



Q2 Management's Discussion and Analysis

Second Quarter Report, June 30, 2012





MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three and Six Months Ended June 30, 2012

Contents

BUSINESS OVERVIEW	2	SUMMARY OF RESULTS OF OPERATIONS BY DIVISION	20
BUSINESS STRATEGY	4	Canadian Retirement Operations	20
2012 OUTLOOK	6	Canadian Long Term Care Operations	21
SIGNIFICANT EVENTS.....	6	U.S. Operations	22
HIGHLIGHTS OF CONSOLIDATED RESULTS OF OPERATIONS.....	8	FINANCIAL POSITION	24
CONSOLIDATED RESULTS OF OPERATIONS	11	LIQUIDITY AND CAPITAL COMMITMENTS .	25
Summary of Property Revenue.....	11	Liquidity.....	25
Summary of Direct Operating Expenses.....	11	Debt Strategy	26
General, Administrative and Trust Expenses...	12	Capital Expenditures.....	29
Management Fee Revenue.....	12	Contractual Obligations and Guarantees	30
Mezzanine Loans	12	Cash Flow Analysis.....	30
Finance Costs	14	Distributions	30
Other Expense /Income	15	KEY PERFORMANCE INDICATORS.....	32
Other Items.....	15	CRITICAL ACCOUNTING POLICIES AND ESTIMATES	34
Non-IFRS Measures	17	NEW ACCOUNTING STANDARDS	35
Quarterly Financial Information	19	CONTROLS AND PROCEDURES	35
		FORWARD-LOOKING INFORMATION AND RISKS AND UNCERTAINTIES.....	36

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") has prepared the following management's discussion and analysis (the "MD&A") to provide information to assist its current and prospective investors' understanding of the financial results of Chartwell for the three and six months ended June 30, 2012. This MD&A should be read in conjunction with Chartwell's unaudited, interim condensed consolidated financial statements for the three and six months ended June 30, 2012 and the notes thereto (the "Financial Statements"), the audited financial statements for the year ended December 31, 2011 and the notes thereto (the "2011 Financial Statements") and the annual Management's Discussion and Analysis for the year ended December 31, 2011 (the "2011 MD&A"). This material is available on Chartwell's website at www.chartwellreit.ca. Additional information about Chartwell, including its Annual Information Form ("AIF") for the year ended December 31, 2011, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of August 10, 2012.

All references to "Chartwell", "we", "our", "us" or "Trust", unless the context indicates otherwise, refer to Chartwell Seniors Housing Real Estate Investment Trust and its subsidiaries. For ease of reference "Chartwell" and the "Trust" are used in reference to the ownership of the seniors housing communities and the operation of the seniors housing communities and the third-party management business of Chartwell. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust.

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; "Q4" refers to the three-month period ended December 31; "2012" refers to the calendar year 2012; "2011" refers to the calendar year 2011 and "YTD" means year-to-date.

Unless otherwise indicated, all comparisons of results for Q2 2012 are in comparison to results from Q2 2011.

In this document we use a number of key performance indicators for monitoring and analyzing our financial results such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI") and others. These key performance indicators are not defined by International Financial Reporting Standards ("IFRS") and may not be comparable to similar measures presented by other trusts or other companies. Please refer to the "Key Performance Indicators" section of this MD&A for details of each of these performance indicators.

All dollar references, unless otherwise stated, are in Canadian dollars. Amounts in United States dollars are identified as U.S.\$.

Business Overview

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. We indirectly own and manage a portfolio of seniors housing communities across the complete continuum of care, from independent supportive living (“ISL”) communities, through assisted living (“AL”) communities, to long term care (“LTC”) communities, all of which are located in Canada and the United States (“U.S.”).

Our Vision is... *Making People's Lives Better*

Our Mission is...

- to be the most trusted name in seniors housing;
- to provide accommodation, care and services in every home, reflective of our residents' needs, preferences and interests, and adapt as they evolve;
- to ease the transition through the various stages of aging by providing a full continuum of care in the markets we serve;
- to provide comfort and assurance to the families of our residents that their loved ones are treated with the highest level of care, compassion and respect;
- to attract and retain the best employees by providing a rewarding and fulfilling work environment; and
- to generate reliable, sustainable and growing distributions for our unitholders.

Our Values are...

Respect – We honour and celebrate seniors

Empathy – We believe compassion is contagious

Service Excellence – We believe in providing excellence in customer service

Performance – We believe in delivering and rewarding results

Education – We believe in lifelong learning

Commitment – We value commitment to the Chartwell family

Trust – We believe in keeping our promises and doing the right thing

At June 30, 2012, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 32,880 suites in 238 communities. At June 30, 2012, our portfolio of owned and leased communities consisted of interests in 31,074 suites in 226 communities.

The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at June 30, 2012:

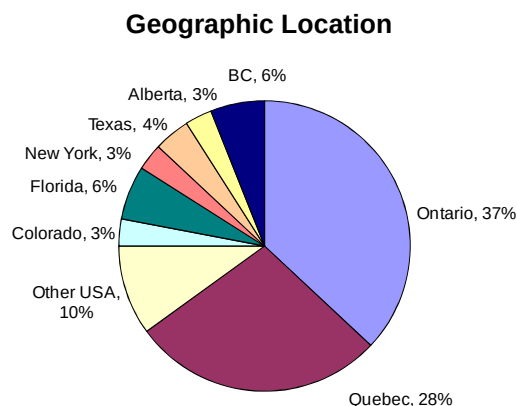
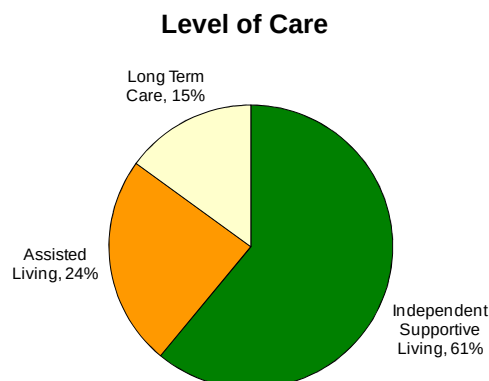
	Canadian Retirement Operations		Canadian Long Term Care Operations		United States Operations		Total	
	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds
Owned Properties: ⁽¹⁾								
100% Owned Operating	102	11,918	24	3,124	44	6,185	170	21,227
Development suites in lease-up	2	212	-	-	-	-	2	212
Total 100% Owned	104	12,130	24	3,124	44	6,185	172	21,439
Partially Owned ⁽²⁾								
Operating	47	8,634	-	-	5	768	52	9,402
Total Partially Owned	47	8,634	-	-	5	768	52	9,402
Total Owned	151	20,764	24	3,124	49	6,953	224	30,841
Properties under Operating Lease:								
100% Interest	-	-	-	-	2	233	2	233
Total Leased	-	-	-	-	2	233	2	233
Total Owned and Leased	151	20,764	24	3,124	51	7,186	226	31,074
Managed Properties ⁽³⁾	7	1,038	5	768	-	-	12	1,806
Total	158	21,802	29	3,892	51	7,186	238	32,880

(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.

(2) We have a 50% ownership interest in these properties with the exception of one property in which we have a 33.3% ownership interest.

(3) We hold purchase options on two of these properties.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Leased Interest, at June 30, 2012 by:



Business Strategy

Our business strategy is principally focused on providing quality care and services to our residents, which we believe will help us to grow AFFO from our core property portfolio over time. The following summarizes our key strategic objectives:

Enhance the quality of our cash flows and grow core property AFFO by:

- Providing high quality and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Investing in innovative marketing and sales programs to increase customer traffic, sales closing ratios and occupancy.
- Managing rental rates to ensure our properties are competitively positioned in the marketplace and realize rental-rate growth on suite turnover.
- Mitigating inflationary pressures on our operating costs through specific vendor management and cost-control initiatives.

Improve information management and operating processes by:

- Investing in market and customer research in order to better tailor service offerings to our residents and our investments in new properties.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to our operating teams.
- Implementing information technology ("IT") solutions to improve operating efficiencies and better communicate with our employees.

Build value of our real estate portfolio by:

- Maintaining our asset management program to ensure each asset is used to its highest potential.
- Maintaining a development program with up to five new development projects per year.
- Sourcing accretive acquisitions of newer properties in our existing markets.
- Divesting non-core assets.

Maintain a strong financial position by:

- Staggering debt maturities over time to reduce financing risks.
- Financing our properties with long-term debt, while managing interest costs.
- Gradually reducing our debt levels to our targeted range over time.

Successfully integrate the Maestro Portfolio acquisition by:

- Hiring key management personnel.
- Executing on training and communication strategies.
- Consolidating and centralizing IT and financial processes.
- Capitalizing on synergies and economies of scale.
- Implementing our best practices while capturing benefits from select creative initiatives from the acquired portfolio.

The following summarizes the progress we made in executing our strategy in 2012 YTD:

Enhance the quality of our cash flows and grow core property AFFO	• Same property NOI improved by \$5.3 million or 5.4% in 2012 YTD from 2011 YTD. • Same property occupancy improved to 89.7% in 2012 YTD from 89.1% in 2011 YTD. • New sales and marketing initiatives and investments have been implemented to generate further occupancy growth in the remainder of 2012.
Improve information management and operating processes	• Completed implementation of a new financial consolidation system in July 2012. • Full centralization of accounting and finance functions in Mississauga support office on track for completion in Q4 2012. • Implementation of core financial, lease administration and prospect management systems is in progress for completion in Q1 2013.
Build value of our real estate portfolio	• Five development projects are in progress. • Closed the Maestro Portfolio acquisition and investigating other growth opportunities. • Announced divestitures of 11 U.S. properties expected to close in Q4 2012. • New, dedicated resources allocated to management of our commercial real estate, energy management, and improved asset management and operational oversight of our U.S. portfolio.
Maintain a strong financial position	• Interest Coverage Ratio improved to 1.90 in 2012 YTD from 1.89 in 2011 YTD. • Completed the public offering of subscription receipts and convertible debentures for \$339.3 million.
Integrate the Maestro Portfolio acquisition	• Continuing integration and training activities. • Operating performance is slightly ahead of expectations. • Significant new talent added to our team.

