Leisureworld Senior Care Corporation

Financial Report
For the Quarter Ended and the Period from Incorporation,
February 10, 2010 to
September 30, 2010

This report for Leisureworld Senior Care Corporation ("Leisureworld" or the "Company") summarizes the financial results for the quarter and period ended September 30, 2010. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the quarter and period ended September 30, 2010 should be read in conjunction with the unaudited interim consolidated financial statements and related notes contained in this financial report. 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, 2010, 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 quarter compare the unaudited consolidated operations of Leisureworld for the period to the results of Leisureworld Senior Care LP ("LSCLP"), the acquired business, for the same period of the prior year. The year to date comparison includes the combined results of LSCLP up to March 23, 2010, the date of acquisition and the Company's results from March 23, 2010, compared to the nine month results of LSCLP for the same period of the prior year. All financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts have been expressed in thousands of Canadian dollars.

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 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 one retirement home ("RH") (representing 29 beds) and one independent living ("IL") home (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.

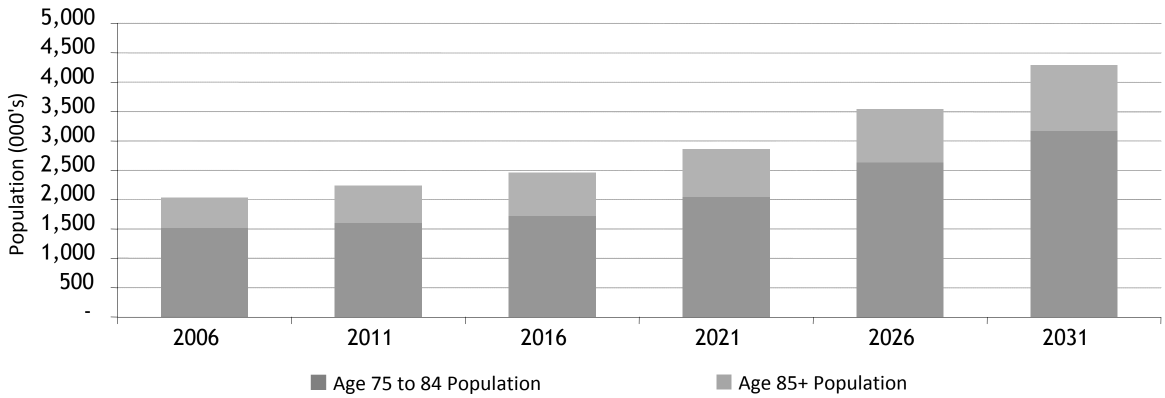
The objectives of Leisureworld are to: (i) provide shareholders with stable monthly dividends derived from revenues generated from income-producing LTC homes, seniors housing investments and community based services; (ii) enhance the long-term value of the Company's assets and maximize share value; and (iii) expand the asset base of the Company though accretive acquisitions and construction of new LTC 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 homes. 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 homes accommodate seniors who require minimal to moderate assistance with activities of daily living whereas independent living facilities accommodate seniors who require minimal or no assistance with daily living. Retirement homes 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. Management is currently reviewing the impact of the new legislation.

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 housing in LTC homes in the Province of Ontario.

- **Favourable demographics:** The primary demographic group living in LTC homes 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, Canada's population is aging. 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, further exacerbating problems with respect to the availability of LTC accommodation.

- **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. Instead of having to settle for multi-bed ward rooms, seniors can now choose to live in private or semi-private accommodation that more resembles hotel-style living than nursing homes of a previous generation. 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 waits increase the demand for LTC services.

- **Demand for cost effective alternatives:** Rising healthcare costs have resulted in a reduction in the length of hospital stays and enhanced home healthcare services and, in turn, are a predominant factor in growing 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.

- **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.

Industry 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 are 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." 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 level meets or exceeds 97%, it is the MOHLTC's policy to provide funding based on 100% occupancy. The three envelopes include Nursing and Personal Care ("NPC"), Programs and Support Services ("PSS") and accommodation, which includes raw food.

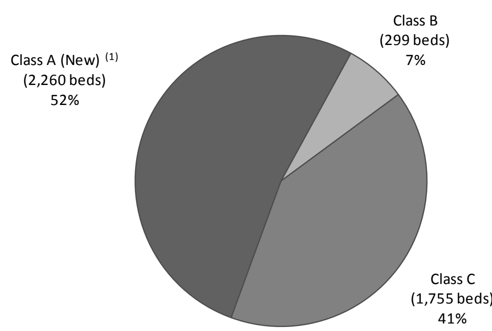
The MOHLTC categorizes and provides structural compliance and capital funding for homes according to four bed classes: Class A, which includes New, Class B, Class C and Class D. Capital funding is available to operators of LTC homes through Structural Compliance Premiums, Capital Cost Funding for New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

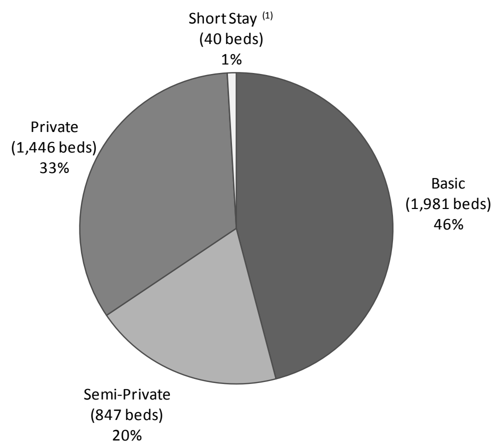


Note:

(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 23% 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 homes

Leisureworld owns and operates one RH consisting of 29 beds that adjoins the Muskoka LTC home, and one IL home comprising 53 apartments that is attached to the Scarborough LTC home. These two homes have maintained an average of occupancy above 90% and are integral to seniors services provided within their local communities. The Muskoka RH will have to comply with the requirements of the Retirement Homes Act which received Royal Assent on June 8, 2010.

Preferred Health Care Services

PHCS offers homecare, education, 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, and personal support workers who work on a call or elect-to-work basis and are not guaranteed any minimal amount of work. Employees are non-unionized and salaries are dictated by the market.

Ontario Long Term Care and Tealwood

OLTC acts as a central purchasing agent for all of the Leisureworld homes. OLTC negotiates purchasing agreements with third party providers on behalf of Leisureworld's LTC homes. It is also the employer of specialized personnel, which include contracted dieticians, social workers and other professional consultants.

Tealwood is an affiliate company of Leisureworld, which provides laundry services for certain Leisureworld homes.

