereas independent living communities accommodate seniors who require minimal or no assistance with daily living. RR in Ontario are now regulated but generally are not subsidized by the government. The "Retirement Homes Act, 2010" received Royal Assent on June 8, 2010. This legislation will provide consumer protection and does not provide funding for the provision of care and services in these facilities. There will be a delayed implementation of certain sections of the Act, including licensing provisions. Residents are generally responsible for the entire cost of accommodation and care.

Demand and supply
The demand for seniors housing and programs continues to grow in the Province of Ontario. Management believes favourable demographics, increasing life expectancy, increasing seniors' affluence and changing family dynamics have and will continue to have a positive impact on demand for LTC, RR and IL accommodations ("seniors housing") in the Province of Ontario.

- **Favourable demographics:** The primary demographic group living in LTC homes, RR and IL communities are Canadians who are greater than 75 years of age. According to Statistics Canada, the 75-plus and 85-plus age cohorts in Canada are anticipated to be among the fastest growing age cohorts over the next 20 years, with the 85-plus age cohort expected to increase approximately 23% between 2006 and 2011. The same cohorts are expected to more than double in population by 2031.

Estimated Population in Canada's 75 to 84 and 85+ Age Cohorts



Source: Statistics Canada estimates, as at June 26, 2008.

- **Increasing life expectancy:** Primarily as a result of advances in healthcare, life expectancy is increasing. The average life expectancy for Canadians increased to 80.4 years in 2005 from 77.8 years in 1991, according to Statistics Canada. Additionally, the population of the Province of Ontario has one of the highest life expectancies in the developed world. The segment of the population aged 65 years and older is expected to more than double in size by 2031.

- **Increasing seniors' affluence:** Increases in net worth (largely as a result of the many seniors who now own their homes debt-free), combined with increased household incomes, allow seniors to afford a much higher quality housing product with greater amenities than at any time in the past. Seniors housing is now more upscale and residential, compared to the institutional feel that previously characterized such facilities. For example, in LTC, seniors can now choose to live in private or semi-private accommodation that more resembles hotel-style living. This arrangement also affords greater dignity and privacy to the senior receiving care and services.

- **Changing family dynamics:** With more and more families having both spouses working full-time outside of the home and changes in lifestyle reducing the ability of adult children to care for their aging parents, seniors housing facilities are an attractive option. There is also an increasing demand for home healthcare services as wait-lists for medical services and emergency room wait-times increase.

- **LTC provides a cost effective alternative:** Rising healthcare costs have resulted in a reduction in the length of hospital stays and a greater demand for home healthcare services and, in turn, are a predominant factor in growing LTC wait-list numbers. This has resulted in LTC homes increasingly being filled by residents with higher care requirements, leading to higher occupancy levels in LTC homes. There are currently 77,500 LTC beds in Ontario and a wait list of approximately 24,000 individuals.

- **Recession stability:** The LTC industry has historically been largely insulated from economic cycles. This can be attributed to several factors: (i) seniors are generally retired and receiving stable, fixed and predictable income from private and public pensions, RRSPs and other fixed income investment securities; (ii) demand for LTC housing is not usually discretionary but driven by need, which does not fluctuate during economic cycles; (iii) stability of tenure, as seniors, once having moved into a facility, are reluctant or unable to move to alternative accommodation; (iv) the continual increase in the demand for seniors accommodation with skilled nursing due to the demographics of the aging population; and (v) a high level of government funding and subsidization of fees.

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

LTC characteristics

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

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

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

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

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

LTC funding model

Ontario LTC homes are funded through a well-defined funding model. Licensed operators of Ontario LTC homes are entitled to operating subsidies (subject to annual reconciliation), as well as various capital renewal program payments. Provincial support for the Ontario LTC sector has been demonstrated by increased funding commitments to the sector. Operational funding of LTC homes in the Province of Ontario is currently paid monthly and is divided into three "envelopes." The three envelopes include Nursing and Personal Care ("NPC"), Programs and Support Services ("PSS") and Other Accommodation, which includes Raw Food. Total operational funding received by operators includes a provincial government component and a direct charge to residents in respect of accommodation services. Each envelope is structured as a fixed amount per resident per day, or "rate." If an LTC home's average annual occupancy meets or exceeds 97%, it is the MOHLTC's policy to provide funding based on 100% occupancy. Effective for 2011, the MOHLTC introduced an interim policy for homes with occupancy rates above 85% and below 97% to provide funding based on actual occupancy plus 3%. Previously, if an LTC home's average annual occupancy level was below 97%, the MOHLTC provided funding based on actual occupancy levels.

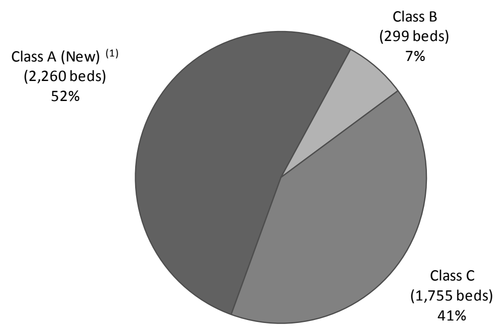
The MOHLTC categorizes and provides structural compliance and capital funding for homes according to four bed classes: Class A, which includes New, Class B, Class C and Class D. Capital funding is available to operators of LTC homes through Structural Compliance Premiums, Capital Cost Funding for New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

Business overview

LTC homes

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

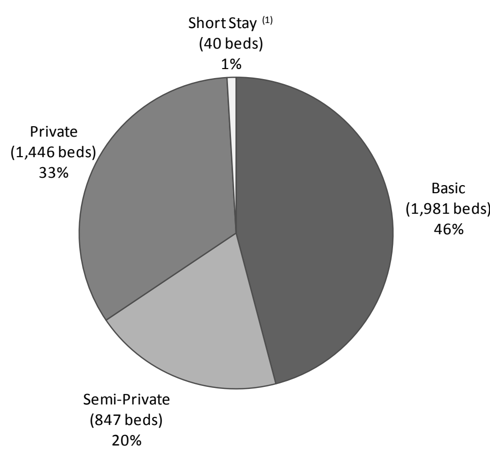
Summary of LTC Beds by Class



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

A significant proportion of Leisureworld's LTC beds are designated as preferred accommodation with approximately 53% of beds designated as private or semi-private accommodation. Approximately 4% of the revenues and 25% of the Net Operating Income ("NOI") from Leisureworld's LTC operations are generated from charging residents the regulated premium of $18.00 and $8.00 per day per bed for private and semi-private accommodation, respectively.

Summary of LTC Beds by Accommodation Type



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

Retirement and independent living residences

Leisureworld owns and operates a RR consisting of 29 suites that adjoins the Muskoka LTC home, and one IL residence comprising 53 apartments that is attached to the Scarborough LTC home. These two homes as at the end of the period have a combined occupancy above 87.5% and are integral to seniors services provided within their local communities. On April 27, 2011, Leisureworld acquired two additional RRs comprising 294 suites located in Kingston and Kanata, Ontario. These residences are new luxury retirement living properties featuring top quality amenities and services. Leisureworld is now marketing these properties under the Company's 'The Royale' brand. As new properties, both residences are currently in the lease-up period. Occupancy rates as at September 30, 2011 were 57.4% at Kingston and 52.5% at Kanata. During the quarter, both the Kingston and Kanata properties realized 17 net new resident move-ins, and were able to secure 29 net new signed lease agreements for future move-ins as at the date of this report.

As part of the total purchase consideration for the Kingston and Kanata RRs, Leisureworld put in place a $5.5 million three-year income support agreement with the vendor, to be held in escrow as an income guarantee to supplement cash flow during the period that the residences are being leased-up. As at September 30, 2011, the Company has drawn down $2.2 million of the income support funds. Leisureworld's RRs will have to comply with the requirements of the Retirement Homes Act, as the regulations are phased in over time.

Preferred Health Care Services

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

Key performance drivers

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

Government funding for LTC facilities ensures stability of cash flow

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

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

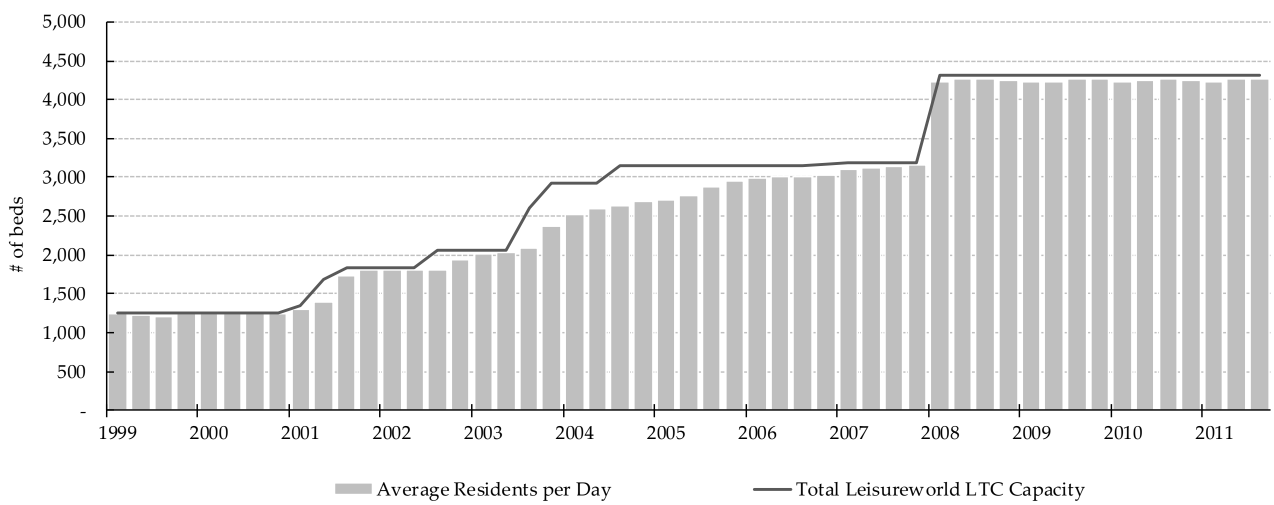
Redevelopment of Leisureworld's Class C homes is expected to occur under this program in the years ahead, as the capital reimbursement is defined.

PHCS provides home care services that help individuals remain independent and active in their homes. Funding for such services is provided by Community Care Access Centres ("CCAC"). 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. An LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Effective for 2011, the MOHLTC introduced an interim policy for homes with occupancy rates above 85% and below 97% to provide funding based on actual occupancy plus 3%. Leisureworld has a strong record of increasing capacity and occupancy. In addition, the supply of LTC beds is controlled and regulated by the MOHLTC, which ensures barriers to entry. For the quarter and year-to-date period ended September 30, 2011, Leisureworld's average occupancy for LTC homes was 98.9% and 98.5%, respectively (2010 – 98.7% and 98.5%, respectively).

In addition, the demand for LTC homes is dictated by a need for care, driven by demographic trends rather than changes in the economy. According to the Ontario Ministry of Finance, the number of people aged 65 years and older will nearly double to about 3.5 million, or 21.4% of the province's population, in 2031, up from 1.6 million, or 12.9% of the population currently.

LTC Occupancy Track Record(1)



Note:
(1) Includes only LTC beds.

Leisureworld's RR that adjoins its Muskoka LTC home, and its IL attached to its Scarborough LTC home, have a combined average occupancy for the quarter and year-to-date period ended September 30, 2011 of 89.6% and 90.7%, respectively, and are integral to seniors services provided within their local communities. For the quarter and year-to-date period ended September 30, 2011, the two acquired properties in Kingston and Kanata have combined average occupancy rates of 51.3% and 50.5%, respectively. For Kingston and Kanata, management is targeting a net new average move-in rate of 2.5 per property per month, which will result in achieved occupancy exceeding 90% during the second half of 2013.