2012 Outlook ♦

Our 2011 MD&A contains a detailed discussion of our 2012 Outlook. There were no significant changes in our 2012 Outlook, except as follows:

Taxation

In conjunction with the completion of the Maestro Portfolio acquisition and the conversion of subscription receipts on May 1, 2012, we implemented an internal reorganization to simplify our corporate structure. Following this reorganization and the completion of the Maestro Portfolio acquisition, we anticipate that we will be able to defer Alternative Minimum Taxes (“AMT”) and Specified Investment Flow Through (“SIFT”) Taxes beyond 2014. We also anticipate that in 2012 and in the future, the taxable portion of our distributions to unitholders will be higher than in prior years.

Significant Events

Significant events that have affected or may be expected to affect our results in the future are described in our 2011 MD&A. The following section contains updates to these significant events as of the date of this MD&A.

Public Offering of Subscription Receipts and Convertible Debentures

On March 9, 2012, we completed the offering of \$135.0 million of 5.7% convertible debentures, maturing on March 31, 2018, and 24,913,125 subscription receipts at \$8.20 per subscription receipt. The net proceeds of the offerings, after underwriters' commissions and other offering costs, was \$325.3 million and was used to repay amounts outstanding on our Credit Facility, to redeem the previous series of 5.9% convertible debentures in the amount of \$75.0 million on March 16, 2012, and to fund our share of the net purchase price of the Maestro Portfolio acquisition, including acquisition related expenses. Upon closing of the Maestro Portfolio acquisition on May 1, 2012, the subscription receipts were converted into Trust Units.

Acquisitions

During Q1 2012, we purchased the 70-suite Chartwell Select Georgian Traditions Retirement Residence in Collingwood, Ontario from Spectrum and their joint-venture partner. The purchase price was \$15.5 million, not including closing costs, and was settled through the assumption of debt of \$11.4 million, settlement of an outstanding mezzanine loan of \$0.9 million, settlement of outstanding accounts receivable of \$0.9 million, with the remaining balance, net of working capital adjustments, paid in cash.

On April 23, 2012, we acquired a 50% interest in Renaissance Retirement Residence in Kamloops, British Columbia, from Spectrum. The purchase price was \$7.5 million and was settled through the assumption of debt of \$4.7 million, settlement of the mezzanine loan of \$0.7 million, settlement of accounts receivable of \$0.8 million, and the balance, net of working capital adjustments, paid in cash.

On May 1, 2012, we completed the Maestro Portfolio acquisition in co-ownership with Health Care REIT, Inc. (“HCN”). Chartwell and HCN each acquired a 50% undivided interest in 39 properties with 7,662 suites (the “Chartwell-HCN Properties”). HCN acquired 100% interest in three properties with 525 suites. We retain an option to acquire a 50% interest in these three properties at the amount equal to the higher of fair market value or HCN's investment in these properties. We manage all 42 properties. The aggregate purchase price for the Chartwell-HCN Properties was \$849.8 million before mark-to-market

♦ This section contains forward-looking information. Please see the “Forward-Looking Information and Risks and Uncertainties” section in this MD&A.

adjustments, and was settled by Chartwell and HCN through the assumption of debt of \$449.8 million with the balance, net of working capital adjustments, paid in cash.

Dispositions

During Q2 2012, we entered into an agreement, along with our joint venture partner, to sell a portfolio of five communities (768 suites), located in New York State (the "Bristol Portfolio"). We currently own a 50% interest in this portfolio. The sale price for 100% of the portfolio is U.S.\$290.0 million and is expected to be partially settled through the assumption of debt with an outstanding balance of U.S.\$199.2 million at June 30, 2012. The balance, net of working capital adjustments and holdbacks, will be received in cash.

Also during Q2 2012, we entered into an agreement to sell six communities (1,221 suites), located in the U.S. The sale price is U.S.\$165.5 million and is expected to be partially settled by the assumption of debt with an outstanding balance of approximately U.S.\$106.8 million at June 30, 2012.

These transactions, subject to regulatory and lender approvals and certain other closing conditions, are expected to close in Q4 2012.

Development Activities

In March 2012, we opened two new retirement residences in Kitchener and Oshawa, Ontario and lease up is progressing well.

We are continuously seeking ways to improve our properties and add new resident services and amenities. Our goal is to maintain an active development program by commencing up to five new projects per year. The following projects are now in progress:

Project	Location	Suites/ Beds	Development Costs ⁽¹⁾ (\$millions)	Estimated Construction Completion Date	Details
Carlton Gardens LTC	Burnaby, BC	128	26.6	Q4 2012	Redevelopment of an existing 128-bed LTC property
Chateau Gardens Aylmer LTC	Aylmer, ON	64	9.5	Q2 2013	Redevelopment of an existing 60-bed Class C LTC property into a 64-bed Class A LTC property
Chateau Gardens Parkhill LTC	Parkhill, ON	64	10.7	Q3 2013	Redevelopment of an existing 59-bed Class C LTC property into a 64-bed Class A LTC property
Pine Grove LTC	Woodbridge, ON	107	13.6	Q4 2013	Redevelopment of an existing 100-bed Class C LTC and 40-suite retirement residence into a 96-bed Class A LTC and 11-suite retirement residence
Deerview Crossing	Hamilton, ON	119	32.3	Q4 2013	New retirement residence with a 28-suite dedicated AL area.
		482	92.7		

(1) Includes estimated losses during lease-up period which are recorded in profit and loss as incurred under IFRS.

Highlights of Consolidated Results of Operations

The following table summarizes selected financial and operating performance measures:

(\$000s, except occupancy rates, per unit amounts and number of units)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Property revenue	217,108	183,795	33,313	417,484	365,851	51,633
Weighted average occupancy rate - same property portfolio ⁽¹⁾	89.5%	89.0%	0.5pp	89.7%	89.1%	0.6pp
Same property NOI ⁽²⁾	51,791	49,323	2,468	102,652	97,379	5,273
AFFO ^{(3) (4)}	27,825	21,876	5,949	50,046	42,125	7,921
AFFO per unit diluted ⁽⁵⁾	0.16	0.15	0.01	0.31	0.29	0.02
FFO ^{(6) (7)}	29,793	24,047	5,746	55,306	46,697	8,609
FFO per unit diluted ⁽⁵⁾	0.17	0.17	-	0.34	0.32	0.02
Distributions declared ⁽⁸⁾	24,331	19,571	4,760	44,105	39,083	5,022
Distributions declared per unit ⁽⁵⁾	0.14	0.14	-	0.27	0.27	-
Distributions declared as a percentage of AFFO	87.4%	89.4%	(2.0pp)	88.1%	92.8%	(4.7pp)
Net loss	(33,887)	(18,848)	(15,039)	(82,249)	(37,312)	(44,937)
Weighted average number of units outstanding, diluted ⁽⁹⁾ (000s)	172,594	145,577	27,017	162,873	145,283	17,590

(1) pp = percentage points.

(2) Excludes the effects of foreign exchange on U.S. dollar revenue.

(3) Refer to the "Non-IFRS Measures – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.

(4) Includes \$0.7 million and \$1.1 million in negative AFFO incurred on two properties in lease-up in Q2 2012 and 2012 YTD, respectively.

(5) Refer to the "Key Performance Indicators – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.

(6) Refer to the "Non-IFRS Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net loss.

(7) Includes \$0.7 million and \$1.1 million in negative FFO incurred on two properties in lease-up in Q2 2012 and 2012 YTD, respectively.

(8) Includes distributions declared on Trust Units and distributions on Class B Units of Chartwell Master Care LP ("Class B Units") and subscription receipts recorded as interest expense.

(9) Includes Class B Units and units issued under the Long-Term Incentive Plan ("LTIP") and Deferred Trust Unit Plan ("DTU") and subscription receipts.

In Q2 2012, AFFO was \$27.8 million or \$0.16 per unit diluted. This represents an increase of \$5.9 million or 27.2% compared to AFFO in Q2 2011 of \$21.9 million or \$0.15 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from the property portfolio of \$10.4 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of \$0.7 million, primarily due to fees generated from the Maestro properties acquired in 2012;
- Higher interest expense of \$4.8 million, primarily due to acquisitions in 2011 and the first six months of 2012; and
- Higher G&A expenses of \$0.4 million, primarily due to higher staffing costs in order to support significant growth in our property portfolio.

Per unit amounts were also impacted by dilution from the issuance of additional Trust Units.

For 2012 YTD, AFFO was \$50.0 million or \$0.31 per unit diluted. This represents an increase of \$7.9 million or 18.8% compared to AFFO in 2011 YTD of \$42.1 million or \$0.29 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from the property portfolio of \$15.7 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of \$0.6 million, primarily due to fees from the Maestro properties acquired in 2012;
- Higher interest expense of \$7.6 million, primarily due to acquisitions in 2011 and the first six months of 2012;
- Higher G&A expenses of \$0.6 million, primarily due to reserves and settlement of certain self-insured liabilities, and higher compensation costs to support significant growth in our property portfolio.

Per unit amounts were also impacted by dilution from the issuance of additional Trust Units.

In Q2 2012, FFO increased by \$5.7 million or 23.9% to \$29.8 million or \$0.17 per unit diluted compared to Q2 2011 FFO of \$24.0 million or \$0.17 per unit diluted. In addition to the items noted in the discussion of AFFO above, FFO was also impacted by changes in amortization of financing costs and debt mark-to-market adjustments.

For 2012 YTD, FFO was \$55.3 million or \$0.34 per unit diluted compared to 2011 YTD of \$46.7 million or \$0.32 per unit diluted.