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

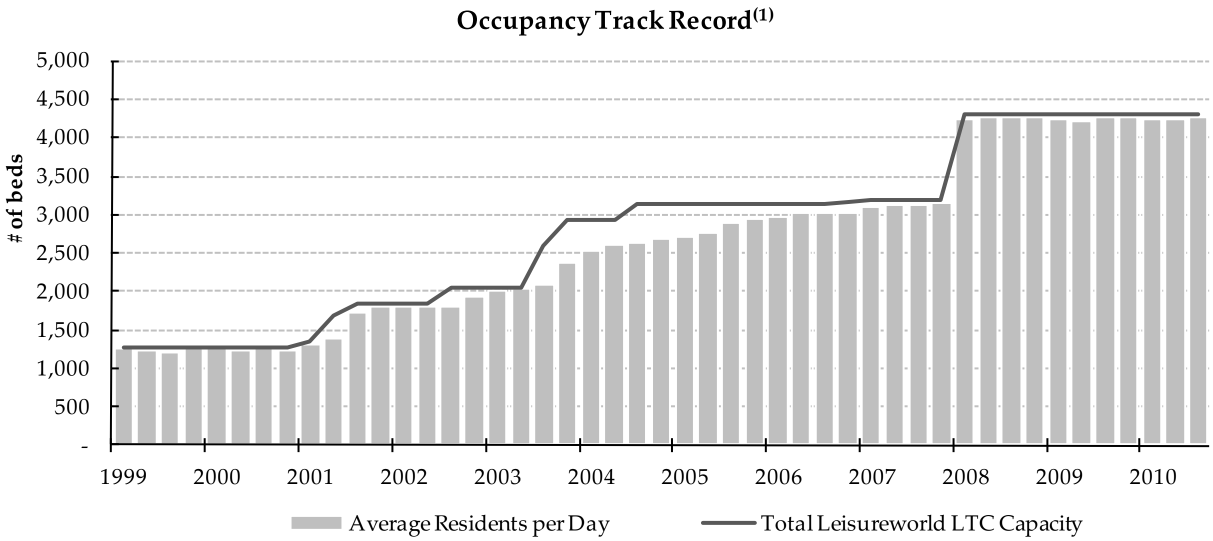
Government funding ensures stability of cash flow
Ontario's LTC sector is regulated by the MOHLTC according to a defined funding model. This model contributes to the stability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: NPC; PSS; and basic accommodation. 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 up to $10.35 per bed, per day from the MOHLTC for Class A homes, as well as payments from residents for both basic and private 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 by Accreditation Canada 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.

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

Occupancy levels enhance cash flow
Occupancy is a key driver of Leisureworld's performance. An LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Leisureworld has a strong record of increasing capacity and occupancy. In addition, the supply of LTC beds is controlled and regulated by the government, which ensures barriers to entry. For the quarter ended and year to date periods ended September 30, 2010, Leisureworld's average occupancy was 98.7% (2009 – 99.0%) and 98.5% (2009 – 98.4%).

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. Across the province, the average occupancy of long-term care homes is approximately 99%. Moreover, there are currently approximately 26,000 individuals on the waiting list for entrance to LTC homes.



Note:

(1) Includes only LTC beds.

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 ended and year to date periods ended September 30, 2010 was 97.3% (2009 – 97.0%) and 97.2% (2009 – 95.4%), 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. 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 in 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 support 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 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 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 RH and IL home segment of senior housing through acquisition and development. Finally, management anticipates opportunities to diversify Leisureworld's portfolio into other regions of Canada through acquisitions.

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

"FFO" is defined as net income computed in accordance with GAAP, excluding gains or losses from sale of depreciable real estate and extraordinary items, plus the interest portion of capital subsidy receivables, plus amortization, plus future income taxes. In the opinion of management, the use of FFO, combined with the required primary GAAP 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 one to compare the operating performance of Leisureworld's real estate portfolio between financial reporting periods.

"AFFO" is defined as FFO plus the principal portion of capital subsidy receivables, less maintenance capital expenditures ("capex"). Other adjustments may be made to AFFO and 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" is defined as operating revenues after direct operating expenses have been deducted, but before deducting net head office expenses, net interest expense, amortization expenses, general and administrative expenses, income taxes, leasehold improvement and leasing costs, and unrecoverable capital costs.

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

Business performance

In the quarter ended September 30, 2010, NOI decreased by $870 or 7.6% primarily due to the corresponding quarter in the prior year benefitting from additional other accommodation funding of $586 due to the $1.55 per diem increase being implemented in July 2009 for the period beginning April 1, 2009. Higher property operating expenses were partly offset by improved NOI of $97 at PHCS due to lower staffing and operating expenses. FFO at $4,546 decreased by $904 or 16.6% due to the reduction in NOI, lower interest income on the construction funding receivable and current income taxes being partly offset by lower net interest expense and general and administrative expenses. AFFO for the quarter ended September 30, 2010 was $888 or 13.8% lower than the third quarter of 2009 due to the reduced FFO and higher maintenance capital expenditures being partly offset by higher construction funding principal.

During the nine months ended September 30, 2010, NOI increased by $702 or 2.3% primarily due to government funding increases to enhance resident care and higher preferred accommodation revenue. NOI for PHCS was $219 lower than the comparable period in the previous year, mainly due to a reduction in relief staffing services and lower personal support contract volumes. FFO decreased by $129 or 1.0% due to higher general and administrative expenses following the IPO, lower interest income on the construction funding receivable and current income taxes being partly offset by lower net interest expense. AFFO decreased by $493 or 3.1% with lower FFO and higher maintenance capital expenditures being partly offset by higher construction funding principal.

Thousands of dollars	LSCC Quarter Ended September 30, 2010	LSCLP Quarter Ended September 30, 2009	LSCC and LSCLP 9 Months Ended September 30, 2010 (1)	LSCLP 9 Months Ended September 30, 2009
Net income (loss)	**(1,317)**	**1,605**	**(2,472)**	**1,270**
Recovery of income taxes	(404)	-	(1,028)	-
Income (loss) before income taxes	**(1,721)**	**1,605**	**(3,500)**	**1,270**
Amortization	6,283	3,929	15,964	11,897
Interest, net	3,516	3,531	10,484	10,362
Gain on interest rate swap contract	(40)	(64)	(104)	(300)
Income from Operations Before the Undernoted	**8,038**	**9,001**	**22,844**	**23,229**
General and administrative expenses	2,479	2,386	8,347	7,260
Net Operating Income (NOI)	**10,517**	**11,387**	**31,191**	**30,489**

Notes:
(1) The Nine Months 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, 2010	LSCLP Quarter Ended September 30, 2009	LSCC and LSCLP 9 Months Ended September 30, 2010 (6)	LSCLP 9 Months Ended September 30, 2009
Net Operating Income (NOI)	**10,517**	**11,387**	**31,191**	**30,489**
Accretion interest on construction funding receivable	830	971	2,607	2,912
Net interest expense (1)	(3,835)	(4,522)	(12,055)	(13,331)
Income taxes expense (2)	(601)	-	(1,295)	-
General and administrative expenses (3)	(2,365)	(2,386)	(7,767)	(7,260)
Funds from Operations (FFO)	**4,546**	**5,450**	**12,681**	**12,810**
HRIS expense	(23)	48	(24)	71
Construction funding (principal)	1,303	1,162	3,792	3,486
Maintenance capex (4)	(293)	(239)	(898)	(323)
Adjusted Funds from Operations (AFFO)	**5,533**	**6,421**	**15,551**	**16,044**
Basic and diluted FFO per share	**$0.2261**			
Basic and diluted AFFO per share	**$0.2752**			
Common shares outstanding (5)	**20,108,649**			

Notes:
(1) Total Net Interest Expense excluding non-cash interest expense on debentures, construction funding interest income, and non-cash interest income on annuity.
(2) LSCLP was not a taxable entity.
(3) General and Administrative Expenses have been decreased by $114, $0, $580, and $0 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.
(4) Maintenance Capex has been decreased by $222, $142, $889 and $352, respectively, for capital expenditures related to the implementation of the new HRIS.
(5) Common shares outstanding include all issued shares.
(6) The Nine Months 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.

