

Leisureworld Senior Care Corporation

Financial Report

Quarter and Nine Months Ended September 30, 2012

(In Canadian Dollars)

Leisureworld Senior Care Corporation

Management's Discussion and Analysis Quarter and Nine Months Ended September 30, 2012

(In Canadian Dollars)

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

The following Management's Discussion and Analysis ("MD&A") for Leisureworld Senior Care Corporation ("Leisureworld", "LSCC" or the "Company") summarizes the financial results for the quarter and year to date periods ended September 30, 2012. This discussion and analysis of Leisureworld's consolidated operating results, cash flow and financial position for the periods ended September 30, 2012 should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes contained in this financial report and the audited consolidated financial statements and related notes for the year ended December 31, 2011. 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 7, 2012, the date on which this report was approved by the Board of Directors of Leisureworld.

The Company is a public company listed on the Toronto Stock Exchange (the "TSX"), under the symbol LW. As of November 6, 2012 there were 29,272,889 common shares issued and outstanding. No preference shares were outstanding at this time.

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts have been expressed in thousands of Canadian dollars, unless otherwise noted.

Forward-looking statements

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

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

Introduction

Leisureworld 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 on March 23, 2010 and acquired, indirectly, all of the outstanding limited partnership interests in Leisureworld Senior Care LP ("LSCLP") and common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP. On April 27, 2011, two additional retirement residences comprising 294 suites located in Kingston and Kanata, Ontario ("Ontario Portfolio") were acquired by the Company's subsidiary, The Royale LP ("Royale"). On May 24, 2012, three additional retirement residences comprising 392 suites located in the Greater Vancouver Area in British

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

Columbia ("BC Portfolio") were acquired by the Company's subsidiaries. Two of the properties, Astoria and Pacifica, were acquired by Royale. The third property, Peninsula, was acquired by The Royale West Coast LP, a newly established subsidiary. On July 16, 2012 an additional long-term care ("LTC") home comprising of 160 beds located in Orleans, Ontario was acquired by the Company's subsidiary, The Royale Development LP.

Corporate overview

Leisureworld and its predecessors have been operating since 1972. The Company's head office is located at 302 Town Centre Blvd., Markham, Ontario, L3R 0E8. Leisureworld owns and operates 27 LTC homes (representing an aggregate of 4,474 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates six retirement residences ("RR") (representing 715 suites) and one independent living residence ("IL") (representing 53 apartments) in the Provinces of Ontario and British Columbia. Ancillary businesses of the Company include Preferred Health Care Services ("Home Health Care" or "PHCS"), an accredited provider of professional nursing and personal support services for both community-based home health care and LTC 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 shareholder value; and (iii) expand the asset base of the Company through accretive acquisitions and construction of new LTC and seniors' living homes and other health care related business opportunities.

Industry overview

The Company operates in the industry of seniors' living and care. For a thorough overview on the industry, including the LTC funding model, please refer to the Company's Annual Information Form dated March 19, 2012 and our Management's Discussion and Analysis filed for the year ended December 31, 2011.

Business overview

Long-term care

Leisureworld's portfolio is comprised largely of New homes within the Class A category, which represent approximately 54% of Leisureworld's beds. Class B and C homes represent 7% and 39% of the portfolio, respectively. In addition, Leisureworld is well positioned to capitalize on the MOHLTC's capital renewal initiatives, which will provide funding to upgrade Class B and C homes.

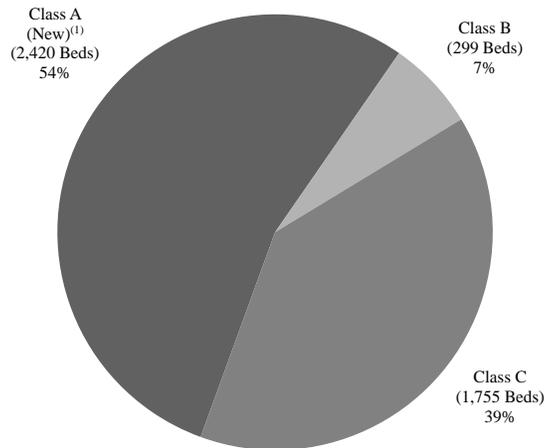
A significant proportion of Leisureworld's LTC beds are designated as preferred accommodation with approximately 54% of beds designated as private or semi-private accommodation. Approximately 4% of the revenues and 22% of the Net Operating Income ("NOI") (see "Non-IFRS performance measures") from Leisureworld's 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. Effective July 1, 2012, the Ministry of Health and Long-Term Care ("MOHLTC") has announced that the regulated premium has increased to \$19.75 and \$9.00, respectively, for new admissions to preferred accommodations, with the existing residents in preferred accommodations being grandfathered.

On July 16, 2012, the Company completed the acquisition of the Madonna LTC home ("Madonna" or "Acquisition") in Orleans, Ontario. Built in 2007, the Madonna Long-Term Care Residence is a 160 bed Class A

Leisureworld Senior Care Corporation
 Management's Discussion and Analysis
 Quarter and Nine Months Ended September 30, 2012

home. The total net purchase price was \$2,983, which was net of working capital adjustments and an assumed mortgage of \$15,718.

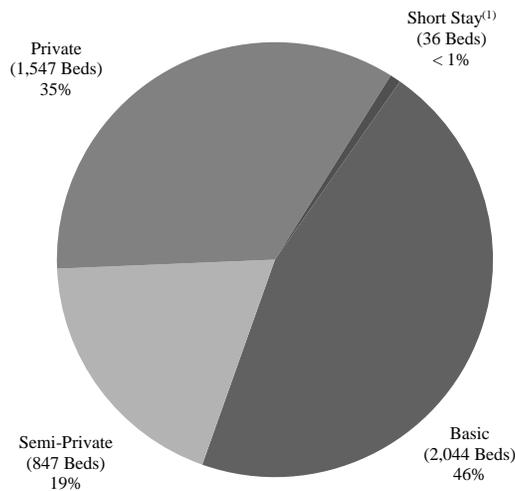
Summary of LTC Beds by Class



Note:

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

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.

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

Retirement and independent living residences

Canada's 75-plus age cohort is entering a period of unprecedented growth, and if current demand levels for RR and IL residences remain constant, management believes Canada's current RR and IL capacity will not be able to meet future demand. Further, given the increasing affluence and evolving lifestyle expectations of Canadian seniors, management believes new opportunities are emerging to meet the preferences of this burgeoning demographic group. Affluent seniors who are in relatively good health, but prefer ready access to care and services in a community setting, are becoming increasingly discerning about the lifestyle options RR and IL operators provide. For instance, one to two bedroom living quarters are now preferred to single-room studio units that were more prevalent in the past. Further, amenities such as fitness centres, lounges, restaurants, spas, theatres, and wireless internet services, typically found in preferred hotels and condominiums, are also attractive. The provision of these "five star" luxury features and amenities enable RR and IL operators to optimize rental or lease rates and thereby realize superior operating margins to those that can be achieved via government subsidized seniors' housing. In addition, affluent seniors also appreciate the availability of à-la-carte services, such as chauffeured town cars or shuttle vans for day trips, dog walking services, beauty salons, cooking classes, or gourmet prepared meals, which enable operators to further enhance margins.

Leisureworld owns a retirement facility that adjoins the Muskoka LTC home. This 29 suite facility is currently vacant and will undergo renovations to allow for the property to accommodate short stay and convalescent care residents to address the needs in the local communities. In addition, Leisureworld owns and operates one IL residence comprising 53 apartments that is attached to the Scarborough LTC home. This IL residence had occupancy of 98.1% as at September 30, 2012.

On April 27, 2011, Leisureworld acquired two additional RRs comprising 294 suites located in Kingston and Kanata, Ontario, the Ontario Portfolio. These residences are new luxury retirement living properties featuring top quality amenities and services. Leisureworld has branded these properties as 'The Royale'. As new properties, both residences are currently in the lease-up period. Occupancy rates as at September 30, 2012 were 71.3% at Kingston and 68.4% at Kanata.

As part of the total purchase consideration for the Ontario Portfolio, Leisureworld put in place a \$5.5 million three-year income support agreement with the vendor, to be held in escrow as an income guarantee to supplement cash flow during the period that the residences are being leased-up. As at September 30, 2012, the Company has drawn down the full amount of the income support funds.

Leisureworld's Ontario RRs will have to comply with the requirements of the Retirement Homes Act, as the regulations are phased in over time.

On May 24, 2012, the Company completed the purchase of three luxury retirement properties in the Greater Vancouver Area of British Columbia. The three new properties, the BC Portfolio, have been added to the brand of 'The Royale' and operate as The Royale Astoria ("Astoria"), The Royale Pacifica ("Pacifica") and The Royale Peninsula ("Peninsula"). As at the end of the quarter the occupancy was 58.5%, 88.5% and 83.5%, respectively. The Astoria property was the most recent property to open in the BC Portfolio and is currently in its lease-up period.

In conjunction with acquisition of Astoria, the Company put in place a \$2.0 million three-year income support agreement with the vendor which is held in escrow.

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

Home Health Care services

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

Key performance drivers

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

Government funding for LTC facilities ensures stability of cash flow

Ontario's LTC sector is regulated by the MOHLTC according to a defined funding model. This model contributes to the stability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: Nursing and Personal Care ("NPC"); Programs and Support Services ("PSS"); and Other Accommodation. Approximately 70% of revenue is received from the MOHLTC. Over the past ten years, government funding of Leisureworld's LTC homes has increased in excess of the Consumer Price Index. Leisureworld also receives capital cost funding of \$10.35 per bed, per day from the MOHLTC for Class A homes, as well as payments from residents for both basic and preferred accommodation. Leisureworld also receives structural compliance premiums from the MOHLTC of \$2.50 and \$1.00, on a per resident per day basis, for Class B and C homes, respectively. Additionally, the MOHLTC provides funding to LTC homes that have been accredited and reimburses up to 85% of property 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 beds to Class A standards, thereby improving the overall quality and comfort of accommodation available to residents. In April 2009, the MOHLTC published an updated design manual and policy for funding construction costs for the redevelopment of Class B and C LTC homes. The funding for these redevelopment projects will be in the form of a 25-year commitment from the MOHLTC, to pay a specific amount per bed, per day, which depends on the actual construction cost and also the building's compliance with Leadership in Energy and Environmental Design ("LEED") design standards. Redevelopment of Leisureworld's Class C homes is expected to occur under this program in the years ahead, as the capital reimbursement is defined.