Net loss in Q2 2012 was \$33.9 million compared to a net loss in Q2 2011 of \$18.8 million. In addition to items which impacted AFFO and FFO as discussed above, net loss amounts were also impacted by depreciation of properties, amortization of limited life intangibles, and changes in deferred income taxes. In addition, net loss in 2012 YTD increased due to transaction costs incurred in the period and negative fair-value adjustments of financial instruments as follows:

((\$000s))	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Distributions on subscription receipts recorded as interest expense	2,242	-	2,242	2,242	-	2,242
Transaction costs on business acquisitions and asset disposals	7,816	335	7,481	11,049	335	10,714
Issuance costs on convertible debentures	-	-	-	5,363	-	5,363
Changes in fair value of convertible debentures	945	(112)	1,057	4,920	(1,050)	5,970
Changes in fair value of subscription receipts	8,720	-	8,720	29,647	-	29,647
Changes in fair value of Class B Units	1,009	(1,446)	2,455	2,102	370	1,732
Changes in fair value of LTIP option component	1,179	(588)	1,767	1,666	1,412	254
Changes in fair value of DTUs	258	388	(130)	502	388	114
Changes in fair value of interest rate swap	(81)	(288)	207	(235)	(139)	(96)
	22,088	(1,711)	23,799	57,256	1,316	55,940

Refer to the "Key Performance Indicators" section of this MD&A for a discussion of the calculation of AFFO, FFO and per unit amounts.

Same Property Portfolio Highlights

(\$000s, except occupancy rates)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Canadian retirement:						
NOI	31,711	31,040	671	63,051	61,042	2,009
Occupancy	87.3%	87.0%	0.3pp	87.6%	87.2%	0.4pp
Canadian LTC:						
NOI	6,365	6,360	5	12,217	11,981	236
Occupancy	98.6%	98.9%	(0.3pp)	98.4%	98.7%	(0.3pp)
U.S.:						
NOI (U.S.\$)	13,715	11,923	1,792	27,384	24,356	3,028
Occupancy	89.4%	87.3%	2.1pp	89.7%	87.5%	2.2pp
Combined:						
NOI ⁽¹⁾	51,791	49,323	2,468	102,652	97,379	5,273
Occupancy	89.5%	89.0%	0.5pp	89.7%	89.1%	0.6pp

(1) Excludes the effects of foreign exchange on the U.S. dollar.

For Q2 2012, combined same property occupancy improved to 89.5% with same property NOI increasing \$2.5 million or 5.0% as follows:

- In our Canadian retirement portfolio, same property NOI increased 2.2%, primarily as a result of occupancy improvements, increased ancillary revenues, and rental rate increases in line with competitive market conditions. Q2 2012 occupancy improved slightly to 87.3% compared to 87.0% in Q2 2011.
- In our Canadian LTC portfolio, same property NOI remained consistent in Q2 2012. Occupancies remained high at 98.6% compared to 98.9% in Q2 2011.
- In our U.S. portfolio, same property NOI increased 15.0%, primarily due to higher revenues as a result of improved occupancies and savings in controllable expenses. Occupancies improved significantly to 89.4% in Q2 2012 from 87.3% in Q2 2011.

For 2012 YTD, combined same property occupancy improved to 89.7% with same property NOI increasing \$5.3 million or 5.4% as follows:

- In our Canadian retirement portfolio, same property NOI increased 3.3%, primarily as a result of occupancy improvements, increased ancillary revenues, and rental rate increases in line with competitive market conditions. 2012 YTD occupancy improved slightly to 87.6% compared to 87.2% in 2011 YTD.
- In our Canadian LTC portfolio, same property NOI increased 2.0%, primarily due to higher government funding. Occupancies remained high at 98.4% compared to 98.7% in 2011 YTD.
- In our U.S. portfolio, same property NOI increased 12.4%, primarily due to higher revenues as a result of improved occupancies and savings in controllable expenses. Occupancies improved significantly to 89.7% in 2012 YTD from 87.5% in 2011 YTD.

Consolidated Results of Operations

Summary of Property Revenue

(\$000s, except occupancy rates)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Same property ⁽¹⁾	171,029	165,135	5,894	341,610	328,309	13,301
Acquisitions and other ⁽¹⁾	45,474	21,510	23,964	75,195	42,428	32,767
Eliminations	-	(1,364)	1,364	-	(2,723)	2,723
Foreign exchange on U.S. dollar revenue	605	(1,486)	2,091	679	(2,163)	2,842
Total property revenue	217,108	183,795	33,313	417,484	365,851	51,633
Weighted average occupancy rate - same property portfolio	89.5%	89.0%	0.5pp	89.7%	89.1%	0.6pp

(1) Excludes the effect of foreign exchange on U.S. dollar revenue.

Total property revenue grew 18.1% in Q2 2012 and 14.1% for 2012 YTD, through increased revenue from our same property and acquisitions portfolios and from higher foreign exchange translation on U.S. dollar revenue.

Same property revenue increased \$5.9 million or 3.6% for Q2 2012 and \$13.3 million or 4.1% for 2012 YTD. We continue to drive revenue growth by adding new services for our residents, improving occupancies and implementing rental rate increases that are competitive to local market conditions.

Summary of Direct Operating Expenses

(\$000s)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Same property ⁽¹⁾	119,235	115,813	3,422	238,957	230,929	8,028
Acquisitions and other ⁽¹⁾	31,969	15,949	16,020	54,769	32,101	22,668
Eliminations	-	(1,364)	1,364	-	(2,723)	2,723
Foreign exchange on U.S. dollar expenses	394	(992)	1,386	441	(1,438)	1,879
Total direct operating expenses	151,598	129,406	22,192	294,167	258,869	35,298

(1) Excludes the effect of foreign exchange on U.S. dollar expenses.

Total direct operating expenses increased \$22.2 million or 17.1% in Q2 2012 and \$35.3 million or 13.6% for 2012 YTD, primarily due to additional expenses for acquisitions and modest growth in same property direct operating expenses.

Same property direct operating expenses increased \$3.4 million or 3.0% for Q2 2012 and \$8.0 million or 3.5% for 2012 YTD, primarily due to additional staffing costs required to provide new services to our residents and to respond to new regulatory requirements in certain jurisdictions, combined with investments in targeted sales and marketing initiatives designed to drive occupancy.

General, Administrative and Trust Expenses

(\$000s, except percentage of revenue)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
G&A expenses	6,766	6,381	385	13,130	12,542	588
As % of revenue	3.1%	3.4%	(0.3pp)	3.1%	3.4%	(0.3pp)

G&A expenses increased \$0.4 million or 6.0% in Q2 2012, and \$0.6 million or 4.7% for 2012 YTD, primarily due to higher reserves and settlement of certain self-insured liabilities, and higher compensation costs to support significant growth in our property portfolio.

G&A expenses, as a percentage of revenue, decreased to 3.1% in Q2 2012 compared to 3.4% in Q2 2011, and decreased to 3.1% for 2012 YTD compared to 3.4% for 2011 YTD.

Management Fee Revenue

(\$000s)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
HCN	856	-	856	856	-	856
Spectrum	81	160	(79)	205	399	(194)
ING	26	78	(52)	71	142	(71)
Other	572	555	17	1,103	1,101	2
Total management fee revenue	1,535	793	742	2,235	1,642	593

Management fee revenue increased \$0.7 million in Q2 2012 and \$0.6 million for 2012 YTD. In Q2 2012, we earned \$0.9 million, representing HCN's share of management fees from the Maestro portfolio acquired during the quarter. Under our management agreement for these newly-acquired properties, we are entitled to operations management fees of 5% of gross revenues, which could be increased to 6% of gross revenues, or decreased to 4% of gross revenues upon exceedance or failure to achieve agreed-upon operating results, respectively. In addition, we are entitled to capital project oversight fees of between 3% and 7% of the value of the capital project, depending on the size of the project. Only HCN's share of these fees is reported as management fee revenue. The portion of fees related to our ownership in the joint venture properties is offset against G&A expenses, or capital cost of the assets, on consolidation, as applicable.

Fees from Spectrum declined \$0.1 million in Q2 2012 and \$0.2 million for 2012 YTD as a result of sales of operating properties by Spectrum and due to the fact that revenue from Spectrum is only recognized when payments have been received.

Mezzanine Loans

The following table summarizes the changes in our investments in mezzanine loans for the first six months of 2012 and 2011:

(\$millions)	2012 YTD	2011 YTD
Gross mezzanine loans outstanding (beginning of the period)	23.2	44.2
Discharge of mezzanine loans on acquisition of properties	(1.6)	(2.1)
Repayments of mezzanine loans in cash	-	(8.2)
Written off	-	(10.7)
Gross mezzanine loans outstanding (end of the period)	21.6	23.2

In Q2 2012, we updated our assessment of the underlying value of the security for each mezzanine loan as well as the value of the corporate guarantees securing mezzanine loans, where applicable. The

process of determining fair value requires us to exercise judgement in making valuation assumptions including revenue and expense projections, lease-up expectations, capitalization and discount rates. Based on our updated assessment, we believe no changes are required to the overall cumulative impairment provisions at this time.

The following table summarizes changes in the impairment provision for 2012 YTD:

(\$millions)	Mezzanine Loans	Accounts Receivable	Total
Balance December 31, 2011	13.1	1.7	14.8
Reallocated on collection of certain accounts receivable	1.0	(1.0)	-
Balance June 30, 2012	14.1	0.7	14.8

During the first six months of 2012, we collected certain accounts receivable from mezzanine loan debtors against which an impairment provision was previously recorded. Accordingly, we reallocated \$1.0 million of the impairment provision from accounts receivable to mezzanine loans.

The following table provides further details on mezzanine loans outstanding and related impairment provisions:

(\$millions, except number of projects)	Number of Projects	Mezzanine Loans Outstanding	Fees, net of costs recorded as a reduction of mezzanine loan balances	Impairment Provision	Net Balance Outstanding
Spectrum and Partners outside Quebec	5	10.1	(0.1)	(5.6)	4.4
Melior, Spectrum and Partners in Quebec	2	8.9	(0.4)	(8.5)	-
Seasons	1	2.6	-	-	2.6
Total	8	21.6	(0.5)	(14.1)	7.0

Subsequent to June 30, 2012, Seasons repaid their \$2.6 million mezzanine loan in full.