Selected consolidated financial and operating information

Thousands of dollars, unless otherwise noted	**LSCC Quarter Ended September 30, 2010**	LSCLP Quarter Ended September 30, 2009	**LSCC and LSCLP Nine Months Ended September 30, 2010** (1)	LSCLP Nine Months Ended September 30, 2009
Revenue	**68,824**	68,106	**200,761**	198,613
Expenses				
Operating expenses	**58,307**	56,719	**169,570**	168,124
General and administrative expenses	**2,479**	2,386	**8,347**	7,260
	60,786	59,105	**177,917**	175,384
Income from operations before the undernoted	**8,038**	9,001	**22,844**	23,229
Other expenses				
Amortization	**6,283**	3,929	**15,964**	11,897
Interest, net	**3,516**	3,531	**10,484**	10,362
Gain on interest rate swap contract	**(40)**	(64)	**(104)**	(300)
Total other expenses	**9,759**	7,396	**26,344**	21,959
Income (loss) before income taxes	**(1,721)**	1,605	**(3,500)**	1,270
Provision for (recovery of) income taxes				
Current	**601**	-	**1,295**	-
Future	**(1,005)**	-	**(2,323)**	-
	(404)	-	**(1,028)**	-
Net income (loss)	**(1,317)**	1,605	**(2,472)**	1,270
Total assets	**591,032**	534,642	**591,032**	534,642
Long-term debt	**297,989**	367,983	**297,989**	367,983
Average occupancy	**98.7%**	99.0%	**98.5%**	98.4%
Average private occupancy	**97.3%**	97.0%	**97.2%**	95.4%

Notes:
(1) The Nine Months 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.

Revenue

For the quarter ended September 30, 2010, Leisureworld generated revenue of $68,824 compared to $68,106 in 2009. The increase of $718 or 1.1% was primarily due to increases in government funding rates of 2.5% or approximately $1,364. Preferred accommodation revenues increased by $15 as private occupancy increased to 97.3% in the quarter (2009 – 97.0%). Additional increases in revenue compared to the same quarter last year include $101 due to the timing of revenue recognition to match spending under the flow-through envelopes and $75 relating to a reduction in unfavourable government adjustments relating to prior periods. These increases in revenue were partly offset by a $586 reduction due to the $1.55 per diem increase for other accommodation funding being recognized in the third quarter of the prior year retroactive to April 1, 2009. PHCS's external revenue of $2,309 was $109 or 4.5% lower than the quarter ended September 30, 2009 due to lower personal support contract revenues.

For the nine months ended September 30, 2010, revenue was $200,761 compared to $198,613, an increase of $2,148 or 1.1%. Government funding rates increased by 2.8% which provided $4,428 in additional revenues (including the additional $1.55 per diem in other accommodation funding received in the first quarter of 2010 of $579). Preferred accommodation revenues increased by $158 driven by private occupancy increasing to 97.2% (2009 – 95.4%). These increases were partly offset by reduced revenues of $1,374 due to the timing of revenue recognition to match spending under the flow-through envelopes and a reduction of $416 largely due to a favourable prior period government funding adjustment recognized in the period ended

September 30, 2009. PHCS's external revenue at $6,891 was $387 or 5.3% lower than the prior year period due to lower personal support contract revenues.

Operating expenses

Operating expenses for the quarter ended September 30, 2010 were $58,307, which was $1,588 or 2.8% higher than the quarter ended September 30, 2009. The increase is primarily attributable to increases in government funding which led to associated increases in staff and operating costs funded by the flow-through envelopes of $1,249. During the quarter, property maintenance and dietary service costs increased by $433 and $219 respectively, which included the impact of HST becoming effective on July 1, 2010. These increases were partly offset by PHCS's expenses decreasing by $300, primarily due to a reduction in relief staffing and personal support contract revenues.

For the nine months ended September 30, 2010, operating expenses at $169,570 represented an increase of $1,446 or 0.9% from the same period in the prior year. The increase is partly attributable to increases in expenses funded by the flow-through envelopes of $712, resulting from the increase in government funding rates. In addition, property maintenance expenses increased by $677, property administration and utility costs by $416, dietary service costs by $374 and laundry service costs by $105. These increases included the impact of the introduction of HST on July 1, 2010. Partly offsetting these increases were reduced PHCS expenses of $829 mainly due to reduced staffing costs following a reduction in relief staffing services and personal support contract revenues.

General and administrative expenses

General and administrative expenses for the quarter ended September 30, 2010 were $2,479 which was an increase of $93 or 3.9% from the quarter ended September 30, 2009. The increase was largely due to an increase in expenses following the IPO, including stock-based employee compensation of $114 and various additional public company expenses of $144. These increases were partly offset by a recovery of capital taxes of $200.

For the nine months ended September 30, 2010, general and administrative expenses increased by $1,087, or 15.0%, to $8,347 from $7,260. The increase was primarily due to an increase in expenses following the IPO including stock-based employee compensation of $580 and public company expenses of $350, including additional audit costs of $85.

Amortization

For the quarter ended September 30, 2010, amortization increased by $2,354, or 59.9% to $6,283. The increase was primarily attributable to higher amortization of resident relationships of $1,986 and PHCS service contract amortization of $257. The main components of the amortization charge relate to property and equipment, $2,723, resident relationships, $3,273, and PHCS service contracts $257.

For the nine months ended September 30, 2010, amortization was $15,964, an increase of $4,067 or 34.2% from the prior year period. Higher amortization of resident relationships and PHCS's service contracts represented $3,437 and $539 of the increase, respectively. The main components of the amortization charge relate to resident relationships, $7,300, property and equipment, $8,050, and PHCS contracts $539.

Financial expenses

For the quarter ended September 30, 2010, net interest expense totalled $3,516, which was a $15 or 0.4% reduction from the quarter ended September 30, 2009. The decrease in interest expense of $626 associated with the repayment of the Term Loan following the IPO was offset by non-cash interest expense of $399 on the 2015 Notes and lower interest income related to the construction funding of $140. In addition, net interest expense in the quarter ended September 30, 2009 was reduced by $113 for the amortization of a deferred gain which was eliminated on the purchase price allocation.