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

Occupancy levels enhance cash flow

Occupancy is a key driver of Leisureworld's performance. A LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Effective for 2012, the MOHLTC revised the incremental adjustment to occupancy. For occupancy levels ranging from 90% to 96% the adjustment range is up to 2% over actual occupancy. There are no adjustments to occupancy below the 90% threshold. In 2011 the MOHLTC introduced a temporary policy for homes with occupancy rates above 85%

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

and below 97% to provide funding based on actual occupancy plus 3%. Leisureworld has a strong record of maximizing occupancy. In addition, the supply of LTC beds is controlled and regulated by the MOHLTC, which ensures barriers to entry. For the quarter and year to date periods ended September 30, 2012, Leisureworld's average occupancy for LTC homes was 99.1% and 98.7%, respectively (2011 – 98.9% and 98.5%, respectively).

Leisureworld's RR that adjoins its Muskoka LTC home, and its IL attached to its Scarborough LTC home, have a combined average occupancy for the quarter and year to date periods ended September 30, 2012, of approximately 72% and 81%, respectively. The Muskoka RR occupancy reflects the fact that as of the end of the quarter all residents were relocated to other facilities as the property will undergo renovations as previously discussed. The occupancy rate for the Scarborough IL was approximately 94% and 90%, for the quarter and year to date, respectively.

For the Ontario Portfolio properties the combined average occupancy rates for the quarter and year to date periods ended September 30, 2012 was approximately 69% and 66%, respectively. For Kingston and Kanata, management continues to target a net new average move-in rate of 2.5 per property per month, over a twelve-month period, which will result in achieved occupancy exceeding 90% by the end of the third quarter of 2013. Over the past twelve-month period the Ontario Portfolio has experienced an average net move-in rate of 1.9 per property. At this rate the Ontario Portfolio would achieve occupancy in excess of 90% by early 2014. The lower move-in rate is partly due to the current economic environment in the local markets and aggressive competitor marketing campaigns, which included significant discounting. In response to this, the Company has retained new retirement leadership, and a review of the sales and marketing strategy will be undertaken including a measure of its internal resources and capabilities.

The Company has completed the drawdown of the \$5.5 million income support established at the close of the acquisition. This drawdown rate is approximately six months ahead of the planned end date which was early 2013. It is management's view, not having the full value of the income support to stabilize the cash flows during the remainder of the lease-up period will not have an impact on the Company's ability to meet its working capital commitments, or its ability to continue the monthly dividend payments.

For the recently acquired BC Portfolio of Astoria, Pacifica and Peninsula in British Columbia the average occupancy realized in the quarter was approximately 60%, 91% and 89%, respectively. Since acquisition the average occupancy has been approximately 60%, 91% and 90%, respectively. For the Astoria property, which is in lease-up, the expected move-in rate of 2.2 per month would result in an occupancy rate in excess of 90% by early 2014. The Company has in place a \$2.0 million three-year income support agreement with the vendor which is held in escrow. As at September 30, 2012, \$0.7 million has been drawn down. Although Astoria has not yet realized the targeted net move-in rate, effective cost controls have been able to maintain profitability and drawdowns in line with management's expectation. Pacifica and Peninsula have struggled to maintain the occupancy levels that were in place at the acquisition date due to various factors including, economic factors related to changes in the local housing markets and demographics, aggressive competitor advertising campaigns in the immediate territory and property level management turnover. Management has effected changes in personnel along with a review of sales and marketing strategies which the Company believes will increase traffic and occupancy back to stabilized levels that existed at the time of the acquisition.

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

Optimization of private accommodation mix increases operating profitability

A LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private accommodation at a regulated premium. The LTC home operator retains the premiums collected for such accommodation, which typically increases revenue and enhances profitability. The premium for a private room is currently \$18 per day. Leisureworld has approximately 35% of the beds designated as private accommodation. Private bed average total occupancy for the third quarter and year to date period ended September 30, 2012 was 99.0% and 98.2%, respectively (2011 – 97.0% and 96.6%, respectively). Effective July 1, 2012 the MOHLTC increased the private room premium to \$19.75 for all new admissions in qualifying homes. Existing residents were grandfathered at the historic rate of \$18 per day.

Disciplined cost management is key to operating profitability

Leisureworld enjoys economies of scale in areas such as hiring, purchasing and administration. 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. Effective for 2013, the MOHLTC is introducing the ability to balance between the envelopes, with the exception of the food envelope.

Ensuring high-quality care and services to all residents

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

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

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

Ensuring continued maintenance and upgrade of properties

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

Growth strategies of Leisureworld Senior Care Corporation

Management has identified both internal and external growth opportunities. Organic growth opportunities include project development under the capital renewal initiatives, as well as an increase in the number of home health care contracts. External growth strategies include LTC, RR, IL and home health care acquisitions, expansion across the continuum of care, and geographic extension.

Organic

Leisureworld anticipates participating in the MOHLTC's capital renewal initiatives, under which 12 Class B and Class C LTC homes would be eligible for refurbishment. This strategy includes both the downsizing and

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

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 health care services. As a result of the government initiative, management is hopeful of obtaining additional home health care 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 will consider older LTC homes with limited redevelopment opportunities and implement the transportation of licensed capacity from those homes to Leisureworld's existing portfolio. Opportunities also exist for Leisureworld to expand in the RR and IL segment of senior housing through acquisition and development. Finally, management anticipates opportunities to further diversify Leisureworld's portfolio into other regions of Canada through accretive acquisitions.

Non-IFRS performance measures

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

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

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

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

NOI, FFO and AFFO should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of Leisureworld's performance. Leisureworld's

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

method of calculating NOI, FFO and AFFO may differ from other issuers' methods and accordingly, these measures may not be comparable to measures presented by other issuers.

Business performance

For the third quarter of 2012, Leisureworld generated NOI of \$15,393, an increase of \$3,035 or 24.6% from \$12,358 a year ago. The LTC portfolio generated \$11,911 of NOI compared to \$11,123 in the third quarter of the prior year. The increase of 7.1% or \$788 was due the inclusion of the NOI related to the Madonna acquisition which contributed \$260. The remainder of the increase is due to greater management fees, the annual increase in basic accommodation revenues, partly offset by higher property operating cost in the period. The retirement segment generated NOI of \$2,894 for the quarter, an increase of \$2,327 over the same period last year. The main increase was due to the acquisition of the BC Portfolio, which contributed \$1,651 of the increase. The Ontario Portfolio had improved performance year over year, increasing NOI by \$734, principally the result of improved occupancy levels. The combined NOI of the Muskoka and Scarborough properties slightly eroded in the quarter, primarily the result of the displacing of the Muskoka residents. Home Health Care's NOI decreased by \$80 as the increased personal support contract volumes was offset by higher cost associated with staffing to accommodate the increased volumes and a temporary increase in operating costs associated with specific initiatives to sustain the increased volumes.

For the year to date period, NOI increased by \$7,493, or 22.1%, to \$41,365 compared to \$33,872 in 2011. LTC NOI of \$33,674 contributed \$2,367 of the increase. This was primarily due to higher accommodation revenues which included favourability from preferred accommodation premiums, lower utility costs and higher management fees. The retirement portfolio's total NOI was \$5,743, compared to \$1,036 in the prior year. The increase of \$4,707 was principally attributed to the continued lease up of the Ontario Portfolio and the recent acquisition of the BC Portfolio. The Ontario Portfolio NOI increased by \$2,460 and the BC Portfolio's year to date NOI was \$2,331. Home Health Care NOI increased from the prior year by \$419, or 27.4%, to \$1,948. The increase was attributable to increased personal support contract volumes.

FFO for the third quarter was \$7,164 compared to \$5,033 a year ago. The increase of \$2,131 or 42.3% was the result of the higher NOI of \$3,035 and a higher transaction costs add-back of \$398, partly offset by increased net finance charges of \$613, and higher administrative expenses and current income taxes of \$544 and \$155, respectively. The net finance charges increased due to the debt associated with the acquisition of the BC Portfolio and the interest on the mortgage assumed on the Madonna acquisition. This was partly offset by lower interest charges on the credit facility ("Bridge Loan") related to the acquisition of the Ontario Portfolio as the Company paid down \$20,000 of this facility during the quarter. Administrative expenses increased as a result of higher transaction costs of \$398 due to the timing of acquisition activity, increased public company costs of \$237 as a result of the implementation of the Deferred Share Unit Plan ("DSU") for the Board members, and increased consulting expense of approximately \$128. This was partly offset by lower people costs of \$265 which was primarily related lower management compensation as a result of changes to executive incentive plans and lower staffing cost.

For the first nine months, FFO was \$19,374 compared to \$14,820 in the prior year, an increase of \$4,554 or 30.7%. Improved NOI contributed \$7,493 of the increase along with a higher add-back for transaction costs of \$579. This was partly offset by \$1,610 of higher net finance charges, an increase of \$920 in current income taxes, as the prior year had a favourable book to filing adjustment of \$739, and an unfavourable variance in administrative expenses of \$912. Of the \$1,610 of higher net finance charges, \$1,595 resulted from the timing of the acquisition of the Ontario Portfolio in the third quarter of 2011 and the current year acquisition of the BC

Leisureworld Senior Care Corporation
 Management's Discussion and Analysis
 Quarter and Nine Months Ended September 30, 2012

Portfolio. The higher administrative expenses were primarily due to higher transaction related costs of \$579, consulting costs of \$229 and public company costs of \$213. This was partly offset by lower people related expenditures of \$218.

Third quarter AFFO increased to \$9,095 from \$7,656 a year ago. The increase of \$1,439, or 18.8%, was principally attributable to the higher FFO of \$2,131 partly offset by \$371 of lower income support and higher maintenance capex of \$372. The decrease in income support was mainly due to the completion of the drawdown of the escrow amount related to the Ontario Portfolio, partly offset by the inclusion of the income support for the Astoria property in the BC Portfolio.

Year to date, AFFO was \$25,731 compared to \$19,825 last year, representing a \$5,906, or 29.8%, increase. Favourable FFO performance contributed \$4,554 of the increase year over year. As well, there were higher income support draws of \$668, the increased principal portion of construction funding of \$225 and the prior year reduction associated with the income tax book to filing adjustment of \$739 not recurring in the current year. This was partly offset by the year over year increase in maintenance capex of \$303.