In July 2012, we provided Spectrum with a limited waiver of our rights of first refusal to purchase two properties with outstanding mezzanine loans of \$4.0 million. Upon closing of the sale of these properties, Spectrum is required to repay all of its mezzanine loans and other amounts due to Chartwell, and to pay a termination fee of \$1.5 million.

Finance Costs

(\$000s)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Mortgages and loans payable						
Same property ⁽¹⁾	20,263	20,206	57	40,783	40,507	276
Acquisitions and other ⁽¹⁾	7,091	3,252	3,839	12,100	6,335	5,765
Foreign exchange on U.S. dollar expenses	116	(287)	403	131	(419)	550
	27,470	23,171	4,299	53,014	46,423	6,591
Convertible debentures	1,924	1,106	818	3,298	2,212	1,086
Credit Facility and other interest	535	502	33	1,260	918	342
	29,929	24,779	5,150	57,572	49,553	8,019
Amortization of financing costs and debt mark-to-market adjustments	1,445	884	561	1,672	1,589	83
	31,374	25,663	5,711	59,244	51,142	8,102
Interest capitalized to properties under development	(607)	(330)	(277)	(1,046)	(573)	(473)
Distributions on Class B Units recorded as interest expense	227	228	(1)	454	455	(1)
Distributions on subscription receipts recorded as interest expense	2,242	-	2,242	2,242	-	2,242
Convertible debenture issuance costs	-	-	-	5,363	-	5,363
Total finance costs	33,236	25,561	7,675	66,257	51,024	15,233

(1) Excludes the effects of foreign exchange on U.S. dollar expenses.

Interest expense on the same property portfolio increased slightly in Q2 2012 and 2012 YTD due to additional financings placed on certain properties during 2011 and the first six months of 2012. Acquisitions added incremental interest expense of \$3.8 million for Q2 2012 and \$5.8 million for 2012 YTD primarily due to mortgages assumed on acquisitions completed in 2011 and the first six months of 2012.

Interest expense on convertible debentures increased \$0.8 million in Q2 2012 and \$1.1 million for 2012 YTD. In Q1 2012, we issued a new series of 5.7% convertible debentures with a face value of \$135.0 million and redeemed the old series of 5.9% convertible debentures with a face value of \$75.0 million.

Under IFRS, we have elected to carry our convertible debentures at fair value and as a result, the issuance costs of \$5.4 million relating to the new 5.7% debentures were expensed in Q1 2012.

During Q2 2012, we capitalized interest of \$0.6 million which relates to our investment in development projects under construction. Interest capitalization stops once a development project becomes available for use.

Under IFRS, distributions paid on subscription receipts upon their conversion to Trust Units, are classified as interest expense. As a result, in Q2 2012, we recorded interest expense of \$2.2 million.

Other Expense/Income

(\$000s)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Transaction costs arising on business acquisitions and asset disposals	(7,816)	(335)	(7,481)	(11,049)	(335)	(10,714)
Interest income on loans and receivables	1,043	849	194	2,099	1,789	310
Gain on sale of assets	279	-	279	279	-	279
Impairment on non-current assets	-	(8,500)	8,500	-	(8,500)	8,500
Gain on remeasurement of previously held equity interest on acquisition	-	2,090	(2,090)	-	2,090	(2,090)
Total other (expense)/income	(6,494)	(5,896)	(598)	(8,671)	(4,956)	(3,715)

Transaction costs incurred in Q2 2012 and 2012 YTD primarily relate to the Maestro Portfolio acquisition. Transaction costs arising on business combinations are expensed as incurred and fluctuate from period to period based on the volume of business combinations.

Interest income on loans and receivables increased primarily due to higher cash balances.

Gain on sale of assets primarily relates to the sale of a parcel of land in Quebec for \$0.6 million.

The impairment on non-current assets in Q2 2011 relates to our original 50% interest in a 15-property portfolio in the U.S, of which we acquired the remaining 50% interest in Q4 2011. The purchase price of the second 50% was lower than the carrying value of our original 50% interest and as a result, we recorded an impairment provision.

The \$2.1 million gain on the remeasurement of previously held equity interest on acquisition in Q2 2011 relates to the remeasurement gain of the original 50% interest in Chatsworth Retirement Suites, recorded when the second 50% interest was acquired in Q2 2011. Since this was a step acquisition, we were required to remeasure the original 50% interest to fair value upon acquisition of the second 50% interest.

Other Items

(\$000s)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Property lease expense	632	492	140	1,258	1,143	115
Depreciation on property, plant and equipment	50,039	40,849	9,190	93,501	81,026	12,475
Amortization of limited life intangible assets	950	395	555	2,060	991	1,069
Current income tax expense/(benefit)	82	95	(13)	141	171	(30)
Deferred income tax expense/(benefit)	(7,683)	(3,425)	(4,258)	(15,059)	(7,470)	(7,589)
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	10,512	(1,755)	12,267	38,512	2,609	35,903

Depreciation on property, plant and equipment increased due to acquisitions completed in 2011 and the first six months of 2012.

Amortization of limited life intangible assets increased due to acquisitions completed in 2011 and the first six months of 2012.

The provision for deferred tax expense relates to temporary differences between the carrying amounts and tax-basis of assets and liabilities. These temporary differences are tax-effected using the estimated tax rate applicable to undistributed income at the time that these differences are expected to reverse.

Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain) result from changes in the market value of the underlying financial instruments and foreign exchange rate movements. These amounts are expected to fluctuate from period to period due to changes in financial markets. The following table provides a breakdown of these amounts:

(\$000s)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Changes in fair value of convertible debentures	945	(112)	1,057	4,920	(1,050)	5,970
Changes in fair value of interest rate swap	(81)	(288)	207	(235)	(139)	(96)
Unrealized foreign exchange gain/(loss)	(1,518)	291	(1,809)	(90)	1,628	(1,718)
Changes in fair value of LTIP option component	1,179	(588)	1,767	1,666	1,412	254
Changes in fair value of Class B Units	1,009	(1,446)	2,455	2,102	370	1,732
Changes in fair value of Deferred Trust Units	258	388	(130)	502	388	114
Changes in fair value of subscription receipts	8,720	-	8,720	29,647	-	29,647
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	10,512	(1,755)	12,267	38,512	2,609	35,903

During Q1 2012, we completed a subscription receipts offering with proceeds being used to purchase the Maestro Portfolio. Under IFRS, we were required to record this as a liability on our balance sheet until May 1, 2012, when the subscription receipts were converted to Trust Units and reclassified to unitholders' equity. We were also required to fair-value this liability on the trading value of the subscription receipts.

Non-IFRS Measures

FFO and AFFO do not have a standardized meaning under IFRS and should not be construed as an alternative to net earnings or cash flows from operating activities as defined by IFRS.

Refer to the “Key Performance Indicators” section of this MD&A for a detailed discussion of the nature of various adjustments made in the calculation of FFO and AFFO, along with Management’s discussion of the usefulness of these measures in evaluating our performance.

Funds from Operations (FFO)

The following table provides a reconciliation of net income/(loss) to FFO:

(\$000s, except per unit amounts)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Net income/(loss)	(33,887)	(18,848)	(15,039)	(82,249)	(37,312)	(44,937)
<i>Add (Subtract):</i>						
Depreciation of properties	50,039	40,849	9,190	93,501	81,026	12,475
Amortization of limited life intangible assets	950	395	555	2,060	991	1,069
Depreciation of leasehold improvements and software costs included in depreciation and amortization above	(144)	(142)	(2)	(288)	(347)	59
Loss/(gain) on disposal of property	(279)	-	(279)	(279)	-	(279)
Impairment of non-current assets	-	8,500	(8,500)	-	8,500	(8,500)
Loss/(gain) on remeasure to fair value of existing interest	-	(2,090)	2,090	-	(2,090)	2,090
Transaction costs arising on business acquisitions and asset disposals	7,816	335	7,481	11,049	335	10,714
Deferred income taxes	(7,683)	(3,425)	(4,258)	(15,059)	(7,470)	(7,589)
Distributions on Class B Units recorded as interest expense	227	228	(1)	454	455	(1)
Distributions on subscription receipts recorded as interest expense	2,242	-	2,242	2,242	-	2,242
Convertible debenture issuance costs	-	-	-	5,363	-	5,363
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	10,512	(1,755)	12,267	38,512	2,609	35,903
FFO ⁽¹⁾	29,793	24,047	5,746	55,306	46,697	8,609
FFO per unit diluted	0.17	0.17	-	0.34	0.32	0.02

(1) Refer to the “Key Performance Indicators – Funds from Operations” section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

FFO increased \$5.7 million in Q2 2012 primarily due to increased contributions from the property portfolio and management fees. This was offset by higher G&A expenses and higher interest expenses.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

(\$000s, except per unit amounts)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
FFO ⁽¹⁾	29,793	24,047	5,746	55,306	46,697	8,609
<i>Add (Subtract):</i>						
Principal portion of capital subsidy receivable from Health Authorities	929	961	(32)	1,845	1,850	(5)
Amounts received under income guarantees	465	-	465	465	-	465
Amortization of financing costs and fair value adjustments on mortgages payable	1,445	884	561	1,672	1,589	83
Financing cost reserve ⁽²⁾	(465)	(340)	(125)	(892)	(694)	(198)
AFFO before capex reserve	32,167	25,552	6,615	58,396	49,442	8,954
Maintenance capex reserve - 2% of property revenue	(4,342)	(3,676)	(666)	(8,350)	(7,317)	(1,033)
AFFO ⁽³⁾	27,825	21,876	5,949	50,046	42,125	7,921
AFFO per unit diluted	0.16	0.15	0.01	0.31	0.29	0.02

(1) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(2) Financing cost reserve is calculated quarterly as 60 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.

(3) Refer to the "Key Performance Indicators – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.