Optimization of private accommodation mix increases operating profitability
An LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private accommodation at a regulated premium. The LTC home operator retains the premiums collected for such accommodation, which typically increases revenue and enhances profitability. The premium for a private room is currently $18 per day. Leisureworld has approximately 33.5% of the beds designated as private accommodation. Private bed average total occupancy for the quarter and year-to-date periods ended September 30, 2011 was 97.0% and 96.6%, respectively (2010 – 97.3% and 97.2%, respectively).

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

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

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

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

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

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

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

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

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

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

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

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

Business performance
For the quarter ended September 30, 2011, NOI increased by $1,853 or 17.6% to $12,358. The LTC portfolio contributed $977 of increased NOI, primarily due to greater government funding and cost constraint measures across the business segment, the Royale retirement properties contributed $436 of NOI, and PHCS' NOI increased by $233 due to an increase in personal support contract volumes.

For the year to date period ended September 30, 2011, NOI of $33,872 represented an increase of $2,714 or 8.7%. The improvement was primarily due to increased government funding and cost constraint measures across the

LTC portfolio resulting in an increase in NOI of $1,234, Royale retirement properties provided an additional $691 of increased NOI and PHCS contributed $343 to NOI as a result of increased personal support contract volumes.

FFO for the quarter was $5,033, an increase of $487 or 10.7%. The increase was primarily the result of increased NOI of $1,853 and lower income tax expense of $74 compared to the prior year, offset by $928 in increased administrative expenses. The higher administrative expenses were primarily due to higher people related costs, consulting costs, acquisition related costs, public company costs, and the prior year recovery of capital taxes expensed in the previous quarter. Net interest expense also increased as a result of the credit facility ("Bridge Loan") related to the acquisition of the retirement properties in Kingston and Kanata.

For the year to date period, FFO was $14,820 compared to $12,680 in the prior year. The increase of $2,140, or 16.9%, primarily related to improved NOI of $2,714, and lower income tax expenses of $814 compared to the prior year, which related to an income tax book to filing adjustment of $739. This was partly offset by higher administrative expenses of $1,747, as a result of public company expenses and acquisition related costs.

AFFO for the quarter increased to $7,656 from $5,533. The increase of $2,123, or 38.4%, was primarily attributable to the $1,299 drawdown of the income support funds in conjunction with the lease-up of the acquired retirement properties, improved FFO of $487 and lower maintenance capex of $200.

AFFO for the nine month period was $19,825, compared to $15,550 in the prior year. The increase of $4,275, or 27.5%, was primarily due to higher FFO of $2,140, the $2,204 drawdown of the income support funds in conjunction with the lease-up of the acquired retirement properties, and increased construction funding principal of $249. This was partly offset by the income tax book to filing adjustment of $739.

Thousands of dollars	**LSCC Quarter Ended September 30, 2011**	LSCC Quarter Ended September 30, 2010	**LSCC Nine Months Ended September 30, 2011**	(1)LSCC and LSCLP Nine Months Ended September 30, 2010
Net loss	**(3,320)**	(2,291)	**(8,633)**	(5,978)
Recovery of income taxes	**(1,142)**	(822)	**(4,430)**	(1,898)
Loss before income taxes	**(4,462)**	(3,113)	**(13,063)**	(7,876)
Amortization	**8,719**	7,649	**24,636**	20,314
Net finance charges	**4,214**	3,516	**11,531**	10,484
Loss (gain) on interest rate swap contracts	**523**	(40)	**1,020**	(104)
Income from Operations Before the Undernoted	**8,994**	8,012	**24,124**	22,818
Administrative expenses	**3,364**	2,493	**9,748**	8,340
Net Operating Income (NOI)	**12,358**	10,505	**33,872**	31,158

Notes:

(1) The period ended September 30, 2010 presentation is the total of LSCLP results of operations pre-initial public offering for the period from January 1, 2010 to March 22, 2010 added to the results of the Company for the post-initial public offering period of March 23, 2010 to September 30, 2010.

Thousands of dollars	**LSCC Quarter Ended September 30, 2011**	LSCC Quarter Ended September 30, 2010	**LSCC Nine Months Ended September 30, 2011**	(1)LSCC and LSCLP Nine Months Ended September 30, 2010
Net Operating Income (NOI)	**12,358**	10,505	**33,872**	31,158
Accretion interest on construction funding receivable	**781**	830	**2,358**	2,607
Net finance charges(2)	**(4,403)**	(3,835)	**(12,255)**	(12,056)
Current income taxes(3)	**(527)**	(601)	**(481)**	(1,295)
Administrative expenses(4)	**(3,307)**	(2,379)	**(9,507)**	(7,760)
After-tax transaction costs(5)	**131**	26	**833**	26
Funds from Operations (FFO)	**5,033**	4,546	**14,820**	12,680
Income tax book to filing adjustment	**-**	-	**(739)**	-
HRIS expense	**65**	(23)	**29**	(24)
Income support	**1,299**	-	**2,204**	-
Construction funding principal	**1,352**	1,303	**4,041**	3,792
Maintenance capex(6)	**(93)**	(293)	**(530)**	(898)
Adjusted Funds from Operations (AFFO)	**7,656**	5,533	**19,825**	15,550
Basic and diluted FFO per share	**$0.2061**	$0.2272	**$0.6571**	n/a
Basic and diluted AFFO per share	**$0.3135**	$0.2765	**$0.8790**	n/a
Weighted average common shares outstanding (7)	**24,423,483**	20,008,650	**22,553,322**	n/a

Notes:

(1) The period ended September 30, 2010 presentation is the total of LSCLP results of operations pre-initial public offering for the period from January 1, 2010 to March 22, 2010 added to the results of the Company for the post-initial public offering period of March 23, 2010 to September 30, 2010.

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

(3) LSCLP was not a taxable entity.

(4) Administrative expenses have been decreased by $57, $114, $240, and $580 respectively for stock-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.

(5) Transaction costs restated for the Quarter Ended March 31, 2011 due to the change from an AFFO adjustment to an FFO adjustment.

(6) Maintenance Capex has been decreased by $183, $222, $551, and $889 respectively for capital expenditures related to the implementation of the new HRIS.

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

Quarterly Financial Information

Thousands of dollars, except per share data

	LSCC Q3 2011	LSCC Q2 2011	LSCC Q1 2011	LSCC Q4 2010	LSCC Q3 2010	LSCC Q2 2010	(1)LSCC and LSCLP Q1 2010	(2)LSCLP Q4 2009
Revenue	**73,310**	70,029	67,740	71,589	68,824	66,785	65,152	69,366
Operating expenses (excluding amortization)	**60,952**	58,621	57,634	60,734	58,319	55,878	55,406	57,320
Administrative expenses (excluding amortization and loss (gain) on swap)	**3,364**	3,192	3,192	3,114	2,493	2,962	2,885	1,836
Income from operations before the undernoted	**8,994**	8,216	6,914	7,741	8,012	7,945	6,861	10,210
Net income (loss)	**(3,320)**	(2,449)	(2,864)	(2,268)	(2,291)	(2,214)	(1,473)	2,823
Per share and diluted per share	**(0.14)**	(0.11)	(0.14)	(0.11)	(0.11)	(0.11)	N/A	N/A
Dividends declared (3)	**5,202**	5,202	4,271	4,271	4,271	4,685	N/A	N/A
Per share and diluted per share	**0.21**	0.21	0.21	0.21	0.21	0.23	N/A	N/A
AFFO	**7,656**	7,007	5,162	5,029	5,533	5,538	4,479	7,555
Per share and diluted per share (4)	**0.31**	0.30	0.26	0.25	0.28	0.28	N/A	N/A

Notes:

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

(2) Quarters ended in 2009 are in accordance with Canadian GAAP as at December 31, 2010, not adjusted for IFRS.

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

(4) AFFO per share calculations are based on weighted shares outstanding, which are calculated based on the period of time the shares have been outstanding. Prior MD&A disclosures calculated the share weighting based on months of dividend eligibility.

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

Following the Company's conversion to IFRS, administrative expenses for the quarters ended September 30, 2011, June 30, 2011, March 31, 2011, December 31, 2010 and September 30, 2010, include transaction costs of $131, $263, $449, $9 and $26, respectively.

In the quarter ended December 31, 2009, management reduced its estimate of sick time allowance by $1,837.

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

In the quarter ended September 30, 2009, revenue included $1,178 for the additional $1.55 per diem in other accommodation funding which was introduced in that quarter retroactive to April 1, 2009.

A discussion of the quarter ended September 30, 2011 results compared to the same period in the prior year is provided under the section "Selected Consolidated Financial and Operating Information".

Selected Consolidated Financial and Operating Information

Thousands of dollars, unless otherwise noted	**LSCC Quarter Ended September 30, 2011**	LSCC Quarter Ended September 30, 2010	**LSCC Nine Months Ended September 30, 2011**	(1) LSCLP and LSCC Nine Months Ended September 30, 2010
Revenue	**73,310**	68,824	**211,079**	200,761
Expenses				
Operating expenses(2)	**60,952**	58,319	**177,207**	169,603
Administrative expenses(3)	**3,364**	2,493	**9,748**	8,340
	64,316	60,812	**186,955**	177,943
Income from operations before the undernoted	**8,994**	8,012	**24,124**	22,818
Other expenses				
Amortization	**8,719**	7,649	**24,636**	20,314
Net finance charges	**4,214**	3,516	**11,531**	10,484
Loss (gain) on interest rate swap contract	**523**	(40)	**1,020**	(104)
Total other expenses	**13,456**	11,125	**37,187**	30,694
Loss before income taxes	**(4,462)**	(3,113)	**(13,063)**	(7,876)
Provision for (recovery of) income taxes				
Current	**527**	601	**481**	1,295
Deferred	**(1,669)**	(1,423)	**(4,911)**	(3,193)
	(1,142)	(822)	**(4,430)**	(1,898)
Net loss	**(3,320)**	(2,291)	**(8,633)**	(5,978)
Total assets	**659,948**	588,046	**659,948**	588,046
Long-term debt	**354,831**	297,989	**354,831**	297,989
Average occupancy - long-term care	**98.9%**	98.7%	**98.5%**	98.5%
Average occupancy - private	**97.0%**	97.3%	**96.6%**	97.2%
Average occupancy - retirement and independent living (4)	**59.5%**	95.2%	**63.4%**	94.0%

Notes:

(1) The period ended September 30, 2010 presentation is the total of LSCLP results of operations pre-initial public offering for the period from January 1, 2010 to March 22, 2010 added to the results of the Company for the post-initial public offering period of March 23, 2010 to September 30, 2010.

(2) Operating expenses excluding amortization

(3) Administrative expenses excluding loss (gain) on intererst rate swap contracts

(4) The 2011 retirement and independent living occupancy rates include the addition of the Kingston and Kanata properties as of April 27, 2011. The 2010 occupancy rates only include the Muskoka and Scarborough properties.

Revenue

For the quarter ended September 30, 2011, Leisureworld generated revenue of $73,310 compared to $68,824 in 2010, representing an increase of $4,486 or 6.5%. LTC accounted for $1,938 of the increase, primarily due to year over year government funding rate increase of approximately 3.9% or $2,178 and incremental funding of approximately $472 related to the case mix index adjustment. This increase was partly offset by a reduction $684 due to the timing of revenue recognition to match spending under the flow-through funding envelopes, lower special initiative funding of $214, lower property and capital tax funding of $255, primarily related to the recovery of approximately $200 in the prior year related to capital taxes. Retirement revenue accounted for $2,064 of the increase due to the operations of the two retirement residences acquired on April 27, 2011. PHCS's external revenue increased by $484, primarily attributable to an increase in personal support contract volumes.

For the nine months ended September 30, 2011, total revenue was $211,079 compared to $200,761 in the prior year, an increase of $10,318 or 5.1%. LTC accounted for $5,983 of the increase which resulted from a 3.7% year-to-date rate increase in government funding of $6,096, incremental funding of approximately $486 related to the case mix index adjustment, additional revenues of approximately $414 for new regulation compliance costs and incremental special initiative funding of $208. Other increases include capital funding of $1,028, increased special initiative and other funding $470. This was partly offset by $2,595 due to timing of revenue recognition to match spending under the flow-through funding envelopes and lower property and capital tax funding of $327 primarily related to the recovery of approximately $200 in the prior year related to capital taxes. Revenue, from the operations of the Royale retirement residences, contributed to the majority of the $3,410 increase in retirement revenue. PHCS's external revenues increased by $971, as a result of a higher volume of personal support contracts.