Net Operating Income

Thousands of dollars

	Quarter		Year-to-Date	
	2012	2011	2012	2011
Net loss	(139)	(3,320)	(7,787)	(8,633)
Provision (recovery) of income taxes	77	(1,142)	2,574	(4,430)
Loss before income taxes	(62)	(4,462)	(5,213)	(13,063)
Depreciation and amortization	7,113	8,719	20,768	24,636
Net finance charges	4,470	4,737	12,598	12,551
Impairment loss	-	-	2,697	-
Income from Operations Before the Undernoted	11,521	8,994	30,850	24,124
Administrative expenses	3,872	3,364	10,515	9,748
Net Operating Income (NOI)	15,393	12,358	41,365	33,872

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

Funds from Operations and Adjusted Funds from Operations

Thousands of dollars, except share and per share data

	Quarter		Year-to-Date	
	2012	2011	2012	2011
Net Operating Income (NOI)	15,393	12,358	41,365	33,872
Interest income on construction funding receivable	791	781	2,282	2,358
Net finance charges ⁽¹⁾	(5,016)	(4,403)	(13,865)	(12,255)
Current income taxes	(682)	(527)	(1,401)	(481)
Administrative expenses ⁽²⁾	(3,851)	(3,307)	(10,419)	(9,507)
Transaction costs	529	131	1,412	833
Funds from Operations (FFO)	7,164	5,033	19,374	14,820
Income tax book to filing adjustment	-	-	-	(739)
HRIS expense	-	65	52	29
Income support	928	1,299	2,872	2,204
Construction funding principal	1,468	1,352	4,266	4,041
Maintenance capex ⁽³⁾	(465)	(93)	(833)	(530)
Adjusted Funds from Operations (AFFO)	9,095	7,656	25,731	19,825
Basic FFO per share	\$0.2450	\$0.2061	\$0.7251	\$0.6571
Basic AFFO per share	\$0.3111	\$0.3135	\$0.9631	\$0.8790
Weighted average common shares outstanding - Basic ⁽⁴⁾	29,239,556	24,423,483	26,717,554	22,553,322
Diluted FFO per share	\$0.2447	\$0.2055	\$0.7240	\$0.6401
Diluted AFFO per share	\$0.3107	\$0.3126	\$0.9616	\$0.8563
Weighted average common shares outstanding - Diluted ⁽⁴⁾	29,272,889	24,490,150	26,759,402	23,152,435

Notes:

- (1) Net finance charges excluding non-cash interest expense on debt, construction funding interest income, and loss (gain) on the interest rate swap contracts.
- (2) The presented administrative expenses have been decreased by \$21, \$57, \$96, and \$240 respectively for share-based compensation expense related to stock issued to senior management in relation to the IPO, the effect being a reduction in proceeds to the seller.
- (3) Maintenance capex has been decreased by \$0, \$183, \$435, and \$551 respectively for capital expenditures related to the HRIS project.
- (4) Weighted average common shares outstanding are calculated based on the period of time the shares have been outstanding.

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

Quarterly Financial Information

Thousands of dollars, except per share data

	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	82,939	76,090	74,738	79,028	73,310	70,029	67,740	71,589
Operating expenses (excluding depreciation and amortization)	67,546	62,029	62,827	66,961	60,952	58,621	57,634	60,734
Administrative expenses	3,872	3,269	3,374	4,682	3,364	3,192	3,192	3,114
Income from operations before the undernoted	11,521	10,792	8,537	7,385	8,994	8,216	6,914	7,741
Net loss	(139)	(5,039)	(2,609)	(3,344)	(3,320)	(2,449)	(2,864)	(2,268)
Per share and diluted per share	(0.00)	(0.19)	(0.11)	(0.14)	(0.14)	(0.11)	(0.14)	(0.11)
Dividends declared ⁽¹⁾	6,217	5,879	5,202	5,202	5,202	5,202	4,271	4,271
Per share and diluted per share	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
AFFO	9,095	9,495	7,141	6,754	7,657	7,007	5,162	5,030
Per share - basic ⁽²⁾	0.31	0.36	0.29	0.28	0.31	0.30	0.26	0.25
Per share - diluted ⁽²⁾	0.31	0.36	0.29	0.28	0.31	0.30	0.26	0.25

Notes:

- (1) All dividends paid by the Company, unless otherwise indicated, are designated as eligible dividends for Canadian tax purposes in accordance with subsection 89(14) of the Income Tax Act (Canada), and any applicable corresponding provincial and territorial provisions.
- (2) AFFO per share calculations are based on weighted average shares outstanding, which are calculated based on the period of time the shares have been outstanding. Prior year MD&A disclosures calculated the share weighting based on months of dividend eligibility.

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

A discussion of the quarter ended September 30, 2012 results compared to the same period in the prior year is provided under the section "Selected Consolidated Financial and Operating Information".

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

Selected Consolidated Financial and Operating Information

Thousands of dollars, except occupancy data

	Quarter		Year-to-Date	
	2012	2011	2012	2011
Revenue	82,939	73,310	233,767	211,079
Expenses				
Operating expenses ⁽¹⁾	67,546	60,952	192,402	177,207
Administrative expenses	3,872	3,364	10,515	9,748
	71,418	64,316	202,917	186,955
Income from operations before the undernoted	11,521	8,994	30,850	24,124
Other expenses				
Depreciation and amortization	7,113	8,719	20,768	24,636
Net finance charges	4,470	4,737	12,598	12,551
Total other expenses	11,583	13,456	33,366	37,187
Impairment loss	-	-	2,697	-
Loss before income taxes	(62)	(4,462)	(5,213)	(13,063)
Provision for (recovery of) income taxes				
Current	682	527	1,401	481
Deferred	(605)	(1,669)	1,173	(4,911)
	77	(1,142)	2,574	(4,430)
Net loss	(139)	(3,320)	(7,787)	(8,633)
Total assets	762,601	659,948	762,601	659,948
Long-term debt	429,157	354,831	429,157	354,831
Average occupancy				
Long-term care ⁽²⁾	99.1%	98.9%	98.7%	98.5%
Long-term care - private accommodations ⁽²⁾	99.0%	97.0%	98.2%	96.6%
Retirement and independent living ⁽³⁾	74.8%	59.5%	72.7%	63.4%

Notes:

(1) Operating expenses excluding depreciation and amortization

(2) The current year includes the impact of addition of the Madonna home acquired July 16, 2012

(3) The current year includes the addition of the BC Portfolio which was acquired on May 24, 2012. The 2011 retirement and independent living occupancy rates include the addition of the Kingston and Kanata properties as of April 27, 2011.

Revenue

For the third quarter, revenue totaled \$82,939 compared to \$73,310 in the prior year, representing an increase of \$9,629, or 13.1%. LTC revenues were \$72,677, which was a \$4,506 increase. The higher revenues were attributable to the acquisition of the Madonna property which had total revenues of \$2,291 and government funding rate increase of approximately 2.1%, including the retroactive funding to April 1, 2012 on the flow-through envelopes, totaling \$1,209. Other favourable revenue variances resulted from increased management fees of \$371, higher special initiative funding of \$272 and \$177 related to the case mix index adjustment. Retirement revenue totaled \$6,615, an increase of \$4,269 which was primarily due to the acquisition of the BC Portfolio late in the second quarter, which had total revenues for the quarter of \$3,611. As well, the Ontario Portfolio had increased revenues of \$744 due to the higher occupancy levels compared to the prior year. Home

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

Health Care's external revenue was \$3,647 which increased by \$854 from the prior year. The increase was primarily attributable to increased personal support contract volumes.

Year to date revenue was \$233,767 which increased by \$22,688, or 10.7%, from \$211,079 in the same period of the previous year. Total LTC revenues were \$209,401 representing a \$10,389 increase. The favourable performance was primarily attributable to the government funding rate increase of approximately 1.9%, or \$3,283, as well as a year over year increase in revenues of \$2,675 due to the timing of revenue recognition to match spending under the flow-through funding envelopes and \$2,291 due to the acquisition of the Madonna property in the quarter. Other items that increased revenues for the year to date period were the increased funding related to the case mix index adjustment of \$816, a year over year increase in management fee revenues of \$663 and \$635 for one additional funding day as a result of the leap year. Retirement revenue totaled \$13,862, which was an increase of \$9,610 over the prior year. Of this increase, \$5,091 was due to the acquisition of BC Portfolio earlier in the year, and \$4,637 was due to the increased occupancy levels in the Ontario Portfolio. Home Health Care generated higher net revenues of \$10,504 compared to \$7,815 in the prior year. The increase of \$2,689, or 34.4%, was the result of higher personal support contract volumes.

Operating expenses

Operating expenses for the quarter were \$67,546, compared to \$60,952 in the prior year, an increase of \$6,594 or 10.8%. LTC expenditures of \$60,766 increased by \$3,718 compared to the prior year. This was partly attributable to operating expenses of the newly acquired Madonna property which totaled \$2,031. The remaining variances, excluding the impact of the Madonna acquisition, include increased flow-through funding and expenditure timing of \$1,146, higher dietary service costs of \$100 following the implementation of increased regulatory requirements last year and increased property administration costs of \$330. The higher property administration costs were primarily attributed to higher bad debt expenses, people costs, accreditation fees, and consulting. This was partly offset by favourability of utility costs. Retirement expenses for the quarter totaled \$3,721 which increased by \$1,942 compared to the prior year. The increase was due to the operating costs associated with the BC Portfolio. The Ontario Portfolio's expenses were consistent with the prior year. Home Health Care's operating expenses increased by \$904, or 34.0%, to \$3,564, primarily related to higher volume of personal support contracts associated with the higher revenues.

Year to date operating expenses totaled \$192,402, an increase of \$15,195, or 8.6%, over the prior year. The operating expenditures for LTC increased by 4.8% or \$8,022 to \$175,727 compared to the prior year. This was partly attributable to operating expenses of the newly acquired Madonna property which totaled \$2,031. The remaining variances, excluding the impact of the Madonna acquisition, include expenses incurred as a result of the increased funding and timing of flow-through expenditures of \$6,225 and higher dietary service costs of \$585 following the implementation of increased regulatory requirements last year. This was partly offset by lower property administration costs of \$1,035 as a result of lower year over year utility expenses of \$1,032 and favourable wages and benefits of \$230. Operating expenses for retirement were \$8,119, which was an increase of \$4,903 over the prior year. This increase was the result of the timing of the acquisitions. The Ontario Portfolio had incremental expenses of \$2,177 over the prior year and the BC Portfolio's total expenses were \$2,760 since the acquisition. The Home Health Care segment's operating expenses increased by \$2,277, which was primarily attributable to the increased personal support contract volumes.