For the nine months ended September 30, 2010, net interest expense was $10,484, an increase of $122 or 1.2% from the nine months ended September 30, 2009. The increase in net interest expense was primarily due to the increase in non-cash interest expense of $814 related to the 2015 Notes and an additional net settlement payment of $54 relating to an interest rate swap contract that was entered into in the second quarter of 2009. The Company also realized less interest income associated with construction funding of $304 compared to the same period of the previous year and reduced amortization of $237 on the deferred gain. These increases in net interest expense were partly offset by reduced interest expense of $1,379 associated with the Term Loan following its repayment.

Income taxes

Current income taxes have been calculated at the combined corporate tax rates of 31% based on taxable income for the period from March 23, 2010 to September 30, 2010. The current income tax provision is $601 for the quarter ended September 30, 2010 and $1,295 for the period from March 23, 2010 to September 30, 2010. Future income tax recoveries of $1,005 and $2,323 for the quarter and period ended September 30, 2010, respectively, relate to the reversal of temporary differences during the period at the effective rate of 31%. LSCLP was not subject to income taxes, and therefore had no income tax expense for the comparative period.

Net income (loss)

For the third quarter, the net loss was $1,317 compared to net income of $1,605 for the comparable quarter in the prior year. The decrease of $2,922 was primarily the result of a decrease in income from operations before the undernoted of $963 and higher amortization charges of $2,354. This was partly offset by a net tax recovery of $404 for the quarter.

For the nine months ended September 30, 2010, net loss of $2,472 compared to the prior year net income of $1,270. The increase in net loss was attributable to higher amortization charges of $4,067, a decrease in income from operations before the undernoted of $385, a reduced gain on the interest rate swap contract of $196 and higher net interest expense of $122. This was partly offset by a net tax recovery of $1,028 for the period ended September 30, 2010.

Liquidity and capital resources

Leisureworld reported a cash balance of $13,676 as at September 30, 2010. The changes in cash for the quarter ended September 30, 2010 and period from March 23, 2010 to September 30, 2010 are as follows:

	Quarter Ended, September 30, 2010	**From Incorporation, February 10, 2010, to September 30, 2010**
Cash flow from operations before non-cash working capital items	3,718	7,757
Non-cash changes in working capital	4,488	(9,467)
Cash provided by (used in):		
Operating activities	8,206	(1,710)
Investing activities	1,618	(94,241)
Financing activities	(4,271)	109,627
Increase in cash	**5,553**	**13,676**

Operating activities
For the quarter ended September 30, 2010, cash flow from operations before non-cash changes to working capital items totalled $3,718. Non-cash changes to working capital provided $4,488 of operating cash. Accounts payable and accrued liabilities increased by $4,515 mainly driven by an increase in accrued interest on the 2015 Notes. Increases in accounts receivable and other assets of $496, prepaid expenses of $74 and the decrease in net government funding payable of $58 were largely offset by increases in the income tax provision of $601.

For the period March 23, 2010 to September 30, 2010, cash flows from operations before non-cash changes to working capital items totalled $7,757. Non-cash changes in working capital utilized $9,467 of operating cash. Accounts payable and accrued liabilities decreased by $5,483 which was primarily due to the payment of IPO fees, a reduction in payroll related accruals of $2,278 due to the timing of payroll disbursements and a reduction in accrued liabilities of $880. The net government funding payable decreased by $4,750 which was primarily due to the recognition of nine days of revenue that was deferred at March 23, 2010, and accounts receivable and other assets increased by $230. These uses of cash were partly offset by an increase in income taxes payable of $1,295.

Investing activities
For the quarter ended September 30, 2010, capital expenditures totalled $515. During the quarter, Leisureworld received $2,133 in construction funding from MOHLTC.

For the period March 23, 2010 to September 30, 2010, capital expenditures totalled $1,110, cash paid for the acquisition of LSCLP amounted to $97,850 and acquisition related payments were $50. Leisureworld received $4,266 in construction funding from MOHLTC and $503 from the cash annuity.

Financing activities
During the quarter ended September 30, 2010, dividend payments were $4,271.

During the period March 23, 2010 to September 30, 2010, Leisureworld received net proceeds from the IPO of $179,264, repaid the Term Loan of $60,000 and settled a related interest rate swap contract for $1,879. Leisureworld paid dividends of $7,532 during the period.

Capital resources
Leisureworld's debt as at September 30, 2010 was $297,989. As at September 30, 2010, Leisureworld had a committed, but unutilized, revolving credit facility of $15,000 with a Canadian chartered bank.

Capital commitments
Leisureworld monitors all of its LTC facilities to assess the maintenance of 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, 2010, total capital commitments outstanding were $901 related 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 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 2010, 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.

Outlook

Following its IPO, Leisureworld's key focus will continue to be enhancing the quality of care and accommodation for residents. Leisureworld expects to benefit from excellent industry fundamentals and maintain full occupancy which serves as a reliable platform for shareholder dividends and disciplined long-term growth. Leisureworld expects to pay a dividend of $0.85 per common share on an annualized basis in 2010, to be paid on a monthly basis from the IPO date of March 23, 2010.

Leisureworld is well positioned to capitalize on complementary acquisition opportunities and to execute its strategy to deliver high quality care and accommodation to seniors.

Contractual obligations and other commitments

On November 24, 2005, LSCLP issued 4.814% Series A Senior Secured Notes (the "2015 Notes") due November 24, 2015 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 Canada Yield Price 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 expensed on the 2015 Notes in the quarter and nine months ended September 30, 2010 was $4,269 and $12,308, respectively (2009 - $3,869 and $11,495, respectively), which includes non-cash interest of $507 and $1,151, respectively (2009 - $108 and $333, respectively).

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.

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. On October 15, 2010, the Company entered into an amending agreement to extend the maturity of the revolving credit facility to October 14, 2011 and reduce the principal amount from $15,000 to $10,000. The facility bears interest on cash advances at 175bps per annum over the floating bankers' acceptance ("BA") rate (30, 60, 90 days), at 75bps over prime rate and on letters of credit at 175bps per annum. As at September 30, 2010, the Company had $68 in letters of credit outstanding. The amount had primarily been issued to municipalities with respect to outstanding obligations of the Company related to the construction of LTC homes.

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

	Operating leases	Long-term debt	Licences purchase commitment	Total
2010	120	-	-	**120**
2011	482	-	-	**482**
2012	392	-	-	**392**
2013	364	-	2,200	**2,564**
2014	319	-	-	**319**
Thereafter	317	310,000	-	**310,317**
	1,994	**310,000**	**2,200**	**314,194**

Related party transactions

For the quarter ended September 30, 2010 and the period from March 23, 2010 to September 30, 2010, Leisureworld earned revenue from Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia. A subsidiary of LSCLP has been contracted to manage the operations of Spencer House Inc. Total revenue for the quarter ended September 30, 2010 and period from March 23, 2010 to September 30, 2010 was $457 and $951 respectively. Included in accounts receivable was $486 owed by Spencer House Inc. at September 30, 2010. 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.