Operating expenses
Operating expenses for the quarter ended September 30, 2011 were $60,952, which was $2,633 or 4.5% higher than the previous year. LTC expenditures increased by $808 compared to the prior year. The increase is attributable to expenses incurred as a result of the increased funding of $1,355 and higher dietary service costs of $173 following the implementation of increased regulatory requirements and associated funding, offset by lower property administration costs of $564 and lower property maintenance costs of $154. Retirement-related operating expenses for the quarter increased by $1,619, attributable to the operations of the two recently acquired retirement residences. During the quarter ended September 30, 2011, PHCS's operating expenses increased by $278, primarily as a result of a higher volume of personal support contracts.

For the nine months ended September 30, 2011, operating expenses of $177,207 increased by $7,604 from the same period in the prior year. This change includes $4,515 in increased LTC operating costs, of which $4,068 related to increased government funding in the flow-through envelopes, including special initiative funding. As well, dietary service costs increased by $798 following the implementation of increased regulatory requirements and associated funding. These increases were partly offset by lower laundry and property administration expenses of $187 and $132, respectively. The increases in operating expenses also included the impact of HST, which became effective on July 1, 2010. The recently acquired retirement residences increased operating expenses by $2,721. For the year to date period, PHCS's expenses increased by $609, which primarily resulted from increases in the volume of personal support contracts.

Administrative expenses
Administrative expenses for the quarter ended September 30, 2011 were $3,364, representing an increase of $871 from the corresponding quarter in 2010. The increase was primarily related to higher people costs of $456, higher transaction related costs of $105, and higher public company costs of $98. The prior year also included a reversal of capital tax charges of $200 which were expensed in the second quarter of 2010.

For the nine months ended September 30, 2011, administrative expenses increased by $1,408 to $9,748. The increase is due to higher transaction related costs of $867, higher people related costs of $511, and public company costs of $443. This was partly offset by lower consulting fees of $273.

Amortization
For the quarter ended September 30, 2011, amortization increased by $1,070 to $8,719. The increase was primarily attributed to higher amortization related to the acquired retirement portfolio for $750 in resident relationships and $452 for the property and equipment, respectively. The main components of amortization charges are property and equipment, $4,420, resident relationships, $4,023, and service contracts, $257.

For the nine months ended September 30, 2011, amortization expense was $24,636, increasing $4,322 over the prior year. The increase was primarily due to higher amortization of resident relationships of $3,771, property and equipment of $315, and service contracts of $231. The main components of amortization charges are property and equipment, $12,715, resident relationships, $11,071, and service contracts, $770.

Net finance charges

For the quarter ended September 30, 2011, net finance charges totalled $4,214, which was a $698 increase from the quarter ended September 30, 2010. The increase primarily resulted from higher interest expense on long-term debt of $463 due to the incremental interest paid on the Bridge Loan, $133 due to the interest rate swap contract related to the Bridge Loan and lower non-cash interest income of $49 related to the construction funding receivable.

For the nine months ended September 30, 2011, net finance charges totalled $11,531, representing a $1,047 increase from the same period in the prior year. The increase primarily resulted from incremental interest expense of $726 from the Bridge Loan used to acquire the Royale retirement properties, $227 due to the interest rate swap contract related to the Bridge Loan, higher accretion of the fair value increment on the long term debt of $422, and lower non-cash interest income of $250 related to the construction funding receivable. This was partly offset by lower interest on the term loan of $568 that was settled in the prior year.

Income taxes

Current income taxes have been calculated at the combined corporate tax rate of 28.25% based on taxable income for the quarter. The income tax recovery for the quarter ended September 30, 2011 was $1,142, an increase of $320 compared to the prior corresponding quarter's tax provision. The improvement was due to an increased deferred income tax recovery of $246 recorded in the quarter related to timing of recognition of temporary differences.

For the year to date period, the net tax recovery was $4,430 compared to $1,898 in the prior year. The increase in recovery is due to an income tax book to filing adjustment in the second quarter of $739 related to the prior tax year, an increase in the deferred income tax recovery of $1,718 related to temporary differences arising from the depreciation and amortization.

Net loss

For the quarter ended September 30, 2011, the net loss was $3,320 compared to $2,291 for the prior year. The higher net loss was the result of increased amortization expense and net interest expense, partly offset by increased income from operations before the undernoted and the increased tax recovery for the quarter.

For the year to date period the net loss was $8,633 compared to $5,978. The higher net loss was the result of increased amortization expense, net interest expense, and losses on the interest rate swap contracts, partly offset by the higher tax recovery and improved income from operations before the undernoted.

Liquidity and capital resources

Leisureworld reported a cash and cash equivalents balance of $25,405 as at September 30, 2011. The changes in cash and cash equivalents for the quarter and period ended September 30, 2011 and 2010 are as follows:

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	**Nine Months Ended September 30, 2011**	From Incorporation, February 10, 2010, to September 30, 2010
Cash flow from operations before non-cash working capital items	**8,524**	7,525	**23,883**	15,779
Non-cash changes in working capital	**7,569**	715	**(3,865)**	(9,981)
Cash provided by (used in):				
Operating activities	**16,093**	8,240	**20,018**	5,798
Investing activities	**1,890**	1,648	**(84,749)**	(94,211)
Financing activities	**(5,936)**	(4,335)	**75,518**	102,089
Increase in cash	**12,047**	5,553	**10,787**	13,676

Operating activities
For the quarter ended September 30, 2011, cash flow from operations before non-cash changes in working capital totalled $8,524, compared to $7,525 in the quarter ended September 30, 2010. During the quarter ended September 30, 2011, non-cash changes in working capital provided $7,569 of operating cash, compared to $715 in the period ended September 30, 2010. During the current quarter, the source of cash was principally attributable to an increase in accounts payable and accrued liabilities of $4,388, an increase in the net government funding payable of $2,575, and the drawdown of $1,299 from the income support funds held in escrow, partly offset by an increase in accounts receivable and other assets of $531. The increase in accounts payable and accrued liabilities is mainly due to higher trade payables and payroll-related accruals due to the timing of payments in the period. The increase in government funding payable is mainly timing of revenue recognition of revenue to match spending under the flow-through funding envelopes. The increase in accounts receivable and other assets is attributable to higher levels of net resident receivables and other receivables.

For the quarter ended September 30, 2010, cash flow from operations before non-cash changes to working capital items totalled $7,525. Non-cash changes to working capital utilized $715 of operating cash. Accounts payable and accrued liabilities increased by $726, and an increase in the income tax provision of $601 provided sources of cash, which were partly offset by an increase of $496 in accounts receivable and other assets in the quarter.

For the nine-month period ended September 30, 2011, cash flow from operations before non-cash changes in working capital totalled $23,883, compared to $15,779 in the prior year. For the year to date period September 30, 2011, non-cash changes to working capital used $3,865 of operating cash, compared to $9,981 in the prior year. The use of cash was attributable principally to the inclusion of income support of $3,296 held in escrow which relates to the acquisition of the Royale properties, an increase $3,023 in income taxes receivable position attributable to the timing of the instalment payments and final tax adjustments related to the prior year, an increase in accounts receivable and other assets of $1,909, and decrease in accounts payable and accruals of $706, which are partly offset by an increase of $5,992 in government funding payable. The increase in government funding payable is mainly due to the timing of revenue recognition of revenue to match spending under the flow-through funding envelopes.

For the period from February 10, 2010 to September 30, 2010, cash flows from operations before non-cash changes to working capital items totalled $15,779. Non-cash changes in working capital provided $9,981 of operating cash. Accounts payable and accrued liabilities decreased by $5,996 which was primarily due to the payment of IPO fees, a reduction in payroll related accruals due to the timing of payroll disbursements and a reduction in accrued liabilities. The net government funding payable decreased by $4,749 which was primarily due to the recognition of nine days of revenue that was deferred at March 23, 2010. Prepaid expenses and deposits increased by $301 and income taxes payable increased by $1,295.

Investing activities
For the quarter ended September 30, 2011, investing activities provided $1,890 of cash. These funds were received in the form of $2,133 in construction funding, which was partly offset by an investment in capitalized assets of $275 principally related to Human Resource Information System ("HRIS") project costs.

For the comparative quarter ended September 30, 2010, investing activities provided $1,648 of cash. During the quarter, Leisureworld received $2,133 in construction funding, partly offsetting this source of cash were capital expenditures totalling $515.

During the nine-month period ended September 30, 2011, investing activities used cash of $84,749. These funds were used primarily for the acquisition of the two retirement properties in Kingston and Kanata, totalling $89,020. Additionally, the Company invested in other capitalized assets of $2,211 principally related to the land transfer taxes associated with the acquisition of the retirement properties, building improvements and HRIS project costs. Partly offsetting these purchases was the amount received from construction funding of $6,399.

For the comparative period from February 10, 2010 to September 30, 2010, cash paid for the acquisition of LSCLP amounted to $97,850, capital expenditures totalled $1,110, and acquisition related payments were $50. Leisureworld received $4,266 in construction funding from MOHLTC and $503 from the annuity.

Financing activities
During the quarter ended September 30, 2011, financing activities used cash of $5,936. During the quarter, the Company made dividend payments of $5,202, interest payments on long-term debt of $471, and net settlement payments of $263 on the interest rate swap contracts.

For the comparative quarter ended September 30, 2010, the Company used $4,335 of cash for financing activities. During the quarter the Company made dividend payments of $4,271, and net settlement payment of $64 on the interest rate swap contract.

During the nine month period ended September 30, 2011, financing activities provided cash of $75,518. The Bridge Loan generated proceeds of $54,835, which were used to partially finance the acquisition of the two retirement properties in Kingston and Kanata. The Company's issuance of common shares also generated net proceeds of $43,857. During the period, the Company made dividend payments of $14,364, interest payments on long-term debt of $8,274, and net settlement payments of $417 on the interest rate swap contracts.

For the comparative period of February 10, 2010 to September 30, 2010, Leisureworld received net proceeds from the IPO of $179,038, repaid the Term Loan of $60,000 and settled a related interest rate swap contract for $1,879. The Company also paid dividends of $7,532 and interest on long-term debt of $7,400 during the period.

Capital resources
Leisureworld's debt as at September 30, 2011 was $354,831 compared to $298,496 as at December 31, 2010. The increase of $56,335 includes $54,763 related to the Bridge Loan used to partially finance the acquisition of the two retirement properties. The remainder of the increase in long-term debt relates to the accretion of the fair value increment from the purchase price allocation. As at September 30, 2011, Leisureworld had a committed revolving credit facility of $10,000 with a Canadian chartered bank; the Company had no claims outstanding against this credit facility.

Capital commitments
Leisureworld monitors all of its properties to assess its capital requirements. As part of the monitoring exercise, items are assessed and prioritized based on the urgency and necessity of the expenditure. As at September 30, 2011, total capital commitments outstanding were $585 relating to the purchase of software.

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

Leisureworld expects to meet its operating cash requirements through 2011, including required working capital investments, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed borrowing capacity.

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

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

Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year. Interest expense on the 2015 Notes in the quarter and nine months ended September 30, 2011 was $4,291 and $12,734, respectively (2010 - $4,269 and $12,308, respectively), which includes non-cash interest of $530 and $1,572, respectively (2010 - $507 and $1,151, respectively). Interest on the Bridge Loan is payable monthly, the interest expense on the Bridge Loan in the quarter ended and nine months ended September 30, 2011 was $463 and $726, respectively (2010 – $nil).

Following the acquisition of LSCLP on March 23, 2010, Leisureworld used proceeds of its IPO to repay a $60,000 Term Loan and settle a related interest swap contract for $1,879.