Administrative expenses

For the quarter, administrative expenses totaled \$3,872, an increase of \$508 compared to last year. The increase was due to higher transaction costs of \$398, public company costs of \$237 and consulting expense of \$128. This was only partly offset by lower wages and benefit costs of \$190. The higher transaction costs were the result of

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

the acquisition that closed in the quarter and the increase in public company costs were a result of the implementation of the DSU plan for the Board members. The favourability in people related costs were lower wages and benefits, attributable to an adjustment to executive compensation to account for the incentive plans that received Board of Director and shareholder approval at the annual general meeting. This was partly offset by increased costs associated with personnel changes and annual wage increases.

Administrative expenses were \$10,515 for the nine months ended September 30, 2012 compared to \$9,748 in the prior year. The increase of \$767 was primarily the result of higher transaction costs of \$555, consulting costs of \$229, and public company costs of \$213. This was partly offset by reduced wages and benefits of \$275 for reasons described above.

Depreciation and amortization

For the third quarter, depreciation and amortization decreased to \$7,113 from \$8,719 last year. The \$1,606 decrease was primarily attributable to LTC resident relationships from the IPO being fully amortized at the end of the first quarter in 2012, partly offset by the increase in resident relationship amortization and property and equipment depreciation associated with the recently acquired BC Portfolio. The main components of depreciation and amortization charges are property and equipment of \$5,041, resident relationships of \$1,814, and service contracts of \$257.

Depreciation and amortization totaled \$20,768 for the year to date, a decrease of \$3,868 from the prior year. The decrease was primarily the result of the LTC resident relationships being fully amortized at the end of the first quarter in 2012. This decrease was partly offset by the higher depreciation on property and equipment and increased amortization of resident relationships resulting from the retirement portfolio acquisitions. The main components of depreciation and amortization charges are property and equipment of \$13,931, resident relationships of \$6,022, and service contracts of \$771.

Net finance charges

For the quarter, net finance charges totaled \$4,470, which decreased from \$4,737 for the same quarter last year. Interest expense increased year over year by approximately \$470 related to the financing costs associated with the retirement properties and \$177 of financing costs associated with the acquisition of the Madonna property. This was offset by the favourable variance from the mark to market adjustment on the interest rate swap contracts of \$867 compared to the prior year. The current quarter had a gain of \$344 as opposed to the prior year which realized a net loss on the interest rate swap contracts of \$523. The gain also included \$183 of a gain on the mark to market adjustment of the swap contract associated with the Madonna debt acquired in the quarter.

Net finance charges totaled \$12,598, consistent with the prior year charges of \$12,551. The nominal increase of \$47 was primarily due to increased interest expense of \$1,632 related to the retirement portfolio as a result of acquisitions and \$177 of financing costs associated with the acquisition of the Madonna property. This was partly offset by the favourable mark to market adjustment on the interest rate swap contracts of \$1,783 on a year over year basis. The favourable adjustment from the interest rate swap contracts was due to realizing a gain in the current year of \$763, compared to a net loss in the prior year of \$1,020.

Impairment loss

During the second quarter, the Company determined that the carrying amount of the Human Resource Information System ("HRIS") being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a \$2,697 impairment of intangible assets.

Leisureworld Senior Care Corporation
 Management's Discussion and Analysis
 Quarter and Nine Months Ended September 30, 2012

During the development of the project, it allowed the Company to refine and improve upon many of its payroll and human resource processes, and although the carrying value of these incurred cost have been written off, these improvements continue to add value to the organization.

Income taxes

Current income taxes have been calculated at the combined corporate tax rate of 26.5%. The total income tax provision for the quarter was \$77, compared to recovery of \$1,142 in the third quarter of 2011. The increase in current taxes year over year was \$155 which related to higher income attributable to the acquisitions. The lower recovery of deferred taxes in the quarter was due to the result of the higher tax rates applied in the second quarter of this year and the timing of reversal of certain tax values, primarily related to the difference in timing of depreciation and amortization compared to capital cost allowance and eligible capital expenditure deductions.

For the year to date, the total tax expense was \$2,574, compared to a recovery of \$4,430 last year. The unfavourable variance of \$7,004 was primarily attributed to the rate adjustment in deferred taxes of \$3,811 as well as the book to filing tax adjustment of \$739 in the second quarter of the prior year. Additionally, the remainder of the increase in taxes was a result of the Company having improved performance on a year over year basis.

Net loss

The net loss of \$139 for the quarter was an improvement of \$3,181 compared to the net loss of \$3,320 in the prior year. The favourability that contributed to the lower net loss position was primarily due to \$2,527 of increased income from operations, primarily attributable to the retirement portfolio acquisitions. In addition, there was a lower charge for depreciation and amortization in the quarter of \$1,606. This was partly offset by the tax expense of \$77 compared to a recovery of \$1,142 in the prior year.

For the nine months ended September 30, 2012, the net loss of \$7,787 was an improvement over the net loss of the prior year of \$8,633. For the period, the Company's results were favourable as a result of the improved income from operations of \$6,726 compared to the prior year and from lower expenses related to depreciation and amortization of \$3,868. This was partly offset by the increase in income tax expenses of \$7,004 over the comparable period last year.

Liquidity and capital resources

Leisureworld reported a cash and cash equivalents balance of \$20,114 as at September 30, 2012. The changes in cash and cash equivalents for the quarters and periods ended September 30, 2012 and 2011 are as follows:

	Quarter		Year-to-Date	
	2012	2011	2012	2011
Cash flow from operations before non-cash working capital items	11,069	8,524	29,908	23,883
Non-cash changes in working capital	3,459	7,569	(981)	(3,865)
Cash provided by (used in):				
Operating activities	14,528	16,093	28,927	20,018
Investing activities	(801)	1,890	(88,993)	(84,749)
Financing activities	(27,782)	(5,936)	58,259	75,518
Increase (decrease) in cash and cash equivalents	(14,055)	12,047	(1,807)	10,787

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

Operating activities

For quarter ended September 30, 2012, cash flow from operations before non-cash changes in working capital totaled \$11,069, compared to \$8,524 in the third quarter a year ago. During the quarter, non-cash changes in working capital increased the cash position by \$3,459, compared to \$7,569 in the same period of the prior year. During the current quarter, the change in accounts payable and accrued liabilities provided \$3,807 of cash as a result of the timing of payroll related accruals and payments. The period over period decrease in income support provided \$1,048 of cash, this was primarily due to the completion of the escrow drawdown on the Ontario Portfolio and the remaining amount related to the Astoria property that was part of the BC Portfolio acquisition. The above sources of cash were partly offset by the period change in accounts receivable and other assets of \$759 and net government funding balances of \$997. Accounts receivable increased primarily as a result of accruals for WSIB adjustments that settle after the end of the year, and the timing of management fee receipts. The change in government funding balances was primarily the result of the timing of revenue recognition as it relates to the expenditures incurred as the Company has not had significant adjustments relating to the settlement of prior year balances.

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

For the year to date period ended September 30, 2012, cash flow from operations before non-cash changes in working capital totaled \$29,908 compared to \$23,883 in the prior year. Non-cash changes in working capital used \$981 of cash compared to \$3,865 a year ago. Of the changes in non-cash working capital, the utilization of \$1,752 was related to the movement in prepaid expenses and deposits and \$291 of a decrease in net government funding. The other primary use of cash was the result of the movement in the accounts receivable and other assets of \$924, which was related to higher receivable balances. These uses of cash were partly offset by cash provided by the change in the income support balance of \$1,020 as a result of the drawdown of the escrow in relation to the Ontario Portfolio, offset by establishing the escrow amount in relation to the BC Portfolio, net of drawdowns. As well, the increase in accounts payable and accrued liabilities on a year over year basis provided \$882 of the change. This increase was primarily related to the movement in payroll related accruals, partly offset by lower trade payables and accrued liabilities.

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

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

Investing activities

For the quarter, investing activities utilized \$801 of cash. This was due to the funds used for the acquisition of the Madonna property of \$2,724 and property and equipment purchases of \$465, partly offset by amounts received from construction funding of \$2,233.

For the comparative quarter ended September 30, 2011, investing activities provided \$1,890 of cash. These funds were received in the form of \$2,133 in construction funding, which was partly offset by an investment in intangible assets of \$182, principally related to the HRIS project costs, and property and equipment of \$93.

Year to date cash used for investing activities was \$88,993, which was the result of the \$91,710 cash invested in the BC Portfolio, \$2,724 as a result of the Madonna acquisition and an aggregate investment in property and equipment and intangible assets of \$1,268. This was partly offsetting the cash provided by construction funding received of \$6,522.

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

Financing activities

During the current quarter, financing activities used \$27,782 of cash. The Company made debt repayments of \$20,182, of which \$20,000 was the principal repayment of the credit facility associated with the Ontario Portfolio. The remaining use of cash primarily relates to dividend payments of \$6,217 and interest payments on debt of \$1,219.

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

For the year to date period ended September 30, 2012, cash provided by financing activities totaled \$58,259. The cash was primarily generated from the funds raised to complete the acquisition of the BC Portfolio. The amount raised included net debt of \$51,919 and equity of \$53,787. This was partly offset by the dividend payments of \$16,960, principal repayment of long-term debt totaling \$20,222 and interest payments of \$9,772.

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

Capital resources

Leisureworld's debt as at September 30, 2012 was \$429,157 compared to \$355,399 as at December 31, 2011. The increase of \$73,758 related to the \$52,100 of new debt raised and \$24,716 of debt assumed in relation to the BC Portfolio acquisition in the previous quarter. The assumed debt was inclusive of a \$1,000 fair value adjustment. In addition the Company assumed \$15,718 of debt with the Madonna acquisition in the quarter. This was

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

partly offset by the partial repayment of \$20,000 relating to the debt associated with the Ontario Portfolio. Of the remaining increase, \$1,668 relates to the accretion of the fair value increment from the purchase price allocation of the Series A Senior Secured Notes due November 24, 2015 and accretion of deferred financing charges on the debt raised to acquire the retirement properties of the Royale. As at September 30, 2012, Leisureworld had a committed revolving credit facility of \$10,000 with a Canadian chartered bank; the Company had no claims outstanding against this credit facility.

As of September 30, 2012, the Company had negative working capital of \$32,339 principally arising from a credit facility coming due within a year related to the Pacifica property in the BC Portfolio. Management is currently in the process of re-financing and extending the maturity date of this credit facility. In addition, the Company has other available longer term credit facilities and, with the Company's current leverage ratio, it also has access to additional equity financing, which will enable it to meet its obligations.