An analysis of AFFO is described under the "Highlights of Consolidated Results of Operations" section of this MD&A.

In Q2 2012 and 2012 YTD, AFFO and FFO were reduced by approximately \$0.7 million and \$1.1 million, respectively, for marketing and lease-up costs related to two of our development projects which opened in Q1 2012. These marketing costs and lease-up losses are expensed as incurred under IFRS. There were no similar expenses in 2011 YTD.

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

(\$000s)	2012		2011			2010		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	218,739	201,648	199,530	187,293	185,047	183,502	189,269	186,790
Direct operating expenses	(151,598)	(142,569)	(141,611)	(131,652)	(129,406)	(129,463)	(133,793)	(129,996)
G&A expenses	(6,766)	(6,363)	(6,198)	(6,018)	(6,381)	(6,161)	(6,970)	(6,247)
Income before the understated ⁽¹⁾	60,375	52,716	51,721	49,623	49,260	47,878	48,506	50,547
Finance costs	(33,236)	(33,020)	(27,194)	(25,113)	(25,561)	(25,463)	(27,729)	(28,488)
Property lease expense	(632)	(627)	(644)	(633)	(492)	(651)	(769)	(509)
Other income/(expense)	(6,494)	(2,177)	(2,538)	8,102	(5,896)	940	115	3,283
Depreciation and amortization	(50,989)	(44,571)	(52,032)	(39,350)	(41,244)	(40,773)	(45,401)	(40,367)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(10,512)	(28,001)	(3,212)	8,753	1,755	(4,364)	1,693	(7,131)
Current income tax (expense)/recovery	(82)	(59)	(79)	(80)	(95)	(76)	(35)	(84)
Deferred income tax (expense)/recovery	7,683	7,376	8,729	(2,072)	3,425	4,045	(745)	4,815
Net income/(loss) for the period	(33,887)	(48,363)	(25,249)	(770)	(18,848)	(18,464)	(24,365)	(17,934)
FFO	29,793	25,512	24,792	24,958	24,047	22,650	21,211	22,571
FFO per unit diluted	0.17	0.17	0.17	0.17	0.17	0.16	0.15	0.17
AFFO	27,825	22,217	22,036	22,368	21,876	20,250	18,848	20,287
AFFO per unit diluted	0.16	0.15	0.15	0.15	0.15	0.14	0.13	0.16

(1) Refers to income before finance costs, property lease expense, other income/(expense), depreciation and amortization, changes in fair value of financial instruments and unrealized foreign exchange gains/(losses), and income tax.

Our results for the past eight quarters have been affected by the contribution of acquisitions, our decision in 2008 to reduce our exposure to third-party developers and related mezzanine loans which resulted in declining mezzanine loan interest and management fee income, changes in foreign exchange rates resulting in foreign exchange gains and losses on cross-border intercompany loans, and the issuance of Trust Units. Q2 2012 was also affected by the Maestro Portfolio acquisition.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments in Q2 2012 and 2012 YTD.

Where a community provides more than one level of care, it has been designated to a segment according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.

Canadian Retirement Operations

The following table summarizes the composition of our Canadian Retirement Operations segment:

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same Property - Owned					
100%	98	8,428	2,503	469	11,400
50%	6	730	37	-	767
Total same property owned	104	9,158	2,540	469	12,167
Acquisitions & Development					
100% owned:					
Operating	4	173	157	188	518
Development suites in lease-up	2	163	49	-	212
	6	336	206	188	730
Partially owned ⁽¹⁾	41	7,379	428	60	7,867
Total acquisitions & development	47	7,715	634	248	8,597
Total	151	16,873	3,174	717	20,764

(1) Includes a 50% ownership interest in 40 properties and a 33.3% ownership interest in one property.

The following table presents the results of operations of our Canadian Retirement Operations segment:

(\$000s)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Revenue						
Same property	85,779	82,882	2,897	171,459	165,095	6,364
Acquisitions and development	20,565	6,041	14,524	25,269	11,569	13,700
Total revenue	106,344	88,923	17,421	196,728	176,664	20,064
Direct Operating Expenses						
Same property	54,068	51,842	2,226	108,408	104,053	4,355
Acquisitions and development	14,016	4,498	9,518	18,339	9,002	9,337
Total direct operating expenses	68,084	56,340	11,744	126,747	113,055	13,692
Net Operating Income						
Same property	31,711	31,040	671	63,051	61,042	2,009
Acquisitions and development ⁽¹⁾	6,549	1,543	5,006	6,930	2,567	4,363
Total net operating income	38,260	32,583	5,677	69,981	63,609	6,372
 Weighted average occupancy rate - same property	 87.3%	 87.0%	 0.3pp	 87.6%	 87.2%	 0.4pp

(1) Includes \$0.3 million and \$0.7 million of negative NOI in Q2 2012 and 2012 YTD, respectively, related to two development projects in Ontario which commenced operations in March 2012.

Same property revenues increased 3.5% in Q2 2012 primarily due to higher ancillary revenues from enhanced services provided to our residents, higher occupancies and rental rate increases in line with competitive market conditions.

Same property direct operating expenses increased 4.3% in Q2 2012 primarily due to higher compensation expenses as a result of increased staffing costs required to provide new services to our residents, and employee benefits costs.

Same property NOI increased \$0.7 million or 2.2% in Q2 2012 as follows:

- Our Ontario retirement platform same property NOI increased \$0.1 million or 0.5%, primarily due to higher resident revenue from additional services provided to our residents and rental rate growth offset by decreased occupancy and inflationary increases in operating expenses.
- Our Western Canada platform same property NOI increased \$0.4 million or 6.1%, primarily due to higher revenues as a result of improved occupancies.
- Our Quebec platform same property NOI increased \$0.2 million or 2.5%, also due to higher revenues from occupancy improvements.

The following table summarizes our quarterly weighted average occupancy rates in our Canadian retirement same property portfolio:

	Q2 2012	Q2 2011	Increase / (Decrease)	Q1 2012	Increase / (Decrease)
Ontario	87.5%	87.6%	(0.1pp)	88.7%	(1.2pp)
Western Canada	91.0%	90.0%	1.0pp	91.1%	(0.1pp)
Quebec	85.4%	85.1%	0.3pp	85.6%	(0.2pp)
Total	87.3%	87.0%	0.3pp	87.9%	(0.6pp)

Although occupancies in Q2 2012 remained higher than those in Q2 2011, we experienced a decline in occupancies from Q1 2012. The decline is primarily attributable to slower leasing activity in April and May, with a slight recovery in June. We have, however, seen improvements in leasing in July as a result of our investments in sales and marketing initiatives. We expect these investments will result in improvement in occupancies for the remainder of 2012.

In Q2 2012, the results from the Chartwell-HCN properties were slightly ahead of our expectations.

Canadian Long Term Care Operations

The following table summarizes the composition of our Canadian Long Term Care Operations segment:

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same property - 100% owned	21	-	123	2,782	2,905
Development - 100% owned ⁽¹⁾	3	-	-	219	219
Total	24	-	123	3,001	3,124

(1) Represents three Ontario LTC communities which are in redevelopment.

The following table presents the results of operations of our Canadian Long Term Care Operations segment:

(\$000s, except occupancy rates)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Revenue						
Same property	47,470	45,981	1,489	94,496	90,690	3,806
Acquisitions and development	3,521	3,354	167	6,982	6,714	268
Total revenue	50,991	49,335	1,656	101,478	97,404	4,074
Direct Operating Expenses						
Same property	41,105	39,621	1,484	82,279	78,709	3,570
Acquisitions and development	3,179	3,006	173	6,347	6,138	209
Total direct operating expenses	44,284	42,627	1,657	88,626	84,847	3,779
Net Operating Income						
Same property	6,365	6,360	5	12,217	11,981	236
Acquisitions and development	342	348	(6)	635	576	59
Total net operating income	6,707	6,708	(1)	12,852	12,557	295
Weighted average occupancy rate - same property	98.6%	98.9%	(0.3pp)	98.4%	98.7%	(0.3pp)

Same property revenues increased 3.2% in Q2 2012, primarily due to higher government funding provided for direct resident care and services which are mainly staffing related. Direct operating expenses increased 3.7% in Q2 2012, primarily due to additional staffing costs which was partially offset by a decrease in utilities costs.

Weighted average occupancies in the same property portfolio were at 98.6% in Q2 2012, a slight decrease from Q2 2011.

U.S. Operations

The following table summarizes the composition of our U.S Operations segment:

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same Property - Owned					
100%	29	1,540	1,573	190	3,303
50%	5	-	768	-	768
Total same property owned	34	1,540	2,341	190	4,071
Properties under Operating Lease					
100% Interest	2	42	191	-	233
Total same property owned and leased	36	1,582	2,532	190	4,304
Acquisitions					
100% owned - operating	15	1,848	1,034	-	2,882
Total acquisitions	15	1,848	1,034	-	2,882
Total	51	3,430	3,566	190	7,186

The following table presents the results of operations of our U.S. Operations segment:

(U.S.\$000s, except as noted otherwise)	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Revenue						
Same property	37,779	36,272	1,507	75,655	72,523	3,132
Acquisitions and other ⁽¹⁾	21,390	12,115	9,275	42,944	24,147	18,797
Intercompany eliminations	-	(1,364)	1,364	-	(2,723)	2,723
Total revenue	59,169	47,023	12,146	118,599	93,947	24,652
Direct Operating Expenses						
Same property	24,064	24,349	(285)	48,271	48,167	104
Acquisitions and other ⁽¹⁾	14,773	8,444	6,329	30,082	16,961	13,121
Intercompany eliminations	-	(1,364)	1,364	-	(2,723)	2,723
Total direct operating expenses	38,837	31,429	7,408	78,353	62,405	15,948
Net Operating Income						
Same property	13,715	11,923	1,792	27,384	24,356	3,028
Acquisitions and other ⁽¹⁾	6,617	3,671	2,946	12,862	7,186	5,676
Total net operating income	20,332	15,594	4,738	40,246	31,542	8,704
Foreign exchange in CDN	211	(496)	707	238	(726)	964
Total net operating income in CDN	20,543	15,098	5,445	40,484	30,816	9,668
Weighted average occupancy rate – same property	89.4%	87.3%	2.1pp	89.7%	87.5%	2.2pp

(1) Includes the results of the 15-property ING portfolio, the remaining 50% interest of which was acquired in Q4 2011, as well as the results of our U.S. management operations. We now own 100% interest in these 15 properties.