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

Leisureworld has a revolving credit facility with a Canadian chartered bank, collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships, which it can access for working capital purposes. The facility bears interest on cash advances at 175 bps per annum over the floating bankers' acceptance ("BA") rate (30, 60, 90 days), or at 75 bps per annum over prime rate and on letters of credit at 175 bps per annum. As at September 30, 2011, the Company had no claims outstanding against the credit facility.

On October 14, 2011, the Company entered into an amending agreement to extend the maturity of the revolving credit facility to October 13, 2012. The facility bears interest on cash advances of 150bps per annum over the floating BA rate (30,60, or 90 days), or at 50bps per annum over prime rate and on letters of credit at 150bps per annum.

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

	Operating Leases	Long-Term Debt	Licences Purchase Commitment	Total
2011	149	-	-	**149**
2012	557	-	-	**557**
2013	520	55,000	2,200	**57,720**
2014	429	-	-	**429**
2015	371	310,000	-	**310,371**
Thereafter	-	-	-	**-**
	2,026	**365,000**	**2,200**	**369,226**

Acquisition

On April 27, 2011, Royale completed the acquisition of two retirement residences comprising 294 suites, for a net purchase price of $89,020 after working capital adjustments and an income support agreement with the vendor for $5,500 to be held in escrow as an income guarantee to complement cash flow from the properties during the lease-up period.

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

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

Related party transactions

Leisureworld earned revenue from Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario. A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc. Total revenue for the quarters ended September 30, 2011 and September 30, 2010 was $484 and $457, respectively. For the nine month period ended September 30, 2011 revenue totalled $1,421 (2010 - $1,361). Included in accounts receivable was $283 owed by Spencer House Inc. at September 30, 2011 (December 31, 2010 - $53). 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.

Significant judgments and estimates

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

Property and equipment

(i) Fair value

On March 23, 2010, the Company indirectly purchased Leisureworld Senior Care LP. As part of this transaction, the property and equipment was recorded at fair value based on similar transactions for similar assets. The total fair value attributed to the property and equipment was $299,639.

On April 27, 2011, The Royale LP acquired two RRs comprising 294 suites located in Kingston and Kanata, Ontario. As part of this transaction, the property and equipment was recorded at fair value based on similar transactions for similar assets. The total fair value attributed to the property and equipment on a preliminary basis was $75,614.

(ii) Estimated useful lives

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

(iii) Residual value

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

Intangible assets

(i) Fair value

On March 23, 2010, the Company indirectly purchased Leisureworld Senior Care LP. As part of this transaction, the intangible assets were recorded at fair value based on similar transactions for similar assets. The total fair value attributed to the intangible assets was $106,466.

On April 27, 2011, the Kingston and Kanata RRs were acquired by The Royale LP. As part of this transaction, the intangible assets were recorded at fair value based on future cash flows. The total fair value attributed to the intangible assets on a preliminary basis was $9,000.

(ii) Estimated useful lives of finite-lived intangible assets

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

(iii) Indefinite-lived intangible assets

The LTCHA was proclaimed into law and became effective July 1, 2010. The LTCHA contains a new licence term regime that will result in licence terms for the Leisureworld homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by the MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and transfer or revocation of existing licences. With an existing wait-list of 24,000 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

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

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

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

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

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

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

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

The Board of Directors reviews the level of monthly dividends paid on a quarterly basis. The Series A Senior Secured Notes ("the 2015 Notes") are collateralized by all assets of LSCLP and the subsidiary partnerships and guaranteed by the subsidiary partnerships totalling $537,059. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding (''EBITDA'') to debt service. The two-year credit facility ("Bridge Loan") is secured by the assets of Royale and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of September 30, 2011. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

Financial instruments

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

Cash and cash equivalents

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

Accounts receivable and other assets

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

Construction funding receivable

The construction funding receivable is classified as loans and receivables. The construction funding receivable is initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Annuity

The annuity was classified as loans and receivables. The annuity was initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other liabilities. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term maturity of the instruments.

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

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

Interest rate swap contracts
The Company has interest rate swap contracts that do not qualify for hedge accounting. The changes in fair value are recorded in net income (loss).

Fair value of financial instruments
The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined using valuation techniques that refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Fair values of long-term debt, interest rate swap contracts, and construction funding receivable are calculated by discounted cash flow analysis based on current market rates for loans and investments with similar terms, conditions and maturities.

Nature and extent of risks arising from financial instruments
The following discussion is limited to the nature and extent of risks arising from financial instruments. The Company's normal operating, investing and financing activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk. Leisureworld is not exposed to foreign currency risk as all operations are in Canada and all purchases are contracted in Canadian dollars. The Company does not have significant exposure to price risk as most of its revenues are regulated by the MOHLTC. The Company's overall risk management process is designed to identify, manage and mitigate business risk, which includes financial risk.

Interest rate risk
Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. Leisureworld is exposed to interest rate risk arising from fluctuations in interest rates in connection with its interest rate swap contracts. An interest rate swap contract was purchased as part of the LSCLP acquisition and related to a hedge on anticipated borrowings for a transaction that did not occur. Leisureworld is also subject to interest rate risk on variable rate debt issued as a part of the acquisition of the Royale properties. The floating interest rate on the debt is offset by an interest rate swap contract. Leisureworld has not adopted hedge accounting for the interest rate swap contracts. Interest rates, maturities and security affecting the interest and credit risk of Leisureworld's financial assets and liabilities have been disclosed in the Notes to the Interim Consolidated Financial Statements.

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

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable and interest rate swap contracts. The Company is exposed to credit risk from its residents and customers. However, the Company has a significant number of residents and customers, which minimizes concentration of credit risk. The credit risk related to amounts owed by the residents is further mitigated by the Company's ability to recover 50% of LTC amounts written off from the MOHLTC. A provision for management's estimate of uncollectible accounts receivable is established when there is objective evidence the Company will not be able to collect all amounts due. The Company assesses collectability of specific accounts receivable and also assesses the requirement for a provision based on historical experience. The amount of the provision is reduced by amounts that would be recovered from the MOHLTC upon ultimate write-off. When a receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of operations and comprehensive loss.

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

Liquidity risk

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

There can be no assurance the Company could generate sufficient cash flow from operations to pay outstanding indebtedness, fund any other liquidity needs, refinance its credit facilities, or obtain additional financing on commercially reasonable terms, if at all.

The Company maintains a capital structure, including access to a revolving credit facility of $10,000, which helps to manage the risk of default under these credit agreements.

Transaction costs

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability or equity. The Company incurs transaction costs primarily through the issuance of debt or shares, and classifies these costs with the related debt, or as a reduction of the value of the proceeds received for the share issuance. The costs associated with the issuance of debt are amortized into interest expense using the effective interest rate method over the life of the related debt instrument. Incremental costs directly attributable to the issuance of shares are recognized as a reduction of share capital. Transaction costs associated with business acquisitions are expensed as incurred.

Change in Accounting Policies

Accounting standards issued but not yet applied

IFRS 9, Financial Instruments

IFRS 9 "Financial instruments," addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, Financial Instruments – Recognition and Measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. IFRS 10 supersedes the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. The future accounting policy changes are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13, Fair Value Measurement

On May 13, 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The future accounting policy changes are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Risks and uncertainties

Please refer to Risk and Uncertainties section in the Company's Annual Report for the year ended December 31, 2010 and those related to the acquisition in the Company's short form prospectus dated April 14, 2011 which are available on SEDAR at www.sedar.com. Management is of the opinion that there have been no significant changes in risks and uncertainties since the aforementioned documents were approved by the Board of Directors of Leisureworld.

Internal Controls Over Financial Reporting

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

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

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

There was no change in the Company's internal control over financial reporting during the quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

Leisureworld management has completed the integration of the Royale retirement residences in Kingston and Kanata, Ontario (acquired on April 27, 2011), launched revitalized marketing campaigns, and is now focused on advancing the lease-up of the properties. During the third quarter, Leisureworld added 17 net new resident move-ins, which is in-line with the Company's target growth rate of 2.5 net new move-ins per property, per month. Leisureworld has secured 29 new signed lease agreements, which will support net new move-in rates during the fourth quarter. Management is also applying its disciplined cost control model to the Royale properties to improve NOI performance. The acquisition of these two properties broadens Leisureworld's product and service offering along the continuum of care and expands the Company's business into one of the fastest growing segments of the seniors living market.

For the balance of 2011, Leisureworld will continue to focus on enhancing the quality of care and accommodation for residents. The Company expects to benefit from excellent industry fundamentals and maintain occupancy rates at, or above, 97% on average across its LTC portfolio. Leisureworld's core LTC portfolio serves as a reliable platform for shareholder dividends and disciplined long-term growth. Leisureworld expects to pay a monthly dividend to its shareholders of $0.0708 per common share, representing $0.85 per share on an annualized basis.

Leisureworld is well positioned to capitalize on acquisition opportunities across the entire spectrum of senior care, and to execute its strategy to deliver high quality care, service and accommodation to seniors.

Leisureworld Senior Care Corporation

Interim Consolidated Financial Statements
(Unaudited)

For the Quarter and Nine Months Ended September 30, 2011, Quarter Ended September 30, 2010 and Period from Incorporation, February 10, 2010, to September 30, 2010

(In Canadian Dollars)

Leisureworld Senior Care Corporation
Interim Consolidated Statements of Financial Position
(Unaudited)

Thousands of dollars	Notes	September 30, 2011	December 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents	8	**25,405**	14,618
Accounts receivable and other assets	23	**5,642**	3,687
Prepaid expenses and deposits		**2,155**	999
Government funding receivable		**3,094**	2,345
Construction funding receivable	21	**5,559**	5,406
Income taxes receivable		**1,101**	-
		42,956	27,055
Government funding receivable		**14**	455
Construction funding receivable	21	**70,975**	75,169
Income support	7	**3,296**	-
Property and equipment	9	**352,651**	287,967
Intangible assets	10	**93,814**	96,309
Goodwill	11	**96,242**	91,466
Total assets		**659,948**	578,421
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	16	**36,910**	32,967
Government funding payable		**4,566**	3,389
Interest rate swap contracts		**69**	-
Income taxes payable		**-**	1,922
		41,545	38,278
Long-term debt	12	**354,831**	298,496
Deferred income taxes	14	**64,751**	70,226
Government funding payable		**8,145**	3,022
Interest rate swap contracts		**1,159**	208
Total liabilities		**470,431**	410,230
Shareholders' equity			
Share capital	15	**233,151**	188,517
Deficit	4	**(43,634)**	(20,326)
Total shareholders' equity		**189,517**	168,191
Total liabilities and shareholders' equity		**659,948**	578,421
Commitments and contingencies	20, 26		

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Thousands of dollars

	Notes	**Share Capital**	**Deficit**	**Total Shareholders' Equity**
Balance, December 31, 2010		**188,517**	**(20,326)**	**168,191**
Issuance of shares		**44,394**	**-**	**44,394**
Net loss and comprehensive loss		**-**	**(8,633)**	**(8,633)**
Share-based compensation		**240**	**-**	**240**
Dividends	**16**	**-**	**(14,675)**	**(14,675)**
Balance, September 30, 2011		**233,151**	**(43,634)**	**189,517**

	Notes	Share Capital	Deficit	Total Shareholders' Equity
Balance, February 10, 2010		-	-	-
Issuance of shares		187,803	-	187,803
Net loss and comprehensive loss		-	(4,831)	(4,831)
Share-based compensation		580	-	580
Dividends	16	-	(8,956)	(8,956)
Balance, September 30, 2010		188,383	(13,787)	174,596

See accompanying notes.