Capital commitments

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

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

Leisureworld expects to meet its operating cash requirements through 2012, including required working capital investments, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed borrowing capacity.

Contractual obligations and other commitments

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

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

On April 27, 2011, the Company entered into the Bridge Loan to finance the acquisition of the retirement properties in Kingston and Kanata, which bears interest at 187.5 basis points ("bps") per annum over the floating 30-day bankers' acceptance ("BA") rate. On June 29, 2012, the Bridge Loan was converted to a \$61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company, in conjunction with the original Bridge Loan, entered into an interest rate swap contract to effectively fix the interest rate at 4.045% on the \$55,000, which is still in effect. The Company has not applied hedge accounting.

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

On July 30, 2012, the Company made a principal repayment on this facility of \$20,000 and on September 30, 2012 extended the maturity of the facility April 26, 2014.

On May 24, 2012, the Company entered into a one-year secured acquisition term loan for \$26,100 to finance the acquisition of the Pacifica property. The term loan bears a floating interest rate equal to the 30-day BA rate plus 187.5 bps. It is secured by the property held by Royale and guaranteed by the Company.

On May 24, 2012, the Company entered into a two-year secured acquisition term loan for \$26,000 to finance the acquisition of the Astoria property. The term loan bears a floating interest rate equal to the 30-day BA rate plus 187.5 bps. It is secured by the property held by Royale and guaranteed by the Company.

As a part of the acquisition of the Peninsula property, the Company assumed a remaining mortgage in the amount of \$23,716, excluding a fair value adjustment of \$1,000. The mortgage assumed bears an interest rate of 5.18% and matures on January 1, 2017. The mortgage is collateralized by a first collateral mortgage on the land and building located at 2088-152nd Street, Surrey, BC and a general security agreement providing a first charge on all assets and undertakings.

On July 16, 2012, as part of the acquisition of the Madonna property, the Company assumed a mortgage in the amount of \$15,718, which bears interest at the floating monthly BA rate plus a stamping fee of 1.5% per annum. The mortgage is collateralized by a first collateral mortgage on the property. The Company, in conjunction with the mortgage, assumed the interest rate swap contract in the amount of \$2,317, to effectively fix the floating BA rate of interest at 3.7%. The swap is collateralized by a second mortgage of the property. The Company has not applied hedge accounting.

Interest expense on the long-term debt for the quarter ended September 30, 2012 was \$5,465 (2011 - \$4,816), which includes non-cash interest of \$589 (2011 - \$592). Interest expense for the nine months ended September 30, 2012 was \$15,252 (2011 - \$13,522), which includes non-cash interest of \$1,778 (2011 - \$1,634).

Leisureworld has an undrawn \$10,000 committed revolving credit facility with a Canadian chartered bank collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships, which it can access for working capital purposes. The facility bears interest on cash advances at 150 bps per annum over the floating BA rate (30, 60, 90 days), or at 50 bps per annum over prime rate and on letters of credit at 150 bps per annum. As at September 30, 2012, the Company had no claims outstanding against the credit facility.

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

Leisureworld Senior Care Corporation
 Management's Discussion and Analysis
 Quarter and Nine Months Ended September 30, 2012

	Operating Leases	Long-Term Debt	Licences Purchase Commitment	Total
2012	194	219	-	413
2013	529	27,009	2,200	29,738
2014	438	61,964	-	62,402
2015	373	311,014	-	311,387
2016	-	1,063	-	1,063
Thereafter	-	35,002	-	35,002
	1,534	436,271	2,200	440,005

Acquisitions

On April 27, 2011, Royale completed the acquisition of two retirement residences comprising 294 suites, for a net purchase price of \$88,742 after working capital adjustments and an income support agreement with the vendor for \$5,500 which was held in escrow as an income guarantee to complement cash flow from the properties during the lease-up period.

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

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

On May 24, 2012, Leisureworld's subsidiaries, The Royale LP and The Royale West Coast LP ("Royale West Coast") completed the acquisition of the BC Portfolio which consists of three luxury retirement residences in the Greater Vancouver Area (the "GVA") in British Columbia. Royale West Coast is a limited partnership that was formed under the laws of the Province of Ontario on April 18, 2012. The sole general partner of Royale West Coast is The Royale West Coast GP Corporation ("Royale West Coast GP"), a corporation incorporated under the laws of the Province of Ontario on April 17, 2012. The Company holds all of the issued and outstanding shares of Royale West Coast GP and the limited partnership interest in Royale West Coast.

The net purchase price was \$92,710 including a \$1,000 mark to market adjustment on assumed debt, but excluding a performance-based earn-out of up to \$6,000. Two residences located in South Surrey, BC consist of 257 residential suites, in aggregate, and one residence located in Port Coquitlam, BC consists of 135 residential suites. In conjunction with this transaction, the Company raised net equity of \$54,787, which consisted of issuing 4,680,500 Common Shares (including the over-allotment of 610,500 Common Shares) at a price of \$12.05

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

per Common Share, and issued 82,988 Common Shares to one of the sellers at an issue price of \$12.05 per Common Share. The balance of the purchase price was financed through short-term bridge financing based on floating rates. Management has evaluated the contingent purchase price consideration of the \$6,000 earn out and based on currently available information, including performance of the assets, has concluded that the payout is unlikely and therefore it is not reflected in the purchase price.

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

On July 16, 2012, one of the Company's subsidiaries, The Royale Development LP ("Royale Development") completed the acquisition of the Madonna Long-Term Care Residence. Royale Development is a limited partnership that was formed under the laws of the Province of Ontario on November 25, 2011. The sole general partner of Royale Development is The Royale Development GP Corporation ("Royale Development GP"), a corporation incorporated under the laws of the Province of Ontario on November 24, 2011. The Company holds all of the issued and outstanding shares of Royale Development GP and the limited partnership interest in Royale Development.

The Madonna Long-Term Care Residence is a 160 bed, "A" Class home in Orleans, Ontario, a suburb of Ottawa. The net purchase price for the transaction was \$2,983, net of assumed debt of \$15,718. The net purchase price was settled in cash.

Related party transactions

A subsidiary of the Company was contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the quarter ended September 30, 2012 was \$484 (2011 - \$484) and nine months ended September 30, 2012 was \$1,444 (2011 - \$1,421). Included in accounts receivable and other assets is \$67 owing from Spencer House Inc. as at September 30, 2012 (December 31, 2011 - \$12). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As of September 30, 2012, the Company had amounts outstanding from certain key executives of \$74 (December 31, 2011 - \$Nil) which have been recorded as a contra to equity in relation to the Long-Term Incentive Plan ("LTIP") issuance. These amounts outstanding bear interest at the prime rate.

Capital disclosure

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

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

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

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

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

The Series A Senior Secured Notes and revolving credit facility are collateralized by all assets of LSCLP and the subsidiary partnerships totaling \$502,992 as at September 30, 2012 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.

The \$61,500 revolving credit facility is secured by the Ontario Portfolio assets of Royale guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of September 30, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

The one-year term loan for \$26,100 to finance the acquisition of the Pacifica property is secured by the property held by Royale guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of September 30, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

The two-year term loan for \$26,000 to finance the acquisition of the Astoria property is secured by the property held by Royale guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as of September 30, 2012. However, there can be no assurance future covenant requirements will be met. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

As a part of the acquisition for the Peninsula property, the Company assumed an existing mortgage. The mortgage is collateralized by a first collateral mortgage on the land and building located at 2088-152nd Street, Surrey, BC and a general security agreement providing a first charge on all assets and undertakings.

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

As part of the acquisition of the Madonna home, the Company assumed the existing credit facility. The mortgage is collateralized by a first collateral mortgage on the property.

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

Financial instruments and the nature and extent of risks arising from financial instruments

Financial instruments consist of cash and cash equivalents, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, annuity, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts. For a further discussion on the components of financial instruments and the nature and extent of risks arising from financial instruments, please refer to the Company's Annual Information Form dated March 19, 2012 and our Management's Discussion and Analysis filed for the year ended December 31, 2011.

Critical accounting estimates and accounting policies

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2011, please refer to those statements for further detail.

Accounting standards issued but not yet applied

Other than those disclosed in the audited consolidated financial statements for the year ended December 31, 2011, the following is an accounting standard issued but not yet applied.

IFRS 10, Consolidated Financial Statements

IASB published an amendment to IFRS 10, Consolidated Financial Statements, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. This amendment requires that if the consolidation conclusion under IFRS 10 differs from IAS 27 or SIC-12 as at the date of initial application, the immediately preceding comparative period should be restated to be consistent with the accounting conclusion under the IFRS 10 through an adjustment to equity. The Company intends to adopt this amendment in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of this amendment has not yet been determined.

Risks and uncertainties

The Company's Annual Information Form ("AIF") dated March 19, 2012 and our Management's Discussion and Analysis filed for the year ended December 31, 2011 contain a detailed discussion of the risk and uncertainties that could affect the Company.

On July 23, 2012, Mr. David Cutler announced his resignation as the President and CEO, effective September 4, 2012. Mr. Cutler has served the organization for 21 years. Mr. Cutler will remain on the Board of Directors ("Board") as a non-management director. In the interim, the Board has appointed Mr. Dino Chiesa, Chairman of the Board, as the interim President and CEO until a suitable replacement can be found. Mr. Chiesa is a seasoned chief executive, having served as President and Chief Executive Officer of Residential Equities Real Estate Investment Trust from 1999 until its merger with Canadian Apartment Properties Real Estate Investment Trust in 2004. Prior to that, from 1989 to 1999, Mr. Chiesa held several positions within the Government of Ontario, including Assistant Deputy Minister, Municipal Affairs and Housing and Chief

Leisureworld Senior Care Corporation

Management's Discussion and Analysis

Quarter and Nine Months Ended September 30, 2012

Executive Officer of each of Ontario Housing Corporation and Ontario Mortgage Corporation. He is the immediate past chair of CMHC, one of Canada's largest financial institutions. The Company believes that with Mr. Cutler remaining as an active member of the Board of Directors and the level of expertise and experience that Mr. Chiesa offers to the Company, that this will minimize the risk associated with the leadership change in senior management.

On May 24, 2012 the Company completed the acquisition of the BC Portfolio. Inherent with these acquisitions are the risks associated with operating businesses in a different jurisdiction which include, but are not limited to, different provincial labour laws, provincial regulations applicable to operating a retirement residence, operating properties in lease-up periods and accessibility by key management. The Company is mitigating this risk by employing the services of the existing management company that is currently operating these residences.