Same property revenue increased U.S.\$1.5 million or 4.2% in Q2 2012 primarily due to improved occupancies and rental rate increases in line with competitive market conditions.

Weighted average occupancy rate in our same property U.S. operating segment improved by 2.1 percentage points to 89.4% in Q2 2012 from 87.3% in Q2 2011, and was down slightly from 90.0% in Q1 2012.

Same property direct operating expenses decreased U.S.\$0.3 million or 1.2% in Q2 2012, primarily due to timing of certain expenses and lower realty taxes.

As a result of the above, same property NOI increased U.S.\$1.8 million or 15.0% in Q2 2012.

The operating results for our U.S. operating segment in Canadian dollars were also affected by fluctuations in foreign exchange rates. The average exchange rates were as follows:

	Q2 2012	Q2 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	1.01	0.97	0.04	1.01	0.98	0.03

A \$0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar would impact AFFO by approximately \$0.2 million.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and unitholders' equity for June 30, 2012 compared to December 31, 2011:

	Increase / (Decrease) (\$millions)	Explanation
Total assets	415.4	The increase in total assets is primarily due to the following:
Property, plant and equipment	154.6	Property, plant and equipment increased due to acquisitions of \$455.2 million, building improvements and other capital expenditures of \$36.5 million and foreign exchange translation of \$0.9 million. This was offset by amounts transferred to assets held for sale of \$244.0 million, depreciation of \$93.5 million and the disposal of land held for development of \$0.3 million.
Capital funding receivable	(1.8)	In 2012 YTD, we collected capital funding of \$3.5 million, of which \$1.7 million was recorded as interest income and \$1.8 million was recorded as a reduction of the receivable.
Intangible assets	(2.1)	Intangible assets decreased primarily due to YTD amortization of \$2.1 million
Assets held for sale	248.2	Represents assets related to 11 properties in the U.S. which are expected to be sold in Q4 2012.
Total liabilities	302.4	The increase in total liabilities is primarily due to the following:
Mortgages payable	43.0	Mortgages payable increased as a result of new mortgage financings of \$22.9 million and assumed mortgages on acquired properties of \$251.3 million. This was offset by regular amortizing principal repayments of \$20.4 million, amounts transferred to liabilities held for sale of \$209.5 million, foreign exchange translation of \$0.7 million and net financing costs and mark-to-market amortization of \$0.6 million.
Convertible debentures	64.9	Convertible debentures increased due to the issue of a new series of debentures with a face value of \$135.0 million and a mark-to-market adjustment of \$6.3 million. This increase was offset by a decrease of \$76.4 million due to the redemption of debentures.
Accounts payable and other liabilities	(11.8)	Accounts payable and other liabilities decreased primarily due to the settlement of various liabilities and the effects of foreign exchange translation.
Credit Facility	7.0	Credit Facility increased primarily due to the settlement of various liabilities during the period.
Liabilities related to assets held for sale	215.3	Represents liabilities related to 11 properties in the U.S. which are expected to be sold in Q4 2012.
Unitholders' equity	113.0	The increase in unitholders' equity is primarily due to the issuance of new Trust Units, valued at \$229.5 million, net of issue costs and tax adjustments. This was offset by cash distributions and the allocation of net loss to the Trust's unitholders.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2012 YTD:

	Trust Units	Trust Units issued under LTIP	Class B Units	Deferred Trust Units	Total
Balance December 31, 2011	142,691,626	2,192,845	1,681,525	354,550	146,920,546
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	801,720	-	-	-	801,720
Trust Units issued under LTIP	-	210,642	-	-	210,642
Trust Units surrendered for cancellation under LTIP	-	(57,278)	-	-	(57,278)
Trust Units released on settlement of LTIP receivable	92,972	(92,972)	-	-	-
DTUs issued	-	-	-	67,285	67,285
DTU distributions	-	-	-	11,272	11,272
Trust Units issued upon conversion of subscription receipts	24,913,125	-	-	-	24,913,125
Balance June 30, 2012	168,499,443	2,253,237	1,681,525	433,107	172,867,312

Liquidity and Capital Commitments

Liquidity

Our cash commitments include interest and other payments related to long-term debt and convertible debentures, contractual deferred purchase obligations, obligations under operating leases as well as cash distributions to unitholders.

Our principal source of liquidity is cash flow from operations. At June 30, 2012, we had cash on hand in the amount of \$28.1 million. In order to provide for our operating and capital requirements, we also raise funds through the capital markets, arrange mortgage debt financing and have a Credit Facility with a maximum committed capacity of \$85.0 million. During Q2 2012, we renewed our Credit Facility to mature on June 22, 2013. Under the terms of the renewal, the interest rate on outstanding balances was reduced by 40 basis points to bank prime plus 1.25% or the applicable banker's acceptance rate plus 2.25%. All other terms remained substantially the same. At June 30, 2012, the maximum available borrowing capacity under the Credit Facility was \$76.3 million, based on security provided, of which \$2.8 million was utilized to support outstanding letters of credit and \$60.0 million was drawn, leaving available borrowing capacity at \$13.5 million.

We expect to partially repay amounts outstanding on our Credit Facility in Q3 2012 from the proceeds of mortgage financings of three of our properties in the amount of approximately \$17.5 million. In addition, sales of our interests in two portfolios in the U.S., expected to be completed in Q4 2012, would generate over \$90.0 million of net proceeds, a portion of which would also be used to repay amounts outstanding on our Credit Facility.

During Q1 2012, we redeemed the existing \$75.0 million of 5.9% convertible debentures and issued a new series of 5.7% convertible debentures with a face value of \$135.0 million. See the "Convertible Debentures" section of this MD&A. In addition, we issued 24.9 million of subscription receipts for gross proceeds of \$204.3 million to fund the Maestro Portfolio acquisition. The subscription receipts were converted to Trust Units on a one-to-one basis on May 1, 2012, upon closing of the Maestro transaction.

Debt Strategy

At the present time we employ the following sources of debt financing: property-specific secured mortgages; unsecured convertible subordinated debentures; and the Credit Facility. Our debt management objectives are to:

- access low-cost, long-term, fixed-rate debt and short-term, variable-rate construction financing; and
- manage interest rate risk by spreading debt maturities over time with the target of having no more than approximately 10% of our total debt maturing in any year.

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 60% of Adjusted Gross Book Value ("GBV"), excluding convertible debentures, or 65% of GBV including convertible debentures ("Indebtedness Ratio").

Under the Declaration of Trust, total indebtedness includes any obligation for borrowed money, any obligation incurred in connection with the acquisition of property, assets or business, other than deferred income tax liability, any capital lease obligation and any guaranteed obligations of third parties to the extent included in our consolidated balance sheet.

At June 30, 2012, our Indebtedness Ratio was 54.5% excluding, and 58.3% including convertible debentures.

Indebtedness Ratio: The following table presents the calculation of our Indebtedness Ratio, excluding assets and liabilities held for sale:

(\$000s)	June 30, 2012	December 31, 2011
Mortgages payable (contractual amount)	1,914,124	1,880,533
Credit Facility	60,000	53,000
Total Indebtedness excluding convertible debentures	1,974,124	1,933,533
Convertible debentures (at face value)	135,000	75,000
Total Indebtedness	2,109,124	2,008,533
Total assets	2,873,653	2,706,521
Accumulated depreciation and amortization	368,661	304,019
Cumulative transaction costs on business combinations	14,131	4,575
Change in GBV on transition to IFRS	368,338	382,965
GBV of assets	3,624,783	3,398,080
Less: Assets financed by deferred purchase consideration on acquisition properties	5,442	5,328
GBV of assets (net of deferred consideration)	3,619,341	3,392,752
Indebtedness Ratio before convertible debentures	54.5%	57.0%
Indebtedness Ratio including convertible debentures	58.3%	59.2%

If assets and liabilities held for sale were included in the above table, our Indebtedness Ratio would be 56.5% excluding, and 60.0% including convertible debentures.

In addition to the Indebtedness Ratio restrictions under our Declaration of Trust, we adopted a supplemental operating target for managing our debt portfolio and will be monitoring our Interest Coverage Ratio.

Interest Coverage Ratio: Effective December 31, 2010, we adopted an interest coverage guideline. The interest coverage guideline provides an indication of an entity's ability to service or pay the interest charges relating to the underlying debt and have generally been used by debt rating agencies to test an entity's ability to service its debt. Generally, the higher the ratio, the lower the risk of default on debt. We target to maintain our Interest Coverage Ratio above 1.65 times.

The following table summarizes our Interest Coverage Ratio:

(\$000s, except Interest Coverage Ratio)	Q2 2012	Q2 2011	2012 YTD	2011 YTD
Interest expense including capitalized interest	31,374	25,663	59,244	51,142
Property lease expense	632	492	1,258	1,143
	32,006	26,155	60,502	52,285
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") ⁽¹⁾	61,418	50,109	115,191	98,925
Interest Coverage Ratio	1.92	1.92	1.90	1.89
Target Interest Coverage Ratio	>1.65			

(1) Refer to the "Key Performance Indicators – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.

