



Q3 Management's Discussion and Analysis

Third Quarter Report, September 30, 2012





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

For the Three and Nine Months Ended September 30, 2012

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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 nine months ended September 30, 2012. This MD&A should be read in conjunction with Chartwell's unaudited, interim condensed consolidated financial statements for the three and nine months ended September 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.chartwell.com. 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 November 13, 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 Q3 2012 are in comparison to results from Q3 2011.

In this document we use a number of key performance indicators such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI"), Interest Coverage Ratio, Indebtedness Ratio 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 September 30, 2012, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 32,730 suites in 237 communities. At September 30, 2012, our portfolio of owned and leased communities consisted of interests in 31,084 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 September 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	11,925	24	3,124	44	6,188	170	21,237
Development suites in lease-up	2	212	-	-	-	-	2	212
Total 100% Owned	104	12,137	24	3,124	44	6,188	172	21,449
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	20,771	24	3,124	49	6,956	224	30,851
Properties under Operating Lease:								
100% Interest	-	-	-	-	2	233	2	233
Total Leased	-	-	-	-	2	233	2	233
Total Owned and Leased	151	20,771	24	3,124	51	7,189	226	31,084
Managed Properties ⁽³⁾	7	1,038	4	608	-	-	11	1,646
Total ⁽⁴⁾	158	21,809	28	3,732	51	7,189	237	32,730

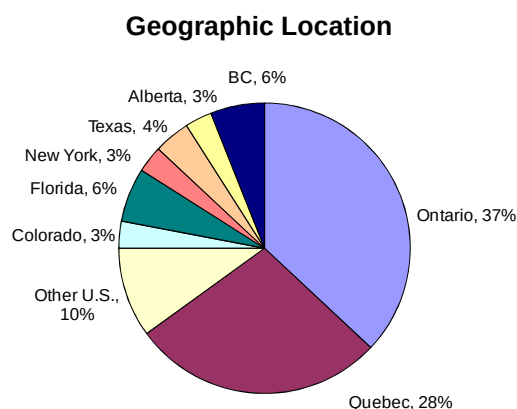
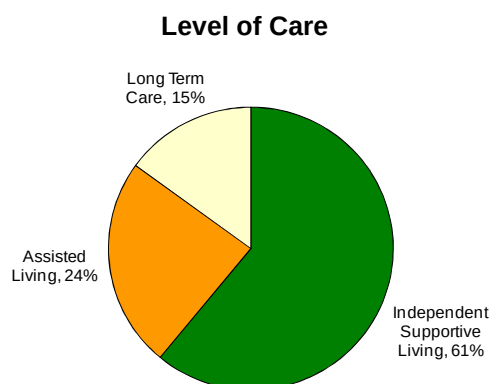
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.

(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) Subsequent to September 30, 2012, management contracts for two retirement residences (399 suites) were terminated on sale of these properties by their owners.

(4) Six 100%-owned U.S. communities (1,221 suites) and five partially-owned U.S. communities (768 suites) are under contract to be sold and are classified as assets held for sale in our financial statements.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Leased Interest, at September 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.
- Implementing information technology (“IT”) solutions to improve operating efficiencies and better communicate with our employees.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to our operating teams.

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	• AFFO increased by \$17.0 million or \$0.05 per unit diluted in 2012 YTD compared to 2011 YTD. • Same property NOI improved by \$8.6 million or 5.8% in 2012 YTD from 2011 YTD. • Same property occupancy improved to 89.9% in 2012 YTD from 89.2% in 2011 YTD. • New sales and marketing initiatives and investments have been implemented to generate further occupancy growth in the remainder of 2012 and beyond.
Improve information management and operating processes	• Completed implementation of a new financial consolidation system in July 2012. • Completed full centralization of accounting and finance functions in Mississauga support office in October 2012. • Implementation of core financial, lease administration and prospect management systems is in progress for completion in 2013.
Build value of our real estate portfolio	• Opened two new retirement residences (212 suites) in Ontario in Q1 2012. • Completed redevelopment of one LTC community (128 suites) in British Columbia in November 2012. • Four development projects (354 suites) are in progress for completion in 2013. • 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 saving initiatives, and asset management and operational oversight of our U.S. portfolio.
Maintain a strong financial position	• Interest Coverage Ratio improved to 1.98 in 2012 YTD from 1.91 in 2011 YTD. • Indebtedness Ratio improved to 57.9% at September 30, 2012, from 59.2% at December 31, 2011. • Completed the public offering of subscription receipts and convertible debentures for \$339.3 million.
Integrate the Maestro Portfolio acquisition	• Operating performance is ahead of expectations. • Significant new talent added to our team. • Training activities are ongoing.