Leisureworld Senior Care Corporation

Interim Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

Thousands of dollars, except share and per share data	Notes	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	From Incorporation, February 10, 2010, to September 30, 2010
Revenue	23, 24	**73,310**	68,824	**211,079**	142,019
Expenses					
Operating		**69,671**	65,964	**201,843**	135,493
Administrative	17	**3,887**	2,457	**10,768**	5,926
		73,558	68,421	**212,611**	141,419
Income (loss) from operations before financing expenses		**(248)**	403	**(1,532)**	600
Finance costs	12	**5,027**	4,370	**13,972**	9,130
Finance income	12	**(813)**	(854)	**(2,441)**	(1,801)
Net finance charges		**4,214**	3,516	**11,531**	7,329
Loss before income taxes		**(4,462)**	(3,113)	**(13,063)**	(6,729)
Provision for (recovery of) income taxes					
Current	14	**527**	601	**481**	1,295
Deferred	14	**(1,669)**	(1,423)	**(4,911)**	(3,193)
		(1,142)	(822)	**(4,430)**	(1,898)
Net loss and comprehensive loss attributable to shareholders		**(3,320)**	(2,291)	**(8,633)**	(4,831)
Loss per share					
Basic and diluted loss per share		**($0.14)**	($0.11)	**($0.38)**	($0.30)
Weighted average number of common shares outstanding		**24,423,483**	20,008,650	**22,553,322**	16,361,814

See accompanying notes.

Leisureworld Senior Care Corporation

Interim Consolidated Statements of Cash Flows

(Unaudited)

Thousands of dollars	Notes	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	From Incorporation, February 10, 2010, to September 30, 2010
OPERATING ACTIVITIES					
Net loss		**(3,320)**	(2,291)	**(8,633)**	(4,831)
Add (deduct) items not affecting cash					
Depreciation of property and equipment		**4,420**	4,089	**12,715**	8,544
Amortization of intangible assets		**4,299**	3,560	**11,921**	7,469
Deferred income taxes		**(1,669)**	(1,423)	**(4,911)**	(3,193)
Share-based compensation		**57**	114	**240**	580
Loss (gain) on interest rate swap contracts		**523**	(40)	**1,020**	(119)
Interest expense, net		**4,214**	3,516	**11,531**	7,329
		8,524	7,525	**23,883**	15,779
Non-cash changes in working capital					
Accounts receivable and other assets		**(531)**	(496)	**(1,909)**	(230)
Prepaid expenses and deposits		**(365)**	(58)	**(923)**	(301)
Income taxes payable/ receivable		**203**	601	**(3,023)**	1,295
Accounts payable and accrued liabilities		**4,388**	726	**(706)**	(5,996)
Income support		**1,299**	-	**(3,296)**	-
Government funding, net		**2,575**	(58)	**5,992**	(4,749)
Cash provided by operating activities		**16,093**	8,240	**20,018**	5,798
INVESTING ACTIVITIES					
Purchase of property and equipment		**(93)**	(292)	**(1,785)**	(442)
Purchase of intangible assets		**(182)**	(223)	**(426)**	(668)
Amounts received from construction funding		**2,133**	2,133	**6,399**	4,266
Interest received from cash and cash equivalents		**32**	30	**83**	30
Acquisition of Leisureworld Senior Care LP, net of cash acquired	7	**-**	-	**-**	(97,850)
Acquisition of the Royale properties, net of cash acquired	7	**-**	-	**(89,020)**	-
Proceeds from annuity		**-**	-	**-**	503
Acquisition related payments		**-**	-	**-**	(50)
Cash provided by (used in) investing activities		**1,890**	1,648	**(84,749)**	(94,211)
FINANCING ACTIVITIES					
Repayment of long-term debt		**-**	-	**-**	(60,000)
Proceeds from issuance of long-term debt		**-**	-	**54,835**	-
Deferred financing costs		**-**	-	**(119)**	-
Repayment of interest rate swap contract		**-**	-	**-**	(1,879)
Net settlement payment on interest rate swap contracts		**(263)**	(64)	**(417)**	(138)
Interest paid on long-term debt		**(471)**	-	**(8,274)**	(7,400)
Dividends paid		**(5,202)**	(4,271)	**(14,364)**	(7,532)
Net proceeds from issuance of common shares		**-**	-	**43,857**	179,038
Cash provided by (used in) financing activities		**(5,936)**	(4,335)	**75,518**	102,089
Increase in cash and cash equivalents during the period		**12,047**	5,553	**10,787**	13,676
Cash and cash equivalents, beginning of period		**13,358**	8,123	**14,618**	-
Cash and cash equivalents, end of period		**25,405**	13,676	**25,405**	13,676
Supplementary information					
Income taxes paid		**324**	-	**3,754**	-

See accompanying notes.

1 Organization

Leisureworld Senior Care Corporation ("Leisureworld" or the "Company") was incorporated under the laws of the Province of Ontario on February 10, 2010 and was continued under the laws of the Province of British Columbia on March 18, 2010. The Company closed its Initial Public Offering ("IPO") on March 23, 2010 and acquired, indirectly, all of the outstanding limited partnership interests in Leisureworld Senior Care LP ("LSCLP") and common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP. On April 27, 2011, two additional retirement residences comprising 294 suites located in Kingston and Kanata, Ontario were acquired by the Company's subsidiary, The Royale LP ("Royale").

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

2 Basis of preparation and adoption of IFRS

The Company prepares its interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as set out in the Accounting Handbook of The Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis. In these interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, interim financial reporting and IFRS 1, first-time adoption of international financial reporting standards. As at February 10, 2010, the date of incorporation and transition to IFRS, the Company's consolidated statement of financial position only included share capital and cash of $10.00. As a result, a transitional consolidated statement of financial position has not been presented as it provides no meaningful information to the users of the consolidated financial statements. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported consolidated statements of financial position, changes in equity, operations and comprehensive loss and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the period ended December 31, 2010 prepared in accordance with Canadian GAAP.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 9, 2011, the date the Board of Directors approved the interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the period ending December 31, 2010 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP audited annual consolidated financial statements for the period ended December 31, 2010. Note 4 discloses the reconciliation of the annual consolidated financial statements as issued and those in accordance with IFRS.

3 Summary of significant accounting policies, judgements and estimation uncertainty

Basis of preparation

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below and on the following pages have been applied consistently to all periods presented in the interim consolidated financial statements. The accounting policies have been applied consistently by the Company's subsidiaries.

Basis of consolidation and business combinations

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

The acquisition method of accounting is used to account for the acquisitions of subsidiaries. Total consideration on the acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed on the date of the acquisition. Transaction costs related to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are generally measured at their fair value at the date of acquisition. The excess of fair value of consideration transferred above the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in the statement of operations on the acquisition date. Since the company incorporated February 10, 2010, there were no business combinations prior to January 1, 2010 which would require restatement in the consolidated financial statements.

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

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

Revenue recognition

Consolidated revenues include revenues generated from the operation of LTC homes, retirement residences and independent living facilities, PHCS and management fees associated with the operation of Spencer House Inc. A significant portion of the revenues are funded by the Ministry of Health and Long-Term Care ("MOHLTC"). Revenue is recognized in the period for which the services are rendered.

Long-term care revenue

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

Revenue for accommodation fees is recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the MOHLTC. Revenue for each LTC facility is recognized based on full occupancy, unless there is an indication that the annualized occupancy rate will fall below 97%. Effective for 2011, the MOHLTC has introduced an interim measure for homes with occupancy rates above 85% and lower than 97%. The funding will be equal to actual occupancy plus an additional 3%. Previously if occupancy was below 97%, then revenue is recognized based on actual occupancy data. Revenue from ancillary services is recognized when the services are rendered. Other LTC revenues paid by the residents relating to accommodation fees and ancillary services are recognized in the period in which the services are rendered.

Retirement residence and independent living revenue

Residents pay for accommodation rates and other services on a monthly basis and revenue is recorded when the service is rendered.

PHCS revenue

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

Spencer House Inc. revenue

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

Construction funding
The MOHLTC provides funding to new homes constructed after April 1, 1998. Under the development agreements, these new homes receive a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed, depending on actual construction costs. The construction funding receivable is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Income support
Income support is comprised of a $5,500 three-year income support agreement held in escrow as an income guarantee to supplement cash flow from the Royale properties during the lease-up period. The amount drawn down each month is equivalent to the stabilized Net Income from Operations ("NOI") targets, as defind by the purchase and sale agreement, after a management fee less actual NOI.

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

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

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

Circulating equipment is comprised of china, linen, glassware and silverware in circulation, which is valued at cost. The cost of acquiring a basic inventory of these items is capitalized and any replacements incurred thereafter are expensed.

The Company allocates the initial cost of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the interim consolidated statement of operations and comprehensive loss.

Intangible assets
Intangible assets include LTC licences, service contracts, resident relationships and computer software that is not integral to computer hardware included in property and equipment. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment at each consolidated statement of financial position date. The annual amortization rates and methods are as follows:

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

The Company incurs costs associated with the design, development and implementation of a new Human Resource Information System ("HRIS"); such costs are classified as computer software as they are not integral to property and equipment. Expenditures incurred during the research phase are expensed as incurred. Expenditures incurred during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use the technology, are met; otherwise, they are expensed as incurred. HRIS will be amortized over its estimated useful life of five years once put into service.

Goodwill
All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on the acquisition of subsidiaries, which is the excess of the purchase consideration and associated costs over the fair values attributable to the net identifiable assets acquired.

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

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

Financial instruments
Financial instruments comprise cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, annuity, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts. Financial instruments are recognized initially at fair value. The Company's interest rate swap contracts are measured at fair value and any changes are reflected in net income (loss).

Derivatives
Derivative instruments are used to reduce interest rate risk on the Company's long-term debt. The Company does not enter into derivative instruments for trading or speculative purposes. Derivative instruments are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. IFRS specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early

termination of the hedged item. The change in fair value of an instrument that is determined to be an effective hedge is recognized in other comprehensive income (loss). The ineffective portion of the change in fair value is recorded in the consolidated statement of operations and comprehensive income (loss). The Company has no derivative financial instruments qualifying for hedge accounting at the consolidated statement of financial position dates.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Company has determined that it does not have any outstanding contracts or financial instruments with embedded derivatives that require separation of debt and equity.

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

Transaction costs
Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability or equity. The Company incurs transaction costs primarily through the issuance of debt or shares, and classifies these costs with the related debt, or as a reduction of the value of the proceeds received for the share issuance. The costs associated with the issuance of debt are amortized into interest expense using the effective interest rate method over the life of the related debt instrument. Incremental costs directly attributable to the issuance of shares are recognized as a reduction of share capital. Transaction costs associated with business acquisitions are expensed as incurred.

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

Provisions
Provisions are recognized when the Company has a present obligation as a result of a past event and it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of this obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

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

Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

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

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

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

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

Employee benefits

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

Long-term benefits
Payments to defined contribution retirement benefit plans are charged to expense as earned.

Income taxes
The Company follows the asset and liability method of accounting for income taxes. Income tax comprises current and deferred tax. Income tax is recognized in the interim consolidated statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is recognized directly in equity. Income tax balances are also recorded on initial recognition of a deferred tax asset or liability acquired in a business combination.

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

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

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

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

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

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

Accounting standards issued but not yet applied

IFRS 9, Financial Instruments
IFRS 9 "Financial instruments," addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, Financial Instruments – Recognition and Measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, Consolidated Financial Statements
IFRS 10, Consolidated Financial Statements, changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. IFRS 10 supersedes the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. The future accounting policy changes are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13, Fair Value Measurement

On May 13, 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The future accounting policy changes are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Significant judgements and estimates

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

Property and equipment

(i) Fair value

On March 23, 2010, the Company indirectly purchased Leisureworld Senior Care LP. As part of this transaction, the property and equipment was recorded at fair value based on similar transactions for similar assets. The total fair value attributed to the property and equipment was $299,639.

On April 27, 2011, The Royale LP acquired two RRs comprising 294 suites located in Kingston and Kanata, Ontario. As part of this transaction, the property and equipment was recorded at fair value based on similar transactions for similar assets. The total fair value attributed to the property and equipment on a preliminary basis was $75,614.