Critical accounting estimates

The preparation of these interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management estimates are used primarily in determining the fair value of assets and liabilities acquired, the estimated useful lives of property and equipment and intangible assets and net recoverable amounts for properties, and the fair value of financial instruments, together with the impairment assessments for goodwill and intangible assets.

Change in accounting policies

Future accounting policy changes

In 2005, the Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to be converged with IFRS. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required by January 1, 2011 with appropriate comparative data from the prior year for all Canadian publicly accountable enterprises. Under IFRS, there are significantly more disclosure requirements, especially for quarterly reporting. Furthermore, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be addressed.

LSCLP commenced its IFRS conversion in 2008 by establishing a formal project governance structure and a detailed conversion plan, which the Company will perpetuate. The governance structure includes a steering committee consisting of senior management, finance, operations, as well as external consultants and a working group. Progress reports are to be provided to senior management and the Board of Directors of the Company on a regular basis.

The Company's conversion plan consists of three phases: diagnostic, design, and implementation. Management completed the diagnostic phase, which involved reviewing the major differences between

Canadian GAAP and IFRS relevant to the Company, and identifying accounting policy choices permitted under IFRS and making preliminary implementation decisions. In this phase, the Company also made an initial assessment of the impact of the required changes on the existing accounting systems and internal controls, and the potential magnitude of financial statement adjustments.

At this time, the Company has determined that the differences with the highest potential impact on the consolidated financial statements include property and equipment, business combinations and the initial adoption of IFRS under the provisions of IFRS 1, *First-time Adoption of IFRS.* The impact on existing accounting systems and internal controls is expected to be minimal.

The Company is now in the second phase of the conversion project, which involves the selection of IFRS policies and transition elections, and the quantification of the impact of IFRS on the Company's consolidated financial statements. In doing so, the Company's objective is not only to be IFRS compliant, but to provide the most meaningful and transparent information to its shareholders.

During the third quarter, the Company completed the selection of IFRS policies and has developed draft IFRS financial note disclosures. The Company will commence the conversion of the 2010 financial statements and prepare the reconciliations to GAAP during the fourth quarter of 2010.

The Company will continue to review all proposed and continuing projects of the IASB to determine their impact on the Company and will continue to invest in training and resources throughout the transition period to facilitate a timely and meaningful conversion.

Risks and uncertainties

Please refer to Risk Factors in the Company's IPO prospectus dated March 12, 2010 which is available on SEDAR at www.sedar.com. Management is of the opinion that there have been no significant changes in risks and uncertainties since March 12, 2010.

Leisureworld Senior Care Corporation
Interim Consolidated Balance Sheet
(Unaudited)

Thousands of dollars	Notes	September 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents		**13,676**
Accounts receivable and other assets	17	**4,452**
Prepaid expenses and deposits		**1,394**
Government funding receivable		**3,456**
Construction funding receivable	14	**5,036**
Future income taxes	10	**612**
Annuity		**502**
		29,128
Government funding receivable		**31**
Construction funding receivable	14	**76,655**
Property and equipment	6	**294,394**
Intangible assets	7	**99,665**
Goodwill		**91,159**
Total Assets		**591,032**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities		**33,464**
Government funding payable		**3,412**
Income taxes payable		**1,295**
		38,171
Long-term debt	8	**297,989**
Future income taxes	10	**72,671**
Government funding payable		**5,305**
Interest rate swap contract		**287**
Total liabilities		**414,423**
Share capital	11	**188,383**
Deficit		**(11,774)**
Total shareholders' equity		**176,609**
Total shareholders' equity and liabilities		**591,032**
Commitments and contingencies	13, 20	

See accompanying notes.

Leisureworld Senior Care Corporation
Interim Consolidated Statements of Deficit
(Unaudited)

Thousands of dollars	**Quarter Ended September 30, 2010**	**From Incorporation, February 10, 2010, to September 30, 2010**
Deficit, beginning of period	**(6,186)**	**-**
Net loss	**(1,317)**	**(2,818)**
Dividends	**(4,271)**	**(8,956)**
Deficit, end of period	**(11,774)**	**(11,774)**

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, 2010	From Incorporation, February 10, 2010, to September 30, 2010
Revenue	17, 18	**68,824**	**142,019**
Expenses			
Operating		**58,307**	**119,450**
General and administrative	12	**2,479**	**6,049**
		60,786	**125,499**
Income from operations before the undernoted		**8,038**	**16,520**
Other expenses			
Amortization of property and equipment		**2,723**	**5,687**
Amortization of intangible assets		**3,560**	**7,469**
Interest expense, net	8	**3,516**	**7,329**
Gain on interest rate swap contract		**(40)**	**(119)**
Total other expenses		**9,759**	**20,366**
Loss before income taxes		**(1,721)**	**(3,846)**
Provision for (recovery of) income taxes			
Current	10	**601**	**1,295**
Future	10	**(1,005)**	**(2,323)**
		(404)	**(1,028)**
Net loss and comprehensive loss		**(1,317)**	**(2,818)**
Basic and diluted loss per share		**(0.07)**	**(0.17)**
Weighted average number of common shares outstanding		**20,008,650**	**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, 2010	From Incorporation, February 10, 2010, to September 30, 2010
OPERATING ACTIVITIES			
Net loss		**(1,317)**	**(2,818)**
Add (deduct) items not affecting cash			
Amortization of property and equipment		**2,723**	**5,687**
Amortization of intangible assets		**3,560**	**7,469**
Future income taxes		**(1,005)**	**(2,323)**
Stock-based compensation		**114**	**580**
Gain on interest rate swap contract		**(40)**	**(119)**
Non-cash interest on long-term debt		**507**	**1,052**
Non-cash interest on annuity		**6**	**(3)**
Non-cash interest on construction funding receivable		**(830)**	**(1,768)**
		3,718	**7,757**
Non-cash changes in working capital			
Accounts receivable and other assets		**(496)**	**(230)**
Prepaid expenses		**(74)**	**(299)**
Income taxes payable		**601**	**1,295**
Accounts payable and accrued liabilities		**4,515**	**(5,483)**
Government funding, net		**(58)**	**(4,750)**
Cash provided by (used in) operating activities		**8,206**	**(1,710)**
INVESTING ACTIVITIES			
Purchase of property and equipment		**(292)**	**(442)**
Purchase of intangible assets		**(223)**	**(668)**
Amounts received from construction funding		**2,133**	**4,266**
Proceeds from annuity		**-**	**503**
Acquisition of Leisureworld Senior Care LP, net of cash acquired	5	**-**	**(97,850)**
Acquisition related payments		**-**	**(50)**
Cash provided by (used in) investing activities		**1,618**	**(94,241)**
FINANCING ACTIVITIES			
Repayment of long-term debt		**-**	**(60,000)**
Repayment of interest rate swap contract		**-**	**(1,879)**
Dividends paid		**(4,271)**	**(7,532)**
Net proceeds from issuance of common shares		**-**	**179,264**
Cost associated with issuance of common shares		**-**	**(226)**
Cash provided by (used in) financing activities		**(4,271)**	**109,627**
Increase in cash and cash equivalents during the period		**5,553**	**13,676**
Cash and cash equivalents, beginning of period		**8,123**	**-**
Cash and cash equivalents, end of period		**13,676**	**13,676**
Supplemental Information			
Interest paid, net		**54**	**7,609**

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.