The following table presents the calculation of Adjusted EBITDA:

(\$000s)	Q2 2012	Q2 2011	2012 YTD	2011 YTD
Net loss for the period	(33,887)	(18,848)	(82,249)	(37,312)
<i>Add (Subtract):</i>				
Current income tax	82	95	141	171
Deferred income tax	(7,683)	(3,425)	(15,059)	(7,470)
Loss/(gain) on sale of assets	(279)	(1)	(279)	-
Total writedown of carrying value of assets	-	8,500	-	8,500
Transaction costs arising on business acquisitions	7,816	335	11,049	335
Loss/(gain) on remeasure to fair value of existing interest	-	(2,090)	-	(2,090)
Finance costs	33,236	25,561	66,257	51,024
Property lease expense	632	492	1,258	1,143
Depreciation of property, plant and equipment	50,039	40,849	93,501	81,026
Amortization of intangible assets	950	395	2,060	991
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	10,512	(1,755)	38,512	2,609
Adjusted EBITDA	61,418	50,109	115,191	98,927

Mortgage Debt

At June 30, 2012, we had \$1,914.2 million of mortgages payable of which \$1,368.9 million related to our Canadian properties and \$545.3 million (U.S.\$535.6 million) related to our U.S. properties.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at June 30, 2012, excluding the related mortgages on the U.S. properties held for sale.

(\$000s)	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Year					
Remainder of 2012	26,117	153,093	179,210	11%	4.94%
2013	45,935	163,765	209,700	11%	5.04%
2014	50,019	158,615	208,634	11%	4.36%
2015	37,360	262,363	299,723	19%	5.08%
2016	32,083	207,394	239,477	14%	6.10%
2017	23,929	258,420	282,349	18%	5.70%
2018	24,525	41,359	65,884	3%	5.55%
2019	24,536	5,951	30,487	-	6.18%
2020	24,692	48,899	73,591	3%	4.54%
2021	22,431	50,150	72,581	3%	4.70%
2022	19,188	39,145	58,333	3%	5.60%
2023	16,213	14,224	30,437	1%	6.01%
2024	12,081	17,394	29,475	1%	7.13%
Thereafter	112,858	21,385	134,243	2%	4.97%
Total	471,967	1,442,157	1,914,124	100%	
Mark-to-market adjustments arising on acquisition			21,828		
Less: Financing costs			(16,710)		
Total Mortgage Debt			1,919,242		

The following table provides selected financial statistics for our mortgage debt portfolio:

	At June 30, 2012			At December 31, 2011
	Canadian Debt		U.S. Debt	Combined
	Fixed Rate	Variable Rate	Fixed Rate	Combined
Amount (\$millions)	1,218.0	150.9	545.3	1,914.2
Weighted average rate	5.01%	4.66%	5.84%	5.22%
Average term to maturity (years)	8.0	1.0	4.0	6.3

Debt maturing through 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. In Canada, we have access to low-cost, CMHC-insured debt. All of our Canadian properties are eligible for CMHC financing and as of March 31, 2012, approximately 65% of our total Canadian mortgage debt was CMHC insured. We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt on renewal.

In the U.S., approximately 70% of our mortgages, excluding the mortgages on our U.S. properties held for sale, are with the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae"). Both of these entities are government-sponsored enterprises which provide access to competitive financing for seniors housing properties. We have no U.S. debt maturities until 2013, when U.S.\$24.3 million of mortgages (or 4.9% of our total U.S. debt) will mature. The remaining U.S. loans mature between 2015 and 2019.

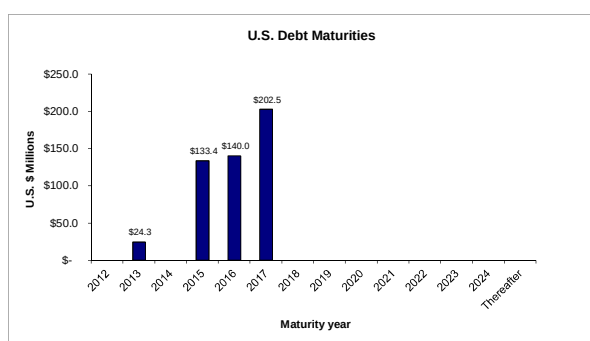
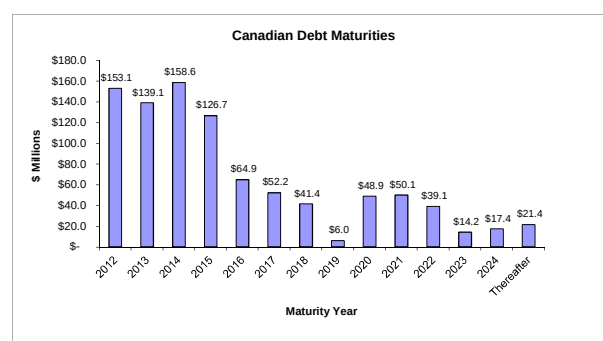
Our variable-rate mortgages primarily relate to recently acquired communities in lease-up and our development projects in Canada. Variable-rate loans are expected to be refinanced with fixed-rate,

CMHC-insured debt upon completion and stabilization of the development properties and acquired properties in lease-up.

The following table summarizes our variable-rate mortgages as at June 30, 2012:

((\$000s, except number of projects))	Number of Projects	June 30, 2012	Number of Projects	December 31, 2011
Mortgages on properties under construction	2	13,458	4	27,276
Mortgages on properties in lease-up	11	132,008	8	62,274
Mortgages on stabilized properties	3	5,400	1	6,148
Total	16	150,866	13	95,698

The following charts provide the breakdown of our debt maturities in Canada and the U.S. excluding the related mortgages on the U.S. properties held for sale:



Convertible Debentures

During Q1 2012, we issued a new series of convertible debentures and fully-redeemed the existing 5.9% series at face value of \$75.0 million, plus accrued interest.

The new series have a face value of \$135.0 million, bear interest at 5.7% and mature on March 31, 2018. Each debenture is convertible into freely tradeable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of March 31, 2018 and the last business day immediately preceding the date specified by Chartwell for the redemption of the debentures, at the conversion price of \$11.00 per Trust Unit. Net proceeds, after underwriting fees and other offering costs, were \$129.6 million. The proceeds were used to redeem the series of 5.9% debentures and to partially repay the balances outstanding on the Credit Facility.

Capital Expenditures

We classify our capital expenditures in the following main categories:

- Development – capital expenditures in respect of our development projects in progress.
- Acquisition – capital expenditures which were identified during acquisition due diligence for newly acquired assets.
- Revenue enhancing and repositioning – capital expenditures that improve the revenue generating potential of our properties.
- Maintenance – capital expenditures incurred to maintain existing revenue generating potential of our properties, such as routine replacement of building components, furniture, fixtures and equipment. We generally reserve 2% of our gross property revenue for maintenance capital expenditures annually; however, actual amounts spent may fluctuate from period to period.

The following table summarizes additions to properties during Q2 2012:

(\$000s)	Q2 2012	2012 YTD
Development	7,198	27,123
Acquisition	738	1,428
Revenue enhancing and repositioning	1,224	1,631
Maintenance	3,859	6,362
Total	13,019	36,544

Contractual Obligations and Guarantees

The following table summarizes the major contractual obligations as at June 30, 2012:

(\$000s)	Total	Remainder of 2012	2013	2014	2015	2016	Thereafter
Mortgages payable	1,914,124	179,210	209,700	208,634	299,723	239,477	777,380
Accounts payable and other liabilities	99,916	99,916	-	-	-	-	-
Convertible debentures	135,000	-	-	-	-	-	135,000
Credit Facility	60,000	60,000	-	-	-	-	-
Purchase obligations ⁽¹⁾	12,805	12,609	196	-	-	-	-
Property operating leases	8,932	812	1,624	1,624	1,624	1,624	1,624
Other operating leases	11,720	617	1,279	1,360	1,308	1,132	6,024
Land leases	15,861	197	395	395	395	395	14,084
Total contractual obligations	2,258,358	353,361	213,194	212,013	303,050	242,628	934,112

(1) Relates to construction contracts, deferred purchase consideration and fixed-price contracts.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q2 2012 and Q2 2011:

Cash Provided by (Used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	(15.9)	Cash flows from operating activities decreased primarily due negative changes in non-cash working capital items.
Financing activities	214.1	Cash flows from financing activities increased primarily due to proceeds from the issuance of new Trust Units, as well as amounts drawn on our Credit Facility.
Investing activities	(179.1)	Cash flows from investing activities decreased primarily due to the Maestro Portfolio acquisition.

Distributions

The declaration and payment of future distributions is at the discretion of the board of trustees of Chartwell (the "Trustees"). The Trustees rely upon forward-looking cash flow information including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors considered relevant by them in setting the distribution rate. Our current monthly distributions are \$0.0450 per unit, or \$0.54 per unit on an annualized basis.

Unitholders who are Canadian residents and beneficial holders of 1,000 units or more are eligible to participate in our Distribution Reinvestment Plan ("DRIP"), which allows unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Participating investors registered in the DRIP receive additional bonus units in an amount equal to 3% of the distributions which they have elected to reinvest.

The following table summarizes distributions made in Q2 2012, 2011 and 2010:

(\$000s)	Q2 2012	2012 YTD	2011	2010
Distributions declared on Trust Units ⁽¹⁾	24,104	43,651	77,538	71,144
Distributions on Class B Units	227	454	908	989
Distributions reinvested under DRIP	(3,431)	(6,974)	(15,075)	(4,795)
Distributions applied against LTIP receivable	(301)	(597)	(1,230)	(1,235)
Distributions paid or payable in cash	20,599	36,534	62,141	66,103

(1) Q2 2012 and 2012 YTD amounts include distributions on subscription receipts recorded as interest expense for accounting purposes.

The following table summarizes cash distributions made in Q2 2012, 2011 and 2010 in relation to net loss and cash flows from operating activities:

(\$000s)	Q2 2012	2012 YTD	2011	2010
Cash flows from operating activities	10,259	23,293	110,998	88,861
Net loss	(33,887)	(82,249)	(63,331)	(61,948)
Distributions paid or payable in cash ⁽¹⁾	20,599	36,534	62,141	66,103
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	(10,340)	(13,241)	48,857	22,758
Shortfall of net loss over cash distributions paid	(54,486)	(118,783)	(125,472)	(128,051)

(1) Cash distributions do not include distributions satisfied through issuance of units under DRIP or distributions applied against the LTIP receivable.