(ii) Estimated useful lives

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

(iii) Residual value

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

Intangible assets

(i) Fair value

On March 23, 2010, the Company indirectly purchased Leisureworld Senior Care LP. As part of this transaction, the intangible assets were recorded at fair value based on similar transactions for similar assets. The total fair value attributed to the intangible assets was $106,466.

On April 27, 2011, the Kingston and Kanata RRs were acquired by The Royale LP. As part of this transaction, the intangible assets were recorded at fair value based on future cash flows. The total fair value attributed to the intangible assets on a preliminary basis was $9,000.

(ii) Estimated useful lives of finite-lived intangible assets

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

(iii) Indefinite-lived intangible assets

The LTCHA was proclaimed into law and became effective July 1, 2010. The LTCHA contains a new licence term regime that will result in licence terms for the Leisureworld homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and transfer or revocation of existing licences. With an existing wait-list of 24,000 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

Goodwill and indefinite-lived intangible asset impairment analysis

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

Share-based compensation

The assumptions used in calculating the fair value of share-based compensation have a significant impact upon the magnitude of the charge recognized in the interim consolidated statement of operations and comprehensive loss. Details of the principal assumptions used in calculating the share-based compensation expense are given in Note 17. When a grant of share awards is made, management reviews the estimates and assumptions used to ensure appropriateness.

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

Deferred tax

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

Income tax

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

4 Transition to IFRS

The effect of the Company's transition to IFRS, described in Note 2, is summarized in this note as follows:

(a) Reconciliation of equity as previously reported under Canadian GAAP to IFRS

(b) Reconciliation of net loss as previously reported under Canadian GAAP to IFRS

It should be noted that since the Company was formed on February 10, 2010, the transition elections in accordance with IFRS are not applicable.

(a) Reconciliation of equity as previously reported under Canadian GAAP to IFRS

	Note	December 31, 2010	September 30, 2010
Equity as reported under Canadian GAAP		171,158	176,609
IFRS adjustments increase (decrease):			
Property and equipment	(i)	(4,226)	(2,857)
Acquisition related costs	(ii)	(35)	(26)
Deferred income tax	(iii)	1,294	870
		(2,967)	(2,013)
Equity as reported under IFRS		**168,191**	**174,596**

(i) Property and equipment

Under IFRS, the significant individual components of property and equipment with different useful lives are required to be separately identified and measured whereas management had not determined components under Canadian GAAP at the time of acquisition of the assets. The changes in property and equipment relate to differences in amortization of the property and equipment which were impacted by componentization.

(ii) Acquisition related costs

In accordance with Canadian GAAP, costs directly attributable to an acquisition are capitalized. Under IFRS, these costs are required to be expensed.

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

(iii) Deferred income tax

The change in shareholders' equity related to deferred income tax reflects the change in temporary differences resulting from the effect of the IFRS adjustments described in 4(a)(i) and 4(a)(ii) above.

(b) Reconciliation of net loss as previously reported under Canadian GAAP to IFRS

	Note	December 31, 2010	From Incorporation February 10, 2010 to September 30, 2010	Quarter Ended September 30, 2010
Net loss as reported under Canadian GAAP		(4,132)	(2,818)	(1,317)
IFRS adjustments increase (decrease):				
Property and equipment	(i)	(4,226)	(2,857)	(1,366)
Acquisition related costs	(ii)	(35)	(26)	(26)
Deferred income tax	(iii)	1,294	870	418
		(2,967)	(2,013)	(974)
Net loss as reported under IFRS		**(7,099)**	**(4,831)**	**(2,291)**

(i) Property and equipment

As described in 4(a)(i), the changes in property and equipment relate to differences in amortization of the property and equipment, which were impacted by componentization under IFRS.

(ii) Acquisition related costs

As described in 4(a)(ii), costs related to acquisitions are required to be expensed as incurred under IFRS.

(iii) Deferred income tax

Deferred income tax is impacted by the change in temporary differences resulting from the effect of the IFRS reconciling items described in 4(b)(i) and 4(b)(ii) above.

5 Financial instruments

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

Cash and cash equivalents

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

Accounts receivable and other assets

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

Construction funding receivable

The construction funding receivable is classified as loans and receivables. The construction funding receivable is initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Annuity

The annuity was classified as loans and receivables. The annuity was initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other liabilities. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term maturity of the instruments.

Long-term debt

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

Government funding receivable/payable

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

Interest rate swap contracts

The Company has interest rate swap contracts that do not qualify for hedge accounting. The changes in fair value are recorded in net income (loss).

Fair value of financial instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined using valuation techniques that refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Fair values of long-term debt, interest rate swap contracts and construction funding receivable are calculated by discounted cash flow analysis based on current market rates for loans and investments with similar terms, conditions and maturities.

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

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

	Carrying value as at September 30, 2011				
	Assets / liabilities at fair value through the profit and loss	**Loans and receivables**	**Other liabilities**	**Total carrying value**	**Fair value**
Financial Assets:					
Cash and cash equivalents	**25,405**	**-**	**-**	**25,405**	**25,405**
Accounts receivable and other assets	**-**	**5,642**	**-**	**5,642**	**5,642**
Government funding receivable	**-**	**3,108**	**-**	**3,108**	**3,108**
Construction funding receivable	**-**	**76,534**	**-**	**76,534**	**82,425**
Financial Liabilities:					
Accounts payable and accrued liabilities	**-**	**-**	**36,910**	**36,910**	**36,910**
Government funding payable	**-**	**-**	**12,711**	**12,711**	**12,711**
Long-term debt	**-**	**-**	**354,831**	**354,831**	**380,160**
Interest rate swap contracts	**1,228**	**-**	**-**	**1,228**	**1,228**

	Carrying value as at December 31, 2010				
	Assets / liabilities at fair value through the profit and loss	Loans and receivables	Other liabilities	Total carrying value	Fair value
Financial Assets:					
Cash and cash equivalents	14,618	-	-	14,618	14,618
Accounts receivable and other assets	-	3,687	-	3,687	3,687
Government funding receivable	-	2,800	-	2,800	2,800
Construction funding receivable	-	80,575	-	80,575	82,105
Financial Liabilities:					
Accounts payable and accrued liabilities	-	-	32,967	32,967	32,967
Government funding payable	-	-	6,411	6,411	6,411
Long-term debt	-	-	298,496	298,496	320,593
Interest rate swap contract	208	-	-	208	208

Impairment charges on accounts receivable are disclosed below. All interest income and expense from financial instruments has been disclosed in Note 12.

Maturities of financial instruments

The Company generally has no financial instruments maturing beyond one year with the exception of an interest rate swap contract, long-term debt and the construction funding receivable. For the years ending December 31, 2011 through 2015, and thereafter, Leisureworld has estimated that the following undiscounted cash flows will arise from its interest rate swap contracts, construction funding receivable and long-term debt based on valuations at the interim consolidated statement of financial position date:

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

	As at September 30, 2011					
	2011	**2012**	**2013**	**2014**	**2015**	**Thereafter**
Interest rate swap contracts						
Cash inflows	**141**	**463**	**152**	**-**	**-**	**-**
Cash outflows	**(395)**	**(1,197)**	**(392)**	**-**	**-**	**-**
	(254)	**(734)**	**(240)**	**-**	**-**	**-**
Construction funding receivable						
Cash inflows	**2,133**	**8,554**	**8,530**	**8,530**	**8,530**	**59,205**
Long-term debt						
Cash outflows	**(7,912)**	**(16,723)**	**(70,374)**	**(14,923)**	**(324,923)**	**-**
Net cash inflows (outflows)	**(6,033)**	**(8,903)**	**(62,084)**	**(6,393)**	**(316,393)**	**59,205**

	As at December 31, 2010					
	2011	2012	2013	2014	2015	Thereafter
Interest rate swap contracts						
Cash inflows	166					
Cash outflows	(377)					
	(211)	-	-	-	-	-
Construction funding receivable						
Cash inflows	8,530	8,554	8,530	8,530	8,530	59,205
Long-term debt						
Cash outflows	(14,923)	(14,923)	(14,923)	(14,923)	(324,923)	-
Net cash inflows (outflows)	(6,604)	(6,369)	(6,393)	(6,393)	(316,393)	59,205

Nature and extent of risks arising from financial instruments

The following discussion is limited to the nature and extent of risks arising from financial instruments. The Company’s normal operating, investing and financing activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk. Leisureworld is not exposed to foreign currency risk as all operations are in Canada and all purchases are contracted in Canadian dollars. The Company does not have significant exposure to price risk as most of its revenues are regulated by the MOHLTC. The Company’s overall risk management process is designed to identify, manage and mitigate business risk, which includes financial risk.

Interest rate risk

Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. Leisureworld is exposed to interest rate risk arising from fluctuations in interest rates in connection with its interest rate swap contracts. An interest rate swap contract was purchased as part of the LSCLP acquisition and related to a hedge on anticipated borrowings for a transaction that did not occur. Leisureworld is also subject to interest rate risk on variable rate debt issued as a part of the acquisition of the Royale properties. The floating interest rate on the debt is offset by an interest rate swap contract. Leisureworld has not adopted hedge accounting for the interest rate swap contracts. Interest rates, maturities and security affecting the interest and credit risk of Leisureworld's financial assets and liabilities have been disclosed in Notes 12 and 13.

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

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

Credit risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable and interest rate swap contracts. The Company is exposed to credit risk from its residents and customers. However, the Company has a significant number of residents and customers, which minimizes concentration of credit risk. The credit risk related to amounts owed by the residents is further mitigated by the Company's ability to recover 50% of LTC amounts written off from the MOHLTC. A provision for management's estimate of uncollectible accounts receivable is established when there is objective evidence the Company will not be able to collect all amounts due. The Company assesses collectability of specific accounts receivable and also assesses the requirement for a provision based on historical experience. The amount of the provision is reduced by amounts that would be recovered from the MOHLTC upon ultimate write-off. When a receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the interim consolidated statement of operations and comprehensive loss.

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

Balance, February 10, 2010	-
Acquired on acquisition of LSCLP (Note 7)	869
Provision for receivables during the period	129
Receivables written off during the period	(234)
Balance, December 31, 2010	764
Provision for receivables during the period	12
Receivables written off during the period	(6)
Balance, September 30, 2011	**770**

The Company has $3,271 in trade and other receivables (December 31, 2010 - $2,492) that are past due but not impaired. These amounts have not been provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances.

The aging analysis of these receivables is as follows:

	September 30, 2011	December 31, 2010
0 - 30 days	**1,992**	1,292
31 - 60 days	**264**	386
61 - 90 days	**170**	116
Over 90 days	**845**	698

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

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

There can be no assurance the Company could generate sufficient cash flow from operations to pay outstanding indebtedness, fund any other liquidity needs, refinance the credit facility, or obtain additional financing on commercially reasonable terms, if at all.

The Company maintains a capital structure, including access to a revolving credit facility of $10,000, which helps to manage the risk of default under these credit agreements.

Sensitivity analysis
IFRS requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Company's financial position, performance and fair value of cash flows associated with the Company's financial instruments to changes in market variables (i.e. interest rates). The sensitivity analysis provided discloses the effect on net income (loss) at September 30, 2011 assuming that a reasonably possible change in the relevant risk variable has occurred at September 30, 2011 and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on September 30, 2011 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives at September 30, 2011 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments and financial instruments not carried at fair value in the interim consolidated financial statements.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the Company's actual exposure to market rates may change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

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

		Interest rate risk	
		-1%	+1%
	Carrying value	Income	Income
Financial Assets:			
Cash and cash equivalents	25,405	(81)	158
Financial Liabilities:			
Interest rate swap contracts	(1,228)	(895)	895

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

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities
This level of the hierarchy includes cash and cash equivalents. The fair value of the instrument is based on quoted prices where the prices represent those at which regularly and recently occurring transactions take place.

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

Level 3: Inputs for assets or liabilities that are not based on observable market data
The Company does not have any financial instruments in this level.