With the exception of the above, there have been no changes or updates since the filings of the AIF.

Disclosure controls and procedures and internal controls over financial reporting

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

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

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

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

Outlook

Leisureworld continues to benefit from strong industry fundamentals including favourable demographics and maintaining high occupancy in its' LTC portfolio. Management continues to focus on improving occupancy in the retirement portfolio and NOI performance of all business segments which forms a strong platform for reliable shareholder dividends. The Board has approved an increase to the monthly dividend to \$0.075 per share, up from \$0.0708 per share, effective with the Company's December 2012 dividend. The Company's increased monthly dividend is equivalent to \$0.90 per share on an annualized basis.

As the Province of Ontario and other provinces in Canada look for ways to contain health care spending, management believes that private delivery of certain health care services by trusted providers, such as Leisureworld, represents a cost-effective solution. With its strong balance sheet, Leisureworld is well

Leisureworld Senior Care Corporation
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2012

positioned to capitalize on growth opportunities across the entire spectrum of seniors living and care services sector in Canada.

Leisureworld is actively engaged with an executive search consultant for the Chief Executive Officer position.

Looking ahead, Leisureworld will maintain its strategy of delivering high quality care service and accommodation for seniors; supporting and increasing occupancy rates; and identifying growth opportunities in the continuum of seniors living in Canada for retirement and LTC, which includes the renewal of its older LTC homes.

Leisureworld Senior Care Corporation

Condensed Interim Consolidated Financial Statements

Quarter and Nine Months Ended September 30, 2012
(Unaudited)

(In Canadian Dollars)

Leisureworld Senior Care Corporation
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
Thousands of dollars

	Notes	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2011		233,207	-	(52,179)	181,028
Issuance of shares	9	55,470	-	-	55,470
Net loss and comprehensive loss		-	-	(7,787)	(7,787)
Long-term incentive plan	11	155	10	-	165
Deferred tax rate change	8	115	-	-	115
Share-based compensation	11	96	-	-	96
Dividends	10	-	-	(17,298)	(17,298)
Balance, September 30, 2012		289,043	10	(77,264)	211,789

	Notes	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2010		188,517	-	(20,326)	168,191
Issuance of shares	9	44,394	-	-	44,394
Net loss and comprehensive loss		-	-	(8,633)	(8,633)
Share-based compensation	11	240	-	-	240
Dividends	10	-	-	(14,675)	(14,675)
Balance, September 30, 2011		233,151	-	(43,634)	189,517

See accompanying notes.

Leisureworld Senior Care Corporation
Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

Thousands of dollars, except share and per share data

	Notes	Quarter ended September 30,		Nine months ended September 30,	
		2012	2011	2012	2011
Revenue	13, 14	82,939	73,310	233,767	211,079
Expenses					
Operating		74,659	69,671	213,170	201,843
Administrative		3,872	3,364	10,515	9,748
	15	78,531	73,035	223,685	211,591
Income (loss) from operations		4,408	275	10,082	(512)
Finance costs		5,695	5,598	15,830	15,129
Finance income		(1,225)	(861)	(3,232)	(2,578)
Net finance charges	7	4,470	4,737	12,598	12,551
Impairment loss	6	-	-	2,697	-
Loss before income taxes		(62)	(4,462)	(5,213)	(13,063)
Provision for (recovery of) income taxes					
Current		682	527	1,401	481
Deferred		(605)	(1,669)	1,173	(4,911)
	8	77	(1,142)	2,574	(4,430)
Net loss and comprehensive loss attributable to shareholders		(139)	(3,320)	(7,787)	(8,633)
Basic and diluted loss per share		(\$0.00)	(\$0.14)	(\$0.29)	(\$0.38)
Weighted average number of common shares outstanding		29,239,556	24,423,483	26,717,554	22,553,322

See accompanying notes.

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

	Notes	Quarter ended September 30,		Nine months ended September 30,	
		2012	2011	2012	2011
OPERATING ACTIVITIES					
Net loss		(139)	(3,320)	(7,787)	(8,633)
Add (deduct) items not affecting cash					
Depreciation of property and equipment		5,041	4,420	13,931	12,715
Amortization of intangible assets		2,072	4,299	6,837	11,921
Deferred income taxes		(605)	(1,669)	1,173	(4,911)
Share-based compensation		230	57	459	240
Net finance charges		4,470	4,737	12,598	12,551
Impairment loss	6	-	-	2,697	-
		11,069	8,524	29,908	23,883
Non-cash changes in working capital					
Accounts receivable and other assets		(759)	(531)	(924)	(1,909)
Prepaid expenses and deposits		137	(365)	(1,752)	(923)
Income taxes payable/receivable		223	203	84	(3,023)
Accounts payable and accrued liabilities		3,807	4,388	882	(706)
Income support		1,048	1,299	1,020	(3,296)
Government funding, net		(997)	2,575	(291)	5,992
Cash provided by operating activities		14,528	16,093	28,927	20,018
INVESTING ACTIVITIES					
Purchase of property and equipment		(465)	(93)	(833)	(1,785)
Purchase of intangible assets		-	(182)	(435)	(426)
Amounts received from construction funding		2,233	2,133	6,522	6,399
Interest received from cash and cash equivalents		90	32	187	83
Acquisition of the Madonna LTC, net of cash acquired	4	(2,724)	-	(2,724)	-
Acquisition of the Astoria property	4	10	-	(36,718)	-
Acquisition of the Pacifica property	4	37	-	(39,731)	-
Acquisition of the Peninsula property	4	18	-	(15,261)	-
Acquisition of the Ontario Portfolio, net of cash acquired		-	-	-	(89,020)
Cash provided by (used in) investing activities		(801)	1,890	(88,993)	(84,749)
FINANCING ACTIVITIES					
Repayment of long-term debt		(20,182)	-	(20,222)	-
Proceeds from issuance of long-term debt		-	-	51,919	54,835
Deferred financing costs		(10)	-	(10)	(119)
Net settlement payment on interest rate swap contracts		(154)	(263)	(483)	(417)
Interest paid on long-term debt		(1,219)	(471)	(9,772)	(8,274)
Dividends paid		(6,217)	(5,202)	(16,960)	(14,364)
Net proceeds from issuance of common shares		-	-	53,787	43,857
Cash provided by (used in) financing activities		(27,782)	(5,936)	58,259	75,518
Increase (decrease) in cash and cash equivalents during the period		(14,055)	12,047	(1,807)	10,787
Cash and cash equivalents, beginning of period		34,169	13,358	21,921	14,618
Cash and cash equivalents, end of period		20,114	25,405	20,114	25,405
Supplementary information					
Income taxes paid		450	324	1,308	3,754

See accompanying notes.

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

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 on March 23, 2010 and acquired, indirectly, all of the outstanding limited partnership interests in Leisureworld Senior Care LP (“LSCLP”) and common shares of Leisureworld Senior Care GP Inc., the general partner of LSCLP. On April 27, 2011, two additional retirement residences comprising 294 suites located in Kingston and Kanata, Ontario (“Ontario Portfolio”) were acquired by the Company’s subsidiary, The Royale LP (“Royale”). On May 24, 2012, three additional retirement residences comprising 392 suites located in the Greater Vancouver Area in British Columbia (“BC Portfolio”) were acquired by the Company’s subsidiaries. Two of the properties, Astoria and Pacifica, were acquired by Royale. The third property, Peninsula, was acquired by The Royale West Coast LP, a newly established subsidiary. On July 16, 2012 an additional long-term care (“LTC”) home comprising of 160 beds located in Orleans, Ontario was acquired by the Company’s subsidiary, The Royale Development LP.

Leisureworld and its predecessors have been operating since 1972. The Company’s head office is located at 302 Town Centre Blvd., Markham, Ontario, L3R 0E8. Leisureworld owns and operates 27 LTC homes (representing an aggregate of 4,474 beds), all of which are located in the Province of Ontario. Leisureworld also owns and operates six retirement residences (“RR”) (representing 715 suites) and one independent living residence (“IL”) (representing 53 apartments) in the Provinces of Ontario and British Columbia. 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 health care and LTC homes.

The Company is a public company listed on the Toronto Stock Exchange (the “TSX”) under the ticker symbol TSX:LW.

2 Basis of preparation

The unaudited condensed interim consolidated financial statements (“interim consolidated financial statements”) have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). The interim consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The interim consolidated financial statements were approved by the Board of Directors for issue on November 7, 2012.

3 Summary of significant accounting policies, judgments and estimation uncertainty

In preparing these interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2011, except where otherwise mentioned. The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2011.

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

Share-based compensation

The Company applies the fair value method of accounting for share-based compensation. The loans offered to senior executives (“Participants”) related to the long-term incentive plan (“LTIP”) are recorded as a reduction to shareholders’ equity. Fair value of the shares are measured at the grant date using the binomial tree model. The fair value of restricted share units (“RSU”) and deferred share units (“DSU”) are measured based on the closing price of the Company’s shares at each reporting date. The expense related to share-based compensation is recognized in administrative expenses.

Recent accounting pronouncements

IFRS 10, Consolidated Financial Statements

IASB published an amendment to IFRS 10, Consolidated Financial Statements, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. This amendment requires that if the consolidation conclusion under IFRS 10 differs from IAS 27 or SIC-12 as at the date of initial application, the immediately preceding comparative period should be restated to be consistent with the accounting conclusion under the IFRS 10 through an adjustment to equity. The Company intends to adopt this amendment in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of this amendment has not yet been determined.

IAS 34, Interim Financial Reporting

IASB published an amendment to IAS 34, Interim Financial Reporting, which is effective for annual periods beginning on or after January 1, 2013 and is to be applied retrospectively. The amendment brings IAS 34 in line with the requirements of IFRS 8, Operating Segments. A measure of total assets and liabilities are required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The Company has chosen to early adopt this standard and is in compliance with the new amendment.

There are no other recent accounting pronouncements that would be expected to have a material impact on the Company.

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

4 Acquisitions

On May 24, 2012, Leisureworld completed the acquisition of three luxury retirement residences in British Columbia.