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 one Retirement Home ("RH") (representing 29 beds) and one Independent Living ("IL") home (representing 53 apartments) in the Province of Ontario. Ancillary businesses of the Company include: (1) 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) 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 (3) Tealwood Developments ("Tealwood"), a provider of laundry services to the Leisureworld homes.

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 homes. 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 homes accommodate seniors who require minimal to moderate assistance with activities of daily living whereas independent living facilities accommodate seniors who require minimal or no assistance with daily living. Retirement homes in Ontario are now regulated. The "Retirement Homes Act, 2010" received Royal Assent on June 8, 2010. The 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 to certain sections of the Act, including licensing provisions. Residents are generally responsible for the entire cost of accommodation and care.

2 Summary of significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated.

Revenue recognition

Consolidated revenues include revenues generated from the operation of LTC homes, retirement homes 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 provincial government. Revenue is recognized in the period for which the services and products are rendered.

Long-term care revenue
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 government. Revenue for each LTC facility is recognized based on full occupancy, unless there is an indication the annualized occupancy rate will fall below the 97% level. If occupancy is 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 were rendered. The Company also receives government funding for various other operational items, including funding for property and capital taxes, which is recognized when the services or products are provided.

Retirement home and independent living revenue
Residents pay accommodation rates on a monthly basis and revenue is recorded when the service is rendered.

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

Spencer House Inc. revenue
Spencer House Inc. is a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario. The Company owns the property where the home is operated and a subsidiary of the Company has been contracted to manage the operations of Spencer House Inc. The Company earns rental income from leasing the property 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.

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

Buildings	4 - 40 years straight-line
Furniture and fixtures	10 years straight-line
Computer hardware	5 years straight-line

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 evaluates its long-lived assets for potential impairment whenever events or changes in circumstances indicate the net carrying amount of an asset exceeds its net recoverable amount. Any impairment determined by a comparison of the estimated discounted future operating cash flows to be generated by the asset with its net carrying value is written off at the time of impairment.

Maintenance and repairs completed on property and equipment are expensed as incurred. Any renovations or improvements that extend the useful life of the asset are capitalized and amortized over its useful life.

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.

Intangible assets

Intangible assets include bed licences, PHCS service contracts, resident relationships and computer software that is not integral to property and equipment. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment. The evaluation of impairment is based on a comparison of the carrying amount of the estimated undiscounted future net cash flows expected to be generated by the asset. If estimated undiscounted future net cash flows are less than the carrying amount of the asset, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period. PHCS service contracts are amortized over the contract duration, which approximates three years. The resident relationships are amortized over the average length of stay, which is two years.

Ontario's Long-Term Care Homes Act, 2007 ("LTCHA"), was proclaimed into law and became effective July 1, 2010. The LTCHA contains a new licence term regime which will result in licence terms for the Leisureworld homes ranging from 15 years for Class B and C homes to 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by MOHLTC. Under LTCHA, ultimate control of LTC licences in Ontario remains with 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 are of the view that licences will continue to have indefinite lives and will not be amortized, but tested for impairment in the second quarter of each fiscal year or as indicators of impairment arise. Impairment would be recognized when the estimated fair value of the intangible asset is less than its carrying value.

Computer software is amortized over a five-year period, on a straight-line basis, from the date the software is put into service.

Goodwill

Goodwill is not amortized but tested for impairment in the second quarter of each fiscal year or as indicators of impairment arise. The evaluation is based on a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The fair values used in this evaluation are estimated based on discounted future cash flow projections for the reporting unit. These cash flow projections are based on a number of estimates and assumptions.

Derivatives

Derivative instruments are used to reduce interest rate risk on the Company's debt. The Company does not enter into derivative instruments for trading or speculative purposes. Derivatives 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. GAAP 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 interim consolidated statement of operations.

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 determined it does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

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. Leisureworld 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.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Use of estimates

The preparation of interim consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the interim consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management estimates are used primarily in determining the fair value of assets and liabilities acquired, the estimated useful lives of property and equipment and intangible assets and net recoverable amounts for properties, and the fair value of financial instruments, goodwill and intangible assets.

3 Financial instruments

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

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 recognized at amortized cost. The carrying value of accounts receivable, after consideration of collectability 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 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 is classified as loans and receivables. The annuity 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.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities are classified as other liabilities. The carrying value of accounts payable and accrued liabilities are recognized at amortized cost, which approximates their fair value due to the short-term maturity of the instruments.

Long-term debt
The Company's senior secured debentures, including capitalized transaction costs, are recorded at amortized cost using the effective interest method and are classified as other liabilities. The fair value of the Company's long-term debt ($310,000 Series A Senior Secured Notes) is subject to changes in interest rates and the Company's credit rating. The Company's long-term debt is collateralized by the assets of the Company and its subsidiaries.

Government funding receivable/payable
The government funding balances are classified as either other liabilities or loans and receivables and are carried at amortized cost. The carrying value of the government funding approximates its fair value due to the short-term maturity of the instrument for the current portion. The difference between the carrying value and the fair value of the long-term portion is insignificant. The difference between the amounts approved and those received from the MOHLTC are recorded as government funding payable or receivable in the interim consolidated balance sheet.

Interest rate swap contract
The Company has an interest rate swap contract that does not qualify for hedge accounting. Therefore, the change in fair value is recorded through the interim consolidated statement of operations.

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

All amounts are in thousands of dollars except share data

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, construction funding receivable and annuity are calculated by discounted cash flow analysis based on current market rates for loans and investments with similar terms, conditions and maturities.

The following tables provide a summary of the carrying and fair values for each classification of financial instrument as at September 30, 2010:

	Carrying value				
	Held-for-trading	**Loans and receivables**	**Other liabilities**	**Total carrying value**	**Total fair value**
Financial Assets:					
Cash and cash equivalents	13,676	-	-	13,676	13,676
Accounts receivable and other assets	-	4,452	-	4,452	4,452
Government funding receivable	-	3,487	-	3,487	3,487
Construction funding receivable	-	81,691	-	81,691	85,935
Annuity	-	502	-	502	502
Financial Liabilities:					
Accounts payable and accrued liabilities	-	-	33,464	33,464	33,464
Government funding payable	-	-	8,717	8,717	8,717
Long-term debt	-	-	297,989	297,989	317,010
Interest rate swap contract	287	-	-	287	287

Impairment charges on accounts receivable are disclosed below. All interest income and expense from financial instruments have been disclosed in Note 8.