	Financial instruments at fair value			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents	25,405	-	-	25,405
Financial Liabilities:				
Interest rate swap contracts	-	(1,228)	-	(1,228)

6 Capital management

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

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

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

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

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

The Series A Senior Secured Notes ("the 2015 Notes") are collateralized by all assets of LSCLP and the subsidiary partnerships and guaranteed by the subsidiary partnerships totalling $537,059. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

The two-year credit facility ("Bridge Loan") is secured by the assets of the Royale and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of September 30, 2011. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

7 Acquisition

On March 23, 2010, the Company acquired 100% ownership interest in LSCLP. The acquisition occurred on the date of closing the Company's IPO and through an indirect acquisition the Company acquired all of the outstanding limited partnership interests in LSCLP and the common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP. Goodwill in the amount of $91,466 was recognized as the difference between the fair value of assets and liabilities acquired and the consideration paid. None of the goodwill recognized is expected to be deductible for tax purposes.

The following table summarizes the consideration paid for LSCLP and the amounts of assets acquired and liabilities assumed that were recognized at the acquisition date.

Consideration	
Cash payment to Macquarie Long-Term Care LP	112,517
Cash payment to Trustee	95
Non-interest bearing promissory note issued to Macquarie Long-Term Care LP	9,035
Cash assumed	(14,762)
Total consideration transferred	**106,885**

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

The total purchase price of $121,647 was allocated to the assets and liabilities as follows:

Assets	
Cash	14,762
Accounts receivable and other assets	4,222
Prepaid expenses and deposits	1,045
Due from Leisureworld Senior Care Corporation	4,469
Government funding receivable	2,008
Construction funding receivable	84,394
Annuity	1,002
Property and equipment	299,639
Intangible assets - Licences	76,000
Intangible assets - Resident relationships	26,190
Intangible assets - Service contracts	3,080
Intangible assets - Software	1,196
Goodwill	91,466
Total assets	**609,473**
Liabilities	
Accounts payable and accrued liabilities	37,522
Government funding payable	11,990
Deferred income tax liabilities, net	79,092
Long-term debt	356,937
Interest rate swap contract	2,285
Total liabilities	**487,826**
Net assets acquired	**121,647**

The non-cash consideration in the amount of $9,035 was provided by way of a non-interest bearing promissory note to Macquarie Long-Term Care LP. As part of the IPO, the underwriters were granted an overallotment option to purchase an additional 958,649 shares of the Company at $10.00 per share, less the underwriters' fees, within 30 days from the date of the IPO. The promissory note was settled by way of issuance of common shares of the Company as the overallotment option was not exercised within 30 days of the IPO.

LSCLP's revenue and net income recorded for the quarter ended September 30, 2011 were $71,252 (Q3 2010 - $68,824) and $1,783 (Q3 2010 - $933), respectively. For the nine months ended September 30, 2011, LSCLP's revenue and net income were $207,667 (period ended September 30, 2010 - $142,019) and $3,627 (period ended September 30, 2010 - $2,632), respectively.

On April 27, 2011, The Royale LP acquired the Kingston and Kanata RRs. Goodwill in the amount of $4,776 was recognized as the difference between the fair value of assets and liabilities acquired and the consideration paid. The goodwill recognized is expected to be deductible for tax purposes.

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

The total purchase price of $89,020 was allocated to the assets and liabilities on a preliminary basis as follows:

Assets	
Cash	1
Accounts receivable and other assets	46
Prepaid expenses and deposits	84
Property and equipment	75,614
Intangible assets - Resident relationships	9,000
Deferred tax asset	27
Goodwill	4,776
Total assets	**89,548**
Liabilities	
Accounts payable and accrued liabilities	528
Total liabilities	**528**
Net assets acquired	**89,020**

As part of the total purchase consideration for the Kingston and Kanata RRs, Leisureworld put in place a $5,500 three-year income support agreement with the vendor, held in escrow as an income guarantee to supplement cash flow during the lease-up period. For the period ended September 30, 2011, the Company has drawn down $2,204. Leisureworld's RRs will have to comply with the requirements of the Retirement Homes Act as the regulations are phased in over time.

Transaction costs expensed related to the acquisition of the Royale properties for the quarter and period ended September 30, 2011 were $130 and $854, respectively.

The Royale LP's revenue and net loss recorded for the quarter ended September 30, 2011 were $2,057 and $1,995, respectively and $3,412 and $3,484 for the period ended September 30, 2011.

If the LSCLP acquisition had taken place on January 1, 2010 and the Royale properties acquisition had taken place on January 1, 2011, the revenue and net loss for the nine months ended September 30, 2011 are estimated to have been $213,495 and $11,290, respectively. The revenue and net loss for the period ended September 30, 2010 are estimated to have been $200,761 and $5,978. The revenue and net loss for the quarter ended September 30, 2011 and September 30, 2010 would have been unchanged.

8 Cash and cash equivalents

	September 30, 2011	December 31, 2010
Cash	**19,581**	10,587
Cash equivalents	**5,824**	4,031
Cash and cash equivalents	**25,405**	14,618

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

9 Property and equipment

	Land	Buildings	Furniture and fixtures	Computer hardware	Circulating equipment	Total
Cost						
At February 10, 2010	-	-	-	-	-	-
Acquisition of Leisureworld Senior Care LP	42,271	246,777	9,366	240	985	299,639
Additions	-	708	201	36	-	945
At December 31, 2010	42,271	247,485	9,567	276	985	300,584
Acquisition of the Royale properties	5,880	69,688	46	-	-	75,614
Additions	88	1,357	103	237	-	1,785
At September 30, 2011	**48,239**	**318,530**	**9,716**	**513**	**985**	**377,983**
Accumulated amortization						
At February 10, 2010	-	-	-	-	-	-
Charges for the period	-	10,554	1,979	84	-	12,617
At December 31, 2010	-	10,554	1,979	84	-	12,617
Charges for the period	-	10,878	1,769	68	-	12,715
At September 30, 2011	**-**	**21,432**	**3,748**	**152**	**-**	**25,332**
Net book value						
At December 31, 2010	42,271	236,931	7,588	192	985	287,967
At September 30, 2011	**48,239**	**297,098**	**5,968**	**361**	**985**	**352,651**

10 Intangible assets

	Licences	Resident relationships	Service contracts	Computer software	Total
Cost					
At February 10, 2010	-	-	-	-	-
Acquisition of Leisureworld Senior Care LP	76,000	26,190	3,080	1,196	106,466
Additions	-	-	-	872	872
At December 31, 2010	76,000	26,190	3,080	2,068	107,338
Acquisition of the Royale properties	-	9,000	-	-	9,000
Additions	-	-	-	426	426
At September 30, 2011	**76,000**	**35,190**	**3,080**	**2,494**	**116,764**
Accumulated amortization					
At February 10, 2010	-	-	-	-	-
Charges for the period	-	10,144	795	90	11,029
At December 31, 2010	-	10,144	795	90	11,029
Charges for the period	-	11,071	770	80	11,921
At September 30, 2011	**-**	**21,215**	**1,565**	**170**	**22,950**
Net book value					
At December 31, 2010	76,000	16,046	2,285	1,978	96,309
At September 30, 2011	**76,000**	**13,975**	**1,515**	**2,324**	**93,814**

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

11 Goodwill

Cost and carrying value, at February 10, 2010	-
Acquisition of Leisureworld Senior Care LP	91,466
Cost and carrying value, at December 31, 2010	91,466
Acquisition of the Royale properties	4,776
Cost and carrying value, at September 30, 2011	**96,242**

Goodwill acquired in business combinations is allocated to the CGUs that are expected to benefit from that business combination. CGUs are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company has determined that each LTC home, independent living residence, retirement residences and PHCS are CGUs for goodwill impairment testing purposes. The Company tests goodwill annually during the second quarter for impairment, or more frequently if there are indications that goodwill might be impaired. An impairment loss is recognized if the carrying value of a CGU exceeds its recoverable amount.

The recoverable amount of the CGU is the higher of its value in use and fair value less costs to sell ("fair value"). Fair value is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted by an appropriate discount rate to arrive at net present value of the asset. In assessing fair value, the estimated future cash flows are derived from the most recent financial budget and long-range forecasts including an assumed growth rate. For the 2011 annual goodwill impairment analysis, the Company used an average post-tax discount rate of approximately 6.25% across the CGUs and an average growth rate of 2% before considering expansion projects. The Company has not recognized any impairment losses.

12 Long-term debt

	Interest rate	**Maturity date**	**September 30, 2011**	December 31, 2010
Series A Senior Secured Notes	4.814%	November 24, 2015	**300,068**	298,496
Bridge Loan	Floating	April 26, 2013	**54,763**	-
			354,831	298,496

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

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

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

Government of Canada Yield plus 0.25%. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year.

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

Interest expensed on the long-term debt for the quarter ended September 30, 2011 was $4,754 (Q3 2010 - $4,269) which includes non-cash interest of $530 (Q3 2010 - $507). Interest expensed for the nine months ended September 30, 2011 was $13,460 (period ended September 30, 2010 - $8,900) which includes non-cash interest of $1,572 (period ended September 30, 2010 - $1,052).

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

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	**Nine Months Ended September 30, 2011**	From Incorporation, February 10, 2010, to September 30, 2010
Finance costs				
Interest expense on long-term debt	**4,224**	3,762	**11,888**	7,848
Interest expense and fees on revolving credit facility	**11**	27	**33**	65
Accretion of the fair value increment on long-term debt	**530**	507	**1,572**	1,052
Accretion of deferred financing charges	**62**	-	**62**	-
Net settlement payment on interest rate swap contracts	**200**	74	**417**	165
	5,027	4,370	**13,972**	9,130
Finance income				
Interest income on construction funding receivable	**781**	830	**2,358**	1,768
Other interest income	**32**	30	**83**	30
Annuity	**-**	(6)	**-**	3
	813	854	**2,441**	1,801
Net finance charges	**4,214**	3,516	**11,531**	7,329

13 Revolving credit facility

LSCLP has a $10,000 revolving credit facility with a Canadian chartered bank which it can access for working capital purposes. This facility is collateralized by the assets of LSCLP and its subsidiary partnerships of $537,059 and guaranteed by the subsidiary partnerships. It bears interest on cash advances at 175 bps per annum over the floating BA rate (30, 60 or 90 days), or at 75 bps per annum over the prime rate and on letters of credit at 175 bps per annum. As at September 30, 2011, the Company had cancelled its letter of credit outstanding and had no amount owing (December 31, 2010 - $68). The amount had been issued to a municipality with respect to outstanding obligations of the Company related to the construction of an LTC home (Note 20). During the quarter ended September 30, 2011, charges related to standby fees totalled $11 (Q3 2010 – $27) and $33 for the nine months ended September 30, 2011 (period ended September 30, 2010 - $59).

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

14 Income taxes

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

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	**Nine Months Ended September 30, 2011**	From Incorporation, February 10, 2010, to September 30, 2010
Loss before income taxes	**(4,462)**	(3,113)	**(13,063)**	(6,729)
Canadian combined income tax rate	**28.25%**	31.00%	**28.25%**	31.00%
Income tax recovery	**(1,260)**	(965)	**(3,690)**	(2,086)
Adjustments to income tax provision:				
Non-deductible items	**26**	35	**90**	179
Book to filing adjustment	**-**	-	**(739)**	-
Other items	**92**	108	**(91)**	9
Income tax recovery	**(1,142)**	(822)	**(4,430)**	(1,898)

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 February 10, 2010	-	-	-	-	-	-
Due to acquisition of LSCLP	(62,320)	(17,986)	-	6,206	(4,992)	(79,092)
Credit (charge) to net loss	2,516	3,394	(744)	(881)	381	4,666
Credit to equity	-	-	4,200	-	-	4,200
As at December 31, 2010	(59,804)	(14,592)	3,456	5,325	(4,611)	(70,226)
Due to acquisition of the Royale properties	27	-	-	-	-	27
Credit (charge) to net loss	2,397	3,109	(730)	(488)	623	4,911
Credit to equity	-	-	537	-	-	537
As at September 30, 2011	**(57,380)**	**(11,483)**	**3,263**	**4,837**	**(3,988)**	**(64,751)**

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

	September 30, 2011	December 31, 2010
Within one year	**(2,995)**	(4,988)
One to four years	**(6,075)**	(10,445)
After four years	**(55,681)**	(54,793)
Total	**(64,751)**	(70,226)

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

15 Share capital

Authorized
Unlimited number of common shares without nominal or par value

Issued and outstanding
Common shares

	Common shares	Amount
Balance, February 10, 2010	-	-
Issued common shares	19,020,000	178,768
Issued common shares in exchange for note payable	958,649	9,035
Share-based compensation (Note 17)	130,000	714
Balance, December 31, 2010	20,108,649	188,517
Issued common shares	4,381,500	44,394
Share-based compensation (Note 17)	-	240
Balance, September 30, 2011	**24,490,149**	**233,151**

During the period ended December 31 2010, the Company issued 19,020,000 shares for proceeds of $178,768, net of underwriters' fees of $10,937, other IPO related costs of $4,695 and the related future tax impact of $4,200. The number of shares above includes 66,667 shares that have not fully vested in accordance with the share-based compensation agreement (Note 17). In addition, 958,649 shares were issued to settle a note payable of $9,035.