The total net purchase price of \$92,710 was allocated to the assets and liabilities on a preliminary basis as follows:

	Astoria	Pacifica	Peninsula	Total
Assets				
Accounts receivable and other assets	-	-	5	5
Prepaid expenses and deposits	50	-	29	79
Property and equipment	36,228	33,830	34,311	104,369
Intangible assets - resident relationships	2,471	7,111	7,010	16,592
Total assets	38,749	40,941	41,355	121,045
Liabilities				
Accounts payable and accrued liabilities	353	518	507	1,378
Deferred income taxes	678	692	871	2,241
Long-term debt	-	-	24,716	24,716
Total liabilities	1,031	1,210	26,094	28,335
Net assets acquired	37,718	39,731	15,261	92,710

As part of the total purchase consideration for the Astoria property, Leisureworld put in place a \$2,030 three-year income support agreement with the vendor, which is held in escrow as an income guarantee to supplement cash flow during the lease-up period. For the nine months ended September 30, 2012, the Company has drawn down \$655. As a part of the consideration transferred for the property, the Company issued \$1,000 of shares to the vendor as part of the total purchase price.

As a part of the purchase agreement, the vendor will have the ability to earn up to an additional \$6,000, in aggregate, should the net operating income of the Pacifica or Peninsula properties exceed specified targets over the twelve month period commencing from the acquisition date. Management has evaluated the contingent purchase price consideration of the \$6,000 earn out and has concluded that the payout is not probable and, therefore, it is not reflected in the net purchase price.

Transaction costs expensed related to the acquisition of the BC Portfolio for the quarter and nine months ended September 30, 2012 were \$64 and \$754, respectively.

The BC Portfolios' revenue and net loss recorded for the quarter ended September 30, 2012 were \$3,611 and \$994, respectively. For the period from May 24, 2012 to September 30, 2012, the revenue and net loss were \$5,091 and \$1,291, respectively.

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

On July 16, 2012, the Company completed the acquisition of the Madonna LTC home ("Madonna") in Orleans, Ontario.

The total net purchase price of \$2,983 was allocated to the assets and liabilities on a preliminary basis as follows:

Assets	
Cash	3
Restricted cash	256
Accounts receivable and other assets	60
Prepaid expenses and deposits	66
Construction funding receivable	6,445
Property and equipment	11,635
Intangible assets - resident relationships	611
Intangible assets - licences	3,120
Deferred income taxes	350
Total assets	22,546
Liabilities	
Accounts payable and accrued liabilities	1,367
Government funding payable	161
Long-term debt	15,718
Interest rate swap contract	2,317
Total liabilities	19,563
Net assets acquired	2,983

Transaction costs expensed related to the acquisition of the Madonna LTC home for the quarter and nine months ended September 30, 2012 were \$451 and \$558, respectively.

Madonna's revenue and net income recorded for the period from July 16, 2012 to September 30, 2012 was \$2,291 and \$249, respectively.

If the BC Portfolio and Madonna acquisitions had taken place on January 1, 2012, the revenue and net loss for the Company for the quarter ended September 30, 2012 are estimated to have been \$83,385 and \$90, respectively. For the nine months ended September 30, 2012, the revenue and net loss are estimated to have been \$245,239 and \$8,273, respectively.

5 Cash and cash equivalents

	September 30, 2012	December 31, 2011
Cash	16,958	16,082
Cash equivalents	2,900	5,839
Restricted cash	256	-
Cash and cash equivalents	20,114	21,921

As part of the acquisition of the Madonna, the Company is required to maintain and fund a replacement reserve fund in the annual amount of 2.5% of gross accommodation revenue per annum or an amount

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

otherwise determined by the Canada Mortgage and Housing Corporation. The replacement reserve fund account shall be established with the financial institution and they shall monitor and approve all withdrawals therefrom. The cash is held in short-term deposits and earns interest of 0.05% per annum.

6 Impairment of intangible assets

During the quarter ended June 30, 2012, the Company determined that the carrying amount of the Human Resource Information System being developed was greater than its recoverable amount and that the project was no longer sustainable. The termination of the project resulted in a \$2,697 impairment of intangible assets recorded in the condensed interim consolidated statements of operations and comprehensive loss. The impairment impacted all cash generating units in the LTC business segment.

7 Long-term debt

	Interest rate	Maturity date	September 30, 2012	December 31, 2011
Current				
Pacifica Credit Facility	Floating	May 23, 2013	26,022	-
Current Portion of Peninsula Mortgage	5.180%	N/A	499	-
Current Portion of Madonna Mortgage	Floating	N/A	403	-
			26,924	-
Long-Term				
Series A Senior Secured Notes	4.814%	November 24, 2015	302,267	300,599
Revolving Credit Facility	Floating	April 26, 2014	34,912	54,800
Astoria Credit Facility	Floating	May 23, 2014	25,897	-
Peninsula Mortgage	5.180%	January 1, 2017	23,910	-
Madonna Mortgage	Floating	April 16, 2029	15,247	-
			402,233	355,399
			429,157	355,399

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

The 2015 Notes may be redeemed in whole or in part at the option of the Company at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the 2015 Notes. The redemption price is the greater of: (i) the face amount of the 2015 Notes to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such 2015 Notes equal to the Canada Yield Price plus 0.18%, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.25%. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year.

On April 27, 2011, the Company entered into a two-year credit facility agreement ("Bridge Loan") for \$55,000 to finance the acquisition of the Ontario Portfolio, which bears interest at 187.5 basis points ("bps") per annum over the floating 30-day bankers' acceptance ("BA") rate. The Bridge Loan is secured by the assets of Royale and guaranteed by the Company and is subject to certain customary financial and non-

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

financial covenants. The Company, in conjunction with the Bridge Loan, entered into an interest rate swap contract to effectively fix the interest rate at 4.045%. Interest on the Bridge Loan is payable in advance every 30 days beginning on April 30, 2011. As a part of the Bridge Loan, the Company incurred financing costs of \$299 directly associated with obtaining the financing. These costs have been recorded as a reduction of the total financing received and are expensed over the term of the loan.

On June 29, 2012, the Bridge Loan was converted to a \$61,500 revolving credit facility that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. As at September 30, 2012, the Company has drawn \$35,000 from this credit facility.

On September 30, 2012, the Company extended the maturity date on the \$61,500 revolving credit facility to April 26, 2014.

On May 24, 2012, the Company entered into a one-year credit facility for \$26,100 to finance the acquisition of the Pacifica property and a two-year credit facility for \$26,000 to finance the acquisition of the Astoria property. Both facilities bear a floating interest rate equal to the BA rate plus 187.5 bps. These credit facilities are secured by each of the properties' assets and guaranteed by the Company and are subject to certain customary financial and non-financial covenants. Interest on the credit facilities is payable in advance each month. As part of the credit facilities, the Company incurred financing costs of \$181 directly associated with obtaining the financing. These costs have been recorded as a reduction of the total financing received and are expensed over the term of each loan.

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

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

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

The following summarizes the components of net finance charges in the unaudited condensed interim consolidated statements of operations and comprehensive loss:

	Quarter ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Finance costs				
Interest expense on long-term debt	4,876	4,224	13,474	11,888
Interest expense and fees on revolving credit facility	33	11	52	33
Net accretion of the fair value adjustments on long-term debt	481	530	1,593	1,572
Amortization of deferred financing charges	108	62	185	62
Net settlement payment on interest rate swap contracts	197	200	526	417
Loss on interest rate swap contract	-	571	-	1,157
	5,695	5,598	15,830	15,129
Finance income				
Interest income on construction funding receivable	791	781	2,282	2,358
Other interest income	90	32	187	83
Gain on interest rate swap contracts	344	48	763	137
	1,225	861	3,232	2,578
Net finance charges	4,470	4,737	12,598	12,551

8 Income taxes

The total income tax provision (recovery) for the period can be reconciled to the loss in the unaudited condensed interim consolidated statements of operations and comprehensive loss as follows:

	Quarter ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Loss before income taxes	(62)	(4,462)	(5,213)	(13,063)
Canadian combined income tax rate	26.50%	28.25%	26.50%	28.25%
Income tax recovery	(16)	(1,260)	(1,381)	(3,690)
Adjustments to income tax provision:				
Non-deductible items	93	26	144	90
Tax rate change	-	-	3,811	-
Book to filing adjustment	-	-	-	(739)
Other items	-	92	-	(91)
Provision for (recovery of) income taxes	77	(1,142)	2,574	(4,430)

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Quarter and Nine Months Ended September 30, 2012

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

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at December 31, 2011	(58,695)	(9,013)	3,010	4,599	(4,029)	(64,128)
Due to acquisition of the BC Portfolio	(3,049)	543	-	-	265	(2,241)
Due to acquisition of Madonna	(707)	(300)	-	743	614	350
Credit (charge) to net loss net of rate changes	2,400	1,420	(812)	(605)	234	2,637
Effect of change in income tax rates	(3,333)	(466)	115	223	(234)	(3,695)
Credit to shareholders' equity	-	-	696	-	-	696
As at September 30, 2012	(63,384)	(7,816)	3,009	4,960	(3,150)	(66,381)

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

	September 30, 2012	December 31, 2011
Within one year	(2,170)	(2,202)
One to four years	(9,230)	(9,616)
After four years	(54,981)	(52,310)
Total	(66,381)	(64,128)

9 Share capital

Authorized

Unlimited number of common shares, without nominal or par value

Unlimited number of preferred shares, without nominal or par value

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2011	20,108,649	188,517
Issued common shares	4,381,500	44,394
Share-based compensation	-	296
Balance, December 31, 2011	24,490,149	233,207
Issued common shares	4,680,500	54,470
Shares issued to vendor (Note 4)	82,988	1,000
Long-term incentive plan, net of loans receivable (Note 11)	19,252	155
Deferred income tax rate change (Note 8)	-	115
Share-based compensation (Note 11)	-	96
Balance, September 30, 2012	29,272,889	289,043

On May 23, 2012, the Company issued 19,252 shares to the Participants related to the LTIP. Total net value of the share-based payment at the grant date was \$13. During the quarter ended September 30, 2012, one

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

of the Participants repaid \$142 of their loan in full, which was recorded as an increase in share capital. Total net value of the share-based payment as of September 30, 2012 is \$155.

On May 24, 2012, the Company raised \$54,470, net of underwriters' fees and other issuance related costs of \$2,626 and the deferred income tax impact of \$696, through a public offering of 4,680,500 common shares. The Company also issued 82,988 common shares as part of the purchase price paid to the vendors related to the acquisition of the BC Portfolio. The total value of the share-based payment was \$1,000.

There are 33,334 unvested common shares that are outstanding (Note 11) and anti-dilutive.