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 2012 we completed the Maestro Portfolio acquisition, implemented an internal reorganization to simplify our corporate structure and settled with Spectrum Seniors Holdings LP (“Spectrum”) on certain mezzanine loans and other amounts due. As such, we anticipate that in 2012 and in the future, the taxable portion of our distributions to unitholders will be higher than in prior years and SIFT taxes will be payable earlier than previously estimated. We currently estimate these taxes to reduce AFFO by less than \$0.02 per unit in each of 2012, 2013 and 2014.

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 Trust Units 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 secured revolving operating credit facility (“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.

During Q2 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 \$843.8 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 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.\$198.6 million at September 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.\$106.4 million at September 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 (212 suites) and lease-up is progressing well.

In November 2012, we substantially completed redevelopment of the Carlton Gardens LTC community in Burnaby, British Columbia with 128 beds.

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
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.
		354	66.1		

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

Spectrum Settlement

In October 2012, we received a payment of \$16.6 million from Spectrum in full settlement of Spectrum's obligations to Chartwell. Upon receipt of this payment, the development agreement between Spectrum and Chartwell was terminated and the parties provided full and final releases to each other with respect to their obligations under various settlements, mezzanine loans and management and development agreements. As a result of this transaction, in Q4 2012, we expect to record a reduction in carrying balances of mezzanine loans receivable of \$4.4 million, reversal of previously recorded impairment provisions and settlement fee income of \$10.9 million and mezzanine loan interest, management fee income and reimbursement of certain expenses of \$1.3 million.

Our mezzanine loan portfolio is now reduced to loans on three properties, totalling \$6.4 million, against which an impairment provision of \$6.4 million remains recorded.

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)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Property revenue	226,627	186,509	40,118	644,110	552,360	91,750
Weighted average occupancy rate - same property portfolio ⁽¹⁾	90.3%	89.5%	0.8pp	89.9%	89.2%	0.7pp
Same property NOI ⁽²⁾	53,791	50,437	3,354	156,444	147,814	8,630
AFFO ^{(3) (4)}	31,409	22,368	9,041	81,452	64,494	16,958
AFFO per unit diluted ⁽⁵⁾	0.18	0.15	0.03	0.49	0.44	0.05
FFO ⁽⁶⁾	35,432	24,958	10,474	90,736	71,655	19,081
FFO per unit diluted ⁽⁵⁾	0.20	0.17	0.03	0.54	0.49	0.05
Distributions declared ⁽⁷⁾	23,266	19,649	3,617	67,371	58,732	8,639
Distributions declared per unit ⁽⁸⁾	0.14	0.14	-	0.41	0.41	-
Distributions declared as a percentage of AFFO	74.1%	87.8%	(13.7pp)	82.7%	91.1%	(8.4pp)
Net loss for the period	(18,538)	(770)	(17,768)	(100,788)	(38,082)	(62,706)

(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 and AFFO per unit diluted calculations.

(4) Includes \$0.9 million and \$2.3 million in negative AFFO incurred on properties in lease-up in Q3 2012 and 2012 YTD, respectively (\$0.1 million and \$0.2 million in Q3 2011 and 2011 YTD, respectively).

(5) Includes dilutive impact of conversion of convertible debentures into Trust Units.

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

(7) 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.

(8) 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.

In Q3 2012, AFFO was \$31.4 million or \$0.18 per unit diluted. This represents an increase of \$9.0 million or 40.4% compared to Q3 2011 AFFO of \$22.4 million or \$0.15 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from the property portfolio of \$15.0 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of \$1.3 million, primarily due to fees generated from the Maestro properties acquired in 2012;
- Lower general, administrative and trust ("G&A") expenses increased AFFO by \$0.2 million;
- Higher interest expense of \$6.2 million, primarily due to acquisitions in 2011 and the first nine months of 2012;
- Higher negative AFFO on properties in lease-up of \$0.9 million; and
- Higher capital maintenance reserves and other items combined reduced AFFO by \$0.4 million.

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

For 2012 YTD, AFFO was \$81.5 million or \$0.49 per unit diluted. This represents an increase of \$17.0 million or 26.3% compared to AFFO in 2011 YTD of \$64.5 million or \$0.44 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from the property portfolio of \$32.1 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of \$1.9 million, primarily due to fees from the Maestro properties acquired in 2012;
- Higher interest expense of \$14.3 million, primarily due to acquisitions in 2011 and the first nine months of 2012;
- Higher G&A expenses of \$0.4 million, incurred to support growth in our property portfolio; and
- Higher negative AFFO on properties in lease-up of \$2.3 million.

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

In Q3 2012, FFO increased by \$10.5 million or 42.0% to \$35.4 million or \$0.20 per unit diluted compared to Q3 2011 FFO of \$25.0 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 \$90.7 million or \$0.54 per unit diluted compared to 