Cash flow from operating activities is affected by changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period. Changes in non-cash working capital decreased cash flows from operating activities by \$15.9 million in Q2 2012.

Our distributions exceeded net losses in Q1 2012, 2011 and 2010. We anticipate that this will continue. We do not use net loss in accordance with IFRS as the basis for establishing the level of distributions to unitholders, as net loss includes, among other items, non-cash depreciation and amortization and changes in fair values of certain liabilities. We do not consider non-cash depreciation and amortization and fluctuations in fair values of certain liabilities in establishing our distribution levels as we believe that the value of our real estate investments generally does not diminish over time and as we give consideration to maintenance capital expenditures in establishing the level of annual distributions to unitholders. We believe that our current distribution level is sustainable.

Related Party Transactions

In Q2 2012, we acquired two parcels of land from a company controlled by one of the senior executives of Chartwell. These acquisitions were completed to facilitate potential future redevelopment of two of our LTC communities. The total consideration was \$0.5 million and the executive was not involved in the approval process of these acquisitions.

Key Performance Indicators

We use a number of key performance indicators ("KPIs") for monitoring and analyzing our financial results. These KPIs are not defined by IFRS and may not be comparable to similar measures presented by other income trusts or other companies. KPIs are described below:

Funds from Operations

FFO does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO substantially consistent with the definition adopted by the Real Property Association of Canada ("REALpac") with the exception of the adjustment for the changes in fair value of LTIP option component. In our Q1 2012 FFO calculations, we also added back the issue costs of convertible debentures expensed for the period under IFRS to improve comparability to the reported FFO in prior periods. In addition, in our Q2 2012 FFO calculations, we added back distributions on subscription receipts recorded as interest expense under IFRS. We also included these subscription receipts in our calculation of weighted average units outstanding from the date of issuance. In June 2010, REALpac issued a White Paper on FFO for IFRS, which is effective upon adoption of IFRS. According to REALpac guidance, FFO is defined as follows: Profit or loss per IFRS Statement of Comprehensive Income adjusted for:

- A. Unrealized changes in the fair value of investment properties
- B. Depreciation of depreciable real estate assets including depreciation for components relating to capitalized leasing costs, capitalized tenant allowances treated as capital improvements and lease-related items ascribed in a business combination
- C. Amortization of tenant allowances and landlord's work spent for the fit-out of tenant improvements and amortized as a reduction to revenue in accordance with SIC-15
- D. Amortization of tenant/customer relationship intangibles or other intangibles arising from a business combination
- E. Gains / losses from sales of investment properties and owner-occupied properties, including the gain or loss included within discontinued operations (if applicable)
- F. Tax on profits or losses on disposals of properties
- G. Deferred taxes
- H. Impairment losses or reversals recognized on land and depreciable real estate properties, excluding those relating to properties used exclusively for administrative purposes
- I. Revaluation gains or losses recognized in profit or loss on owner-occupied properties, excluding those relating to properties used exclusively for administrative purposes
- J. Transaction costs expensed as a result of the purchase of a property being accounted for as a business combination
- K. Foreign exchange gains or losses on monetary items not forming part of a net investment in a foreign operation
- L. Gain or loss on the sale of an investment in a foreign operation
- M. Changes in the fair value of financial instruments which are economically effective hedges but do not qualify for hedge accounting
- N. Bargain purchase or goodwill impairment
- O. Effects of redeemable units classified as financial liabilities

Other items:

- P. Results of discontinued operations
- Q. Adjustments for equity accounted entities
- R. Non-controlling interests in respect of the above

In our opinion, the use of FFO, combined with the required primary IFRS presentations, is fundamentally beneficial to the users of the financial information, improving their understanding of our operating results. We generally consider FFO to be a meaningful measure for reviewing our operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), transition costs arising on business acquisition, distributions on Class B Units recorded as interest expense, convertible debenture issue costs and changes in fair value of financial instruments and unrealized foreign exchange gains/losses, FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

The tables presented under the "Consolidated Results of Operations – Non-IFRS Measures" section of this MD&A provide a reconciliation of FFO to net income, as reported in our Financial Statements.

Adjusted Funds from Operations

AFFO does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. AFFO as presented may not be comparable to similar measures presented by other issuers. We believe AFFO is useful in the assessment of our operating performance and that this measure is also useful for valuation purposes and is a relevant and meaningful measure of our ability to earn and distribute cash to unitholders. We calculate AFFO by adding or subtracting certain items to or from FFO as defined by REALpac, as follows:

Principal portion of capital subsidy receivable: This item represents a portion of the long-term (maximum 20-year) cash flow stream provided by the Ontario Ministry of Health and Long Term Care to communities which meet certain design criteria. We include this item in AFFO calculations.

Income guarantees: This item represents amounts due from vendors of acquired communities under the applicable purchase and sale agreement. It is generally applicable to communities in lease-up.

Amortization of financing costs and fair value adjustments on mortgages payable: Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

Financing cost reserve: In order to account for financing costs routinely incurred on re-financing of existing debt, we included this reserve in the calculation of AFFO. We calculate this reserve based on our estimate of normalized costs of re-financing (60 basis points) applied to the debt balances outstanding at the end of the reporting period taking into account weighted average term to maturity of our mortgage portfolio.

Capital maintenance reserve: Capital maintenance reserve is estimated at 2% of property revenue.

The tables presented under the "Consolidated Results of Operations – Non-IFRS Measures" section of this MD&A provide details of AFFO calculations.

Net Operating Income

NOI does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to other IFRS metrics. We define NOI as the difference between property revenue and property direct operating expenses. We believe that the use of NOI combined with primary IFRS measures is beneficial to the users of the financial information in understanding operating performance of our operating segments and platforms.

Per Unit Amounts

In our calculations of FFO per unit and AFFO per unit, we include the Class B Units as the Class B Units are exchangeable into Trust Units at any time at the option of the unitholder. In addition, we include units issued under DTU, LTIP and subscription receipts.

Same Property Performance

We evaluate our financial performance by analyzing our same property portfolio. Generally, our same property portfolio excludes properties that have not been owned or leased continuously since the beginning of the previous fiscal year. In addition, to improve comparability, we designate properties where we have added significant capacity or expect in the current year to open new suites to be excluded from the same property portfolio.

The following table summarizes the same property portfolio for Q2 2012:

	Properties	Suites/Beds
Canadian Retirement Operations	104	12,167
Canadian Long Term Care Operations	21	2,905
U.S. Operations (owned and leased)	36	4,304
Total Same Property Portfolio	161	19,376

Adjusted EBITDA

EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization, and excludes gains/losses on disposition of properties, changes in fair value of financial instruments, unrealized foreign exchange gains/losses, and non-recurring items such as asset impairment provisions or debenture issuance costs. In addition, in our calculation of the Adjusted EBITDA, we exclude transaction costs arising on business combinations, which are expensed as incurred.

Critical Accounting Policies and Estimates

In our 2011 Financial Statements as well as in our 2011 MD&A, we identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations.

New Accounting Standards

Recent Accounting Pronouncements

Disclosure of Transfers of Financial Assets

In October 2010, the IASB issued IFRS 7. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with an entity's continuing involvement in derecognized financial assets. This amendment is effective for our interim and annual consolidated financial statements commencing January 1, 2012. There is no impact on our consolidated financial statements as a result of this amendment.

Annual Improvements to IFRSs 2009 – 2011 Cycle

In May 2012, the IASB published Annual Improvements to IFRSs – 2009-2011 Cycle as part of its annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after Jan 1, 2013 with retrospective application. We intend to adopt the amendments to the standards in our financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Controls and Procedures

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. We continue to make significant investments in improvements to our information systems and financial processes to further strengthen our internal controls. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; and (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting

The President and Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision of, the design of the Trust's disclosure controls and procedures and internal control over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at June 30, 2012. Based on this evaluation, we have concluded that we have a) designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to Chartwell is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared and (ii) information required to be disclosed by Chartwell in its various reports filed or submitted under securities legislation is recorded, processed, summarized and

reported within time periods specified in securities legislation; and b) designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the period, we implemented the Hyperion Financial Management Consolidation system. In addition, effective May 1, 2012, we entered into an agreement with a subsidiary of Health Care REIT, Inc. to purchase a portfolio of 39 retirement communities with each holding a 50% undivided interest. The results of the joint venture operations are included in our Financial Statements.

We have considered the corresponding control risks and have performed procedures to obtain reasonable assurance on the design and operation of internal controls over financial reporting that are new or are significantly modified.

Other than the above mentioned items, there were no changes in the Trust's internal controls over financial reporting that occurred during the period ended June 30, 2012 that have significantly affected, or are reasonably likely to significantly affect the Trust's internal control over financial reporting.

Forward-Looking Information and Risks and Uncertainties

Forward-Looking Information

This MD&A contains forward-looking information that reflects the current expectations, estimates and projections of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. The words "plans", "expects", "does not expect", "is expected", "budget", "scheduled", "estimates", "intends", "anticipates", "does not anticipate", "projects", "believes" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "might", "occur", "be achieved" or "continue" and similar expressions identify forward-looking statements. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond our control, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

Examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks;
- our ability to predict seasonal increases in occupancy rates due to uncertain economic conditions;
- our ability to renew maturing debt, including our Credit Facility and to obtain new financings, in due course; and
- timing of closing of acquisitions or dispositions which are subject to legal, regulatory and lenders' approvals which may not be received as currently expected.

While we anticipate that subsequent events and developments may cause our views to change, we do not intend to update forward-looking information, except as required by applicable securities laws. This

forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See risk factors highlighted in materials filed with the securities regulatory authorities in Canada from time to time, including but not limited to our most recent Annual Information Form.

Risks and Uncertainties

Our Annual Information Form dated March 16, 2012 and our 2011 MD&A contain a detailed discussion of risk factors and uncertainties facing Chartwell.

There were no significant changes to these risk factors and uncertainties as of the date of this MD&A.