Maturities of financial instruments

The Company generally has no financial instruments maturing beyond one year with the exception of its 2015 Notes as described in Note 8 and its interest rate swap contract. For the years ending December 31, 2010 through 2014, and thereafter, Leisureworld has estimated that the following undiscounted cash flows will arise from its interest rate swap contract based on valuations at the interim consolidated balance sheet date.

	2010	**2011**	**2012**	**2013**	**2014**	**Thereafter**
Cash inflows	30	145	-	-	-	-
Cash outflows	93	377	-	-	-	-
Net cash outflows	**63**	**232**	**-**	**-**	**-**	**-**

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, as defined under The Canadian Institute of Chartered Accountants Handbook Section 3862. 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 government. The Company's overall risk management process is designed to identify, manage and mitigate business risk, which includes financial risk.

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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 contract. This 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. Interest rates, maturities and security affecting the interest and credit risk of Leisureworld's financial assets and liabilities have been disclosed in Notes 8 and 9.

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, annuity and interest rate swap contract. The Company deposits its cash with reputable financial institutions and therefore management believes the risk of loss to be remote. 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. Also, funding from the provincial government covers a significant amount of the monthly charges to residents, which further reduces this risk. A provision for impairment of 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 general provision based on historical experience of accounts receivable impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the interim consolidated statement of operations within operating expenses. When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the interim consolidated statement of operations.

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

Balance, acquired	869
Provision for receivables	109
Receivables written off during the period	(4)
Balance, end of period	**974**

The provision for accounts receivable related to LTC home residents represents 50% of the total amounts owed by the residents as the Company is able to recover 50% of actual bad debts from the MOHLTC in the year of write-off. The provision at September 30, 2010 consists of amounts provided at the 100% level of $7 and $102 of amounts provided at the 50% level.

At September 30, 2010, the Company had an annuity and an interest rate swap contract with a Canadian chartered bank and amounts receivable from MOHLTC related to construction costs of LTC homes. The Company believes the credit risk associated with the construction funding receivable is low as it is receivable from the Ontario government. The counterparty to the Company's interest rate swap contract and annuity is a major financial institution that has been accorded investment grade ratings by a primary rating agency, therefore management believes any credit risks associated with its swap contract and annuity are low.

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The Company has a credit agreement in place for the 4.814% Series A Senior Secured Notes, due in 2015. This credit agreement contains a number of standard financial and other covenants. A failure by the Company to comply with the obligations in this credit agreement 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, or to fund any other liquidity needs; or
- refinance this credit agreement or obtain additional financing on commercially reasonable terms, if at all. The Company's credit facility is, and future borrowings may be, at variable rates of interest, which exposes the Company to the risk of increased interest rates.

The Company maintains a capital structure, which helps to manage the risk of default under these credit agreements.

Sensitivity analysis

GAAP 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 profit or loss at September 30, 2010 assuming that a reasonably possible change in the relevant risk variable has occurred at September 30, 2010 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, 2010 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivative at September 30, 2010 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.

		Interest rate risk	
		-1%	+1%
	Carrying value	Income	Income
Financial Assets:			
Cash and cash equivalents	13,676	(3)	177
Financial Liabilities:			
Interest rate swap contract	287	(116)	116

Fair value hierarchy

Financial instruments carried at fair value have been categorized under 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 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 contract. This instrument is recorded at fair value on the settlement date. The fair value of the interest rate swap contract is 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	13,676	-	-	13,676
Financial Liabilities:				
Interest rate swap contract	-	287	-	287

4 Capital management

The Company defines its capital as 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, and 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 Company is in compliance with all financial covenants on its borrowings. The 2015 Notes are collateralized by all assets of LSCLP and the subsidiary partnerships and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding ("EBITDA") to debt service.

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

5 Acquisition

The acquisition of LSCLP on March 23, 2010 has been accounted for using the purchase method. Goodwill in the amount of $91,159 was recognized as the difference between the fair value of assets and liabilities acquired and the consideration paid. The total purchase price of $121,647 was allocated to the assets and liabilities on a preliminary basis as follows:

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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	91,159
Total assets	**609,166**
Liabilities	
Accounts payable and accrued liabilities	37,522
Government funding payable	12,193
Future income tax liabilities, net	78,582
Long-term debt	356,937
Interest rate swap contract	2,285
Total liabilities	**487,519**
Net assets acquired	**121,647**

Cash paid for the acquisition totalling $97,850, which was paid during the period ended March 31, 2010, is summarized as follows:

Payment to Macquarie Long Term Care LP	112,517
Payment to trustee	95
Cash assumed	(14,762)
Cash paid for acquisition	**97,850**

Additional consideration in the amount of $9,035 was also 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 per share, less the underwriters' fees, within 30 days from the date of the IPO. During the quarter ended June 30, 2010, 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.

During the quarter ended September 30, 2010, adjustments have been made to the preliminary purchase price allocation to reduce accrued liabilities by $1,107 for a reduction of the estimate of the sick time allowance, with a corresponding decrease in goodwill. Other adjustments were also made, which resulted in a net decrease in goodwill of $237. Other adjustments include an $827 increase in construction funding, a reduction in prepaid expense of $235 with an offset to the net government funding payable and the associated impact on the net future income tax liabilities, all of which involved corresponding adjustments to goodwill.

All amounts are in thousands of dollars except share data

6 Property and equipment

	Cost	Accumulated amortization	Net book value
Land	42,271	-	42,271
Buildings	247,084	4,282	242,802
Furniture and fixtures	9,465	1,349	8,116
Computer hardware	276	56	220
Circulating equipment	985	-	985
	300,081	**5,687**	**294,394**

7 Intangible assets

	Cost	Accumulated amortization	Net book value
Licences	76,000	-	76,000
Resident relationships	26,190	6,870	19,320
Contracts	3,080	539	2,541
Computer software	1,864	60	1,804
	107,134	**7,469**	**99,665**

8 Long-term debt

	Interest rate	Maturity date	Amount
Series A Senior Secured Notes	4.814%	Nov. 24, 2015	297,989

On November 24, 2005, LSCLP issued 4.814% Series A Senior Secured Notes (the “2015 Notes”) due November 24, 2015 that 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.

Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year. Interest expensed on the 2015 Notes in the quarter ended September 30, 2010 was $4,269 and $8,900 for the period ended September 30, 2010, which includes non-cash interest of $507 for the quarter and $1,052 for the period ended September 30, 2010.