On April 27, 2011, Leisureworld completed the acquisition of two luxury retirement residences for the net purchase price paid to the vendors of $89,020 after working capital adjustments and a three-year income support agreement of $5,500 held in escrow as an income guarantee to supplement cash flow from the properties during the lease-up period. The Company raised $44,394, net of underwriters' fees and other issuance related costs of $2,148, and the related deferred tax impact of $537, through a public offering of 4,381,500 common shares.

There are no dilutive instruments outstanding.

16 Dividends

The Company paid dividends at $0.0708 per month per common share totalling $5,202 for the quarter ended (Q3 2010 - $4,271) and $14,364 for the nine months ended September 30, 2011 (period ended September 30, 2010 - $7,532). Dividends of $1,734 have been recognized in the interim consolidated statement of financial position as accounts payable as of September 30, 2011 (December 31, 2010 - $1,423).

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

17 Share-based compensation

Share-based compensation was introduced by the Company in relation to the IPO, at which time 130,000 shares were awarded to certain key executives. The Company does not have a recurring share-based plan in place.

Of this amount, 30,000 shares were awarded for nominal value and had trading restrictions imposed on them for a period of six months. These shares vested immediately upon issuance. The remaining 100,000 shares vest in three equal installments on the first, second and third anniversary of the grant date and also have trading restrictions imposed. The fair value of these shares was determined to be approximately $1,147 based on the Black-Scholes option pricing model. Share-based compensation expense was $57 for the quarter ended September 30, 2011 (Q3 2010 - $114) and $240 for the nine months ended September 30, 2011 (period ended September 30, 2010 - $580) which was recognized in administrative expenses with a corresponding increase in share capital.

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

	Shares awarded	Weighted average exercise price (dollars)
Balance, February 10, 2010	-	N/ A
Granted	130,000	N/ A
Vested	(30,000)	N/ A
Unvested, December 31, 2010	100,000	N/ A
Vested	(33,333)	N/ A
Unvested, September 30, 2011	**66,667**	**N/A**

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

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

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

18 Employee benefits

Payroll costs for all employees including key management consist of:

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	**Nine Months Ended September 30, 2011**	From Incorporation, February 10 2010, to September 30, 2010
Salaries and short-term employee benefits	**46,068**	45,132	**134,154**	92,811
Post-employment benefits	**1,058**	1,053	**3,047**	2,122
Termination benefits	**25**	43	**150**	67
Share-based payments	**57**	114	**240**	580
	47,208	46,342	**137,591**	95,580

The Company contributes to certain of its employees' defined contribution pension plans based on 4% of gross wages. The expense associated with these plans for the quarter ended September 30, 2011 was $1,058 (Q3 2010 - $1,053) and nine months ended September 30, 2011 was $3,047 (period ended September 30, 2010 - $2,122).

19 Key management compensation

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

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	**Nine Months Ended September 30, 2011**	From Incorporation, February 10, 2010, to September 30, 2010
Salaries and short-term employee benefits	**564**	463	**1,475**	966
Share-based payments	**57**	114	**240**	580
	621	577	**1,715**	1,546

20 Commitments

As at September 30, 2011, the Company had cancelled its letter of credit outstanding and had no amount owing (December 31, 2010 - $68). The amount had been issued to a municipality with respect to outstanding obligations of the Company related to the construction of an LTC home.

The Company has a ten-year lease with respect to its corporate office; the lease expires on December 31, 2015. The Company also has various operating leases for office and other equipment.

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

Lease payments in respect of the remaining years of the leases are as follows:

2011	149
2012	557
2013	520
2014	429
2015	371
Thereafter	-
	2,026

On June 22, 2010, the Company announced an agreement to acquire 88 LTC licences from Christie Gardens Apartments and Care Inc., conditional on approval by the MOHLTC. These licences are in the Toronto area and will increase the total number of the Company's LTC beds by approximately 2%. According to the terms of the agreement, the licences will be acquired by March 31, 2013 at a cost of $2,200. No licenses were acquired under the terms of this agreement in the periods ended September 30, 2011 or December 31, 2010.

21 Construction funding receivable

The MOHLTC provides funding to new homes constructed after April 1, 1998. Under the development agreements, these new homes receive a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed, depending on actual construction costs. The funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care communities for the remaining period. As of September 30, 2011, the condition for the funding has been met. The construction funding receivable is measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

The Company will receive gross funding from the Ontario government of approximately $95,480 (December 31, 2010 - $101,879) related to the construction costs of LTC homes. The amounts are non-interest bearing and will be received for certain LTC homes for various periods ending over the next 16 years.

Included in net finance charges is interest income on the construction funding receivable of $781 for the quarter ended September 30, 2011 (Q3 2010 - $830) and $2,358 for the nine months ended September 30, 2011 (period ended September 30, 2010 - $1,768)

22 Trust funds

The Company maintains separate trust accounts on behalf of its LTC home residents, which are not included in these interim consolidated financial statements. The total balance in the trust bank accounts as at September 30, 2011 was $910 (December 31, 2010 - $1,186).

23 Related party transactions

During the quarter and nine months ended September 30, 2011, the Company earned revenue from Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario. A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc. Total revenue for the quarter ended September 30, 2011 was $484 (Q3 2010 - $457) and nine months ended September 30, 2011 was $1,421 (period ended September 30, 2010 - $951). Included in accounts receivable is $283 owing from Spencer House Inc. at September 30, 2011 (December 31, 2010 - $53). 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.

24 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 quarter ended September 30, 2011, the Company received approximately $52,344 (Q3 2010 - $47,937) and $150,159 for the nine months ended September 30, 2011, (period ended September 30, 2010 - $93,553), in respect of these licences for operating revenues and other MOHLTC funded initiatives.

25 Segmented information

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

The Company is comprised of the following main business segments:

- LTC business – LTC is the core business of the Company and also reflects corporate office costs;
- PHCS – PHCS retains its own management team and compiles its own financial information. PHCS is an accredited provider of professional nursing, personal support and education services for both community-based home care and LTC homes; and
- Retirement Residences – includes the Kingston and Kanata retirement residences acquired by The Royale LP on April 27, 2011, as well as the Scarborough independent living and the Muskoka retirement residence.

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

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

	Quarter Ended September 30, 2011				Quarter Ended September 30, 2010			
	RR	PHCS	LTC	Total	RR	PHCS	LTC	Total
Gross revenue	2,346	3,328	75,047	80,721	282	2,798	72,924	76,004
Less: Internal revenue	-	535	6,876	7,411	-	489	6,691	7,180
Net revenue	2,346	2,793	68,171	73,310	282	2,309	66,233	68,824
Amortization								
Property and equipment	705	-	3,715	4,420	258	4	3,827	4,089
Intangible assets	750	259	3,290	4,299	-	259	3,301	3,560
Finance costs	732	30	4,265	5,027	74	31	4,265	4,370
Finance income	-	-	(813)	(813)	-	-	(854)	(854)
Loss (gain) on interest rate swap contracts	571	-	(48)	523	(1)	-	(39)	(40)
Income tax recovery	-	-	(1,142)	(1,142)	-	-	(822)	(822)
Net income (loss)	(2,191)	379	(1,508)	(3,320)	(208)	143	(2,226)	(2,291)
Purchase of property and equipment	-	-	93	93	-	-	292	292
Purchase of intangible assets	-	-	182	182	-	-	223	223

	Nine Months Ended September 30, 2011				From Incorporation, February 10, 2010, to September 30, 2010			
	RR	PHCS	LTC	Total	RR	PHCS	LTC	Total
Gross revenue	4,252	9,366	218,684	232,302	594	5,923	150,513	157,030
Less: Internal revenue	-	1,551	19,672	21,223	-	1,037	13,974	15,011
Net revenue	4,252	7,815	199,012	211,079	594	4,886	136,539	142,019
Amortization								
Property and equipment	1,514	-	11,201	12,715	539	8	7,997	8,544
Intangible assets	1,250	777	9,894	11,921	-	544	6,925	7,469
Finance costs	1,235	90	12,647	13,972	156	63	8,911	9,130
Finance income	-	-	(2,441)	(2,441)	-	-	(1,801)	(1,801)
Loss (gain) on interest rate swap contracts	1,157	(1)	(136)	1,020	(2)	(1)	(116)	(119)
Income tax recovery	-	-	(4,430)	(4,430)	-	-	(1,898)	(1,898)
Net income (loss)	(4,120)	663	(5,176)	(8,633)	(441)	266	(4,656)	(4,831)
Purchase of property and equipment	1,179	8	598	1,785	-	-	442	442
Purchase of intangible assets	-	-	426	426	-	-	668	668

	As of September 30, 2011				As of December 31, 2010			
Total assets	61,132	24,567	574,249	659,948	9,798	24,013	544,610	578,421
Goodwill	5,118	6,521	84,603	96,242	342	6,521	84,603	91,466
Intangible Assets	7,750	1,540	84,524	93,814	-	2,318	93,991	96,309

26 Contingencies

The former majority owner of Leisureworld is involved in a lawsuit with a former supplier, Corporate Building Services Inc. (the "CBSI Claim"). The CBSI Claim is for $5,860. Markham Suites Hotel Limited ("MSHL"), formerly Leisureworld Inc., whose assets were acquired by LSCLP (October 18, 2005), was added as a defendant during 2006. The court awarded costs for an appeal made by CBSI, who opposed putting up security for the cost of the Company, as was previously ordered by the court. The appeal was dismissed with costs and the court confirmed that CBSI must put up $90, as security for the Company's costs before CBSI can proceed to a trial hearing. CBSI to date has not put up the money as ordered and thus the matter has been pursued. The Company has the option of applying to court to dismiss the case, by virtue of CBSI failing to comply with the court's direction, the costs of which are estimated to be $20 to $25, which are unlikely to be recovered from CBSI. Doing this would most likely result in the action being dismissed with costs, but the prospect of recovering these costs is highly unlikely. In view of this, management has advised its counsel that it does not wish to incur these costs and to not pursue this action any further.

27 Subequent Events

On October 14, 2011, the Company entered into an amending agreement to extend the maturity of the revolving credit facility to October 13, 2012. The facility bears interest on cash advances of 150bps per annum over the floating BA rate (30, 60, or 90 days), or at 50bps over prime rate and on letters of credit at 150bps per annum.

In October 2011, working notice was given to 67 employees of Tealwood, a subsidiary of Leisureworld, which provides laundry services for certain Leisureworld homes. Severance costs have been estimated at approximately $144, which is subject to final calculations on cessation of operations. In determining this amount, management has performed a review of Tealwood’s workforce and determined that various long serving employees are eligible to receive a severance amount upon termination. The remaining employees will not be paid a severance. As at September 30, 2011, no amounts have been accrued in the financial statements as the notice of termination was announced subsequent to the quarter-end.