10 Dividends

The Company paid dividends at \$0.0708 per month per common share totaling \$6,217 for the quarter and \$16,960 for the nine months ended September 30, 2012, respectively (2011 - \$5,202 and \$14,364, respectively). Dividends of \$2,072 are included in accounts payable and accrued liabilities as of September 30, 2012 (December 31, 2011 - \$1,734). Subsequent to September 30, 2012, the Board of Directors declared dividends of \$0.0708 per common share for October 2012 totaling \$2,072. These dividends are not included in accounts payable and accrued liabilities.

11 Share-based compensation

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

LTIP

Participants may be granted shares, which vest immediately, on an annual basis based on performance targets being achieved. Participants have the option to purchase the number of common shares equal to their eligible incentive amount divided by the weighted average closing price of the common shares on the TSX for the five trading days ("Average Closing Price"), prior to date of grant. At most 95% of the eligible incentive amount may be financed by a loan from the Company to the Participant for the purpose of investing into the LTIP and bearing interest at prime rate per annum. The loan and interest is due and payable five years from the grant date. Until the loan has been repaid in full, the related shares will be pledged to the Company as security against the outstanding balance of the loan and any cash dividends declared on such shares will be applied against the outstanding balance of the loan; first to interest then to principal.

On February 22, 2012, 19,252 shares were granted to the Participants under this plan which was approved by the shareholders at the Annual General Meeting ("AGM") held on April 18, 2012. During the quarter ended September 30, 2012, one of the Participants repaid their loan in full. This resulted in a change in the expense related to the LTIP. The adjustment for the quarter ended September 30, 2012, was a \$26 reduction in share-based compensation expense (2011 - \$Nil). Total expense related to the LTIP for the nine months ended September 30, 2012 was \$10 (2011 - \$Nil). The loan balance as of September 30, 2012 of \$74 has been recorded as a reduction to shareholders' equity (December 31, 2011 - \$Nil).

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

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Quarter and Nine Months Ended September 30, 2012

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

Valuation date	February 22, 2012
Fair value at grant date	\$11.84
Volatility	15.00%
Monthly discrete dividend	\$0.0708
Risk-free rate	1.69%
Annual interest rate on participant's loan - prime rate	3.00%
Forfeiture rate	0.00%

RSU

Participants may be awarded RSUs on an annual basis based on performance targets being achieved. Participants are awarded the number of notional shares equal to a portion of their compensation amount divided by the Average Closing Price on the grant date. RSU plan Participants are entitled to receive distributions equal to the amount of dividend per common share. Such distributions will be granted to the Participant in the form of additional RSUs equal to the dividend amount divided by the Average Closing Price on the day of such dividend was declared. These RSUs vest equally at the end of years one, two and three from the grant date and the related compensation expense is recognized on a graded basis over the vesting periods. Upon vesting of the RSUs, the Participants have the option to redeem all or a portion of vested RSUs in cash or receive one common share of the Company for each RSU redeemed. Any lump sum payment in cash will be calculated by multiplying the number of RSUs to be redeemed for cash by the Average Closing Price of the applicable vesting date. The value of each RSU is measured at each reporting date and is equivalent to the fair value of a common share of the Company as at the reporting date.

On February 22, 2012, 19,252 RSUs were granted to the Participants under this plan as approved by the shareholders at the AGM. None have vested during the third quarter of 2012 and the expenses related to this plan for the quarter and nine months ended September 30, 2012 were \$41 and \$91, respectively, which was recognized in administrative expenses (2011 - \$Nil). The total liability recorded as a part of the share-based compensation liability as of September 30, 2012 was \$91 (December 31, 2011 - \$Nil).

DSU

Eligible Members of the Board of Directors ("Members") can elect on an annual basis to receive their annual retainer fees up to 100% as notional shares of the Company, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using Average Closing Price of the grant date. The Company will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the notional shares, as long as the Member continues to serve on the Board of Directors, as additional notional units under DSU plan. The compensation, nominating and governance committee reserves the right to amend eligible participants and compensation structure under this plan. The value of each DSU is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date. Total expenses related to this plan for the quarter and nine months ended September 30, 2012 were \$194 and \$262, respectively, which were recognized in administrative expenses (2011 - \$Nil). The total liability recorded as a part of the share-based compensation liability as at September 30, 2012 was \$262 (December 31, 2011 - \$Nil).

Shares awarded

The Company awarded 130,000 common shares to certain key management in 2010 in relation to the IPO. Of this amount, 30,000 shares were awarded for nominal value and had trading restrictions imposed on them for a period of six months. These shares vested immediately upon issuance. The remaining 100,000 shares vest in three equal installments on the first, second and third anniversaries of the grant date and

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Quarter and Nine Months Ended September 30, 2012

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

also have trading restrictions imposed. Total expense related to this plan for the quarter and nine months ended September 30, 2012 were \$21 and \$96, respectively, which were recognized in administrative expenses (2011 - \$57 and \$240, respectively).

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

	Shares awarded	Weighted average exercise price (dollars)
Balance, January 1, 2011	100,000	N/A
Vested	(33,333)	N/A
Unvested, December 31, 2011	66,667	N/A
Vested	(33,333)	N/A
Unvested, September 30, 2012	33,334	N/A

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

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

12 Key management compensation

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

	Quarter ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Salaries and short-term employee benefits	432	625	1,327	1,738
Share-based payments	230	57	459	240
	662	682	1,786	1,978

13 Related party transactions

A subsidiary of the Company was contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate an LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the quarter ended September 30, 2012 was \$484 (2011 - \$484) and nine months ended September 30, 2012 was \$1,444 (2011 - \$1,421). Included in accounts receivable and other assets is \$67 owing from Spencer House Inc. as at September 30, 2012 (December 31, 2011 - \$12). These transactions are in the normal course of operations and have been valued

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Quarter and Nine Months Ended September 30, 2012

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

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

As of September 30, 2012, the Company has amounts outstanding from certain key executives of \$74 (December 31, 2011 - \$Nil) (Note 11) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

14 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the Ministry of Health and Long-Term Care ("MOHLTC") related to these licences. Funding is received on or about the 22nd of each month. During the quarter and nine months ended September 30, 2012, the Company received approximately \$51,997 and \$152,532, respectively, in respect of these licences for operating revenues and other MOHLTC funded initiatives (2011 - \$52,344 and \$150,159, respectively).

15 Expenses by nature

	Quarter ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Salaries, benefits and people costs	53,980	49,735	154,094	143,628
Depreciation and amortization	7,113	8,719	20,768	24,636
Food	3,298	3,015	9,353	8,650
Property taxes	2,636	2,335	7,501	7,010
Utilities	1,981	1,857	5,892	6,501
Other	9,523	7,374	26,077	21,166
Total expenses	78,531	73,035	223,685	211,591

16 Segmented information

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

The Company is comprised of the following main business segments:

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

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Quarter and Nine Months Ended September 30, 2012

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

The significant accounting policies of the reportable operating segments are the same as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2011.

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

	Quarter ended September 30, 2011				Total
	Long-Term Care	Retirement	Home Health Care	Corporate, Eliminations and Other	
Gross revenue	69,845	2,346	3,328	5,202	80,721
Less: Internal revenue	1,674	-	535	5,202	7,411
Net revenue	68,171	2,346	2,793	-	73,310
Income (loss) from operations before the undernoted	11,123	567	668	(3,364)	8,994
Depreciation of property and equipment	3,715	705	-	-	4,420
Amortization of intangible assets	3,290	750	259	-	4,299
Finance costs	4,206	1,302	90	-	5,598
Finance income	(814)	-	(1)	(46)	(861)
Income tax recovery	-	-	-	(1,142)	(1,142)
Net income (loss)	726	(2,190)	320	(2,176)	(3,320)
Purchase of property and equipment	93	-	-	-	93
Purchase of intangible assets	182	-	-	-	182

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

Quarter and Nine Months Ended September 30, 2012

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

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

	Nine months ended September 30, 2011				Total
	Long-Term Care	Retirement	Home Health Care	Corporate, Eliminations and Other	
Gross revenue	204,009	4,252	9,366	14,675	232,302
Less: Internal revenue	4,997	-	1,551	14,675	21,223
Net revenue	199,012	4,252	7,815	-	211,079
Income (loss) from operations before the undernoted	31,307	1,036	1,529	(9,748)	24,124
Depreciation of property and equipment	11,201	1,514	-	-	12,715
Amortization of intangible assets	9,894	1,250	777	-	11,921
Finance costs	12,647	2,392	90	-	15,129
Finance income	(2,441)	-	(1)	(136)	(2,578)
Income tax recovery	-	-	-	(4,430)	(4,430)
Net income (loss)	6	(4,120)	663	(5,182)	(8,633)
Purchase of property and equipment	598	1,179	8	-	1,785
Purchase of intangible assets	426	-	-	-	426

	As at September 30, 2012				Total
	Long-Term Care	Retirement	Home Health Care	Corporate, Eliminations and Other	
Total assets	536,606	216,363	8,963	669	762,601
Goodwill	84,945	-	6,521	-	91,466
Intangible assets	79,825	17,269	503	-	97,597

	As at December 31, 2011				Total
	Long-Term Care	Retirement	Home Health Care	Corporate, Eliminations and Other	
Total assets	528,928	105,601	9,669	353	644,551
Goodwill	84,603	342	6,521	-	91,466
Intangible assets	81,377	3,715	1,281	-	86,373

Leisureworld Senior Care Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
Quarter and Nine Months Ended September 30, 2012
All amounts are in thousands of dollars, except share and per share data or unless otherwise noted

17 Subsequent events

Revolving Credit Facility

LSCLP has a revolving credit facility with a Canadian chartered bank which it can access for working capital purposes. This facility is collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. It bears interest on cash advances of 150 bps per annum over the floating BA rate (30, 60 or 90 days), or at 50 bps per annum over the prime rate and on letters of credit at 150 bps per annum. As of September 30, 2012 the Company has no amounts drawn on this facility (December 31, 2011 - \$Nil) and no letters of credit outstanding (December 31, 2011 - \$Nil). On October 13, 2012, the Company entered into an amending agreement to extend the maturity of the undrawn LSCLP \$10,000 committed revolving credit facility to October 13, 2013.

Dividend Increase

The Board of Directors has approved an increase to the monthly dividend to \$0.075 per share, up from \$0.0708 per share, effective with the Company's December 2012 dividend. The Company's increased monthly dividend is equivalent to \$0.90 per share on an annualized basis.

18 Comparative figures

Certain comparative figures have been reclassified from interim consolidated financial statements previously presented to conform to the presentation adopted in the current period. These reclassifications had no impact on the reported net loss.