All amounts are in thousands of dollars except share data

The following summarizes the components of interest expense, net, in the interim consolidated statement of operations:

	Quarter Ended September 30, 2010	From Incorporation, February 10, 2010, to September 30, 2010
Interest expense:		
2015 Notes	4,269	8,900
Revolving credit facility	27	65
Swap settlement	74	165
	4,370	9,130
Interest income:		
Construction funding receivable	830	1,768
Annuity	(6)	3
Other	30	30
	854	1,801
Interest expense, net	**3,516**	**7,329**

9 Revolving credit facility

As at September 30, 2010, LSCLP has a $15,000 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 250 basis points (“bps”) per annum over the floating bankers’ acceptance (“BA”) rate (30, 60 or 90 days), at 150bps per annum over the prime rate and on letters of credit at 250bps per annum. On October 16, 2009, LSCLP entered into an amending agreement to extend the maturity of the facility to October 15, 2010. As at September 30, 2010, the Company had $68 in letters of credit outstanding. The amount had primarily been issued to municipalities with respect to outstanding obligations of the Company related to the construction of LTC homes (Note 13). During the quarter and the period ended September 30, 2010, charges related to standby fees totalled $28 and $60, respectively.

10 Income taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. Significant components of the Company’s future income tax assets and liabilities as at September 30, 2010 are:

All amounts are in thousands of dollars except share data

Future Income Tax Assets	
Cost associated with the initial public offering	3,701
Other items	863
	4,564
Future Income Tax Liabilities	
Intangible assets	(15,683)
Accretion of fair value increment on 2015 Note	(3,140)
Property and equipment	(57,800)
Future income tax liability, net	**(72,059)**

Future income taxes are comprised of:	
Future income tax asset - current	612
Future income tax liability - long-term	(72,671)
Future income tax liability, net	**(72,059)**

The income tax provision included in the interim consolidated financial statements differs from amounts that would be obtained by applying the combined Canadian federal and provincial income tax rates to loss before income taxes. The differences are reconciled as follows:

	Quarter Ended September 30, 2010	**From Incorporation, February 10, 2010, to September 30, 2010**
Loss before income taxes	(1,721)	(3,846)
Canadian combined income tax rate	31.0%	31.0%
Income tax recovery	(534)	(1,192)
Adjustments to income tax provision:		
Non-deductible items	35	179
Other items	95	(15)
Income tax recovery	**(404)**	**(1,028)**

All amounts are in thousands of dollars except share data

11 Share capital

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

Issued and outstanding
Common shares

	Shares	Amount
Balance, beginning of period	-	-
Issued common shares	19,150,000	178,768
Issued common shares in exchange for note payable	958,649	9,035
Stock-based compensation (Note 12)	-	580
Balance, end of period	**20,108,649**	**188,383**

During the first quarter, the Company issued 19,150,000 shares for proceeds of $178,768, net of underwriters' fees of $10,937, other IPO related costs of $4,469 (Note 5) and the related future tax impact of $4,200. During the second quarter ended June 30, 2010, the Company incurred additional IPO related costs of $226. Included in the 19,150,000 of issued shares were 100,000 shares that have not fully vested in accordance with the stock-based compensation agreement (Note 12).

There are no dilutive instruments outstanding at this time.

12 Stock-based compensation

In relation to the Initial Public Offering, the Company awarded 130,000 shares to key executive employees. 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 instalments 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 $1,100 based on the Black-Scholes Model. Stock-based compensation expense of $114 for the quarter ended and $580 for the period ended September 30, 2010 was recognized in general and administrative expenses.

13 Commitments

As at September 30, 2010, the Company had $68 in a letter of credit outstanding. The amount had primarily been issued to municipalities with respect to outstanding obligations of the Company related to the construction of LTC homes.

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

All amounts are in thousands of dollars except share data

2010	120
2011	482
2012	392
2013	364
2014	319
Thereafter	317
	1,994

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 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.

14 Construction funding receivable

The Company will receive gross funding from the Ontario government of approximately $104,012 related to the construction costs of long-term care homes. The amounts are non-interest bearing and will be received for certain LTC homes for various periods ending over the next 17 years.

Included in net interest expense is interest accretion on the construction funding receivable of $830 for the quarter ended September 30, 2010 and $1,768 for the period ended September 30, 2010.

15 Employee pension plan

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, 2010 was $1,053 and for the period ended September 30, 2010 was $2,122.

16 Trust funds

The Company maintains separate trust accounts on behalf of its nursing home residents, which are not included in these interim consolidated financial statements. The total balance in the trust bank accounts as at September 30, 2010 was $1,025.

17 Related party transactions

During the period ended September 30, 2010, 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, 2010 was $457 and for the period ended September 30, 2010 was $951. Included in accounts receivable is $486 owing from Spencer House Inc. at September 30, 2010. 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.

All amounts are in thousands of dollars except share data

18 Economic dependence

The Company holds licences related to each of its long-term care homes and receives funding from the MOHLTC related to these licences. Funding is received on the 22nd of each month. During the quarter ended and the period ended September 30, 2010, the Company received approximately $47,937 and $93,553, respectively, in respect of these licences for operating revenues and other government funded initiatives.

19 Segmented information

During the period, the Company had two reportable operating segments, the core Leisureworld long-term care facility business and 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 long-term care homes. The significant accounting policies of the reportable operating segments are the same as those disclosed in Note 2.

	Quarter Ended September 30, 2010			From Incorporation, February 10, 2010, to September 30, 2010		
	PHCS	**LTC**	**Total**	**PHCS**	**LTC**	**Total**
Gross revenue	2,798	73,206	76,004	5,923	151,107	157,030
Less: Internal revenue	489	6,691	7,180	1,037	13,974	15,011
Net revenue	2,309	66,515	68,824	4,886	137,133	142,019
Income from operations before undernoted	437	7,601	8,038	880	15,640	16,520
Amortization of property and equipment, and intangible assets	263	6,020	6,283	552	12,604	13,156
Interest expense	-	4,370	4,370	-	9,130	9,130
Interest income	-	854	854	-	1,801	1,801
Purchase of property and equipment	-	292	292	-	442	442
Purchase of intangible assets	-	223	223	-	668	668
Total assets	18,432	572,600	591,032	18,432	572,600	591,032
Goodwill	1,624	89,535	91,159	1,624	89,535	91,159

20 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; the outcome cannot be determined at this time. 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 Company intends to vigorously defend MSHL’s position in this action, as this potential liability was assumed by the Company as part of the acquisition. In the Company’s opinion, the resolution of this action will not have a material adverse effect on the financial condition of the Company. The defendants will be denying all allegations and asserting the action should be dismissed with costs payable to the defendants.

21 Subsequent events

On October 15, 2010, the Company entered into an amending agreement to extend the maturity of the revolving credit facility to October 14, 2011 and reduce the principal amount from $15,000 to $10,000. The facility bears interest on cash advances at 175bps per annum over the floating BA rate (30, 60 or 90 days), at 75bps over prime rate and on letters of credit at 175bps per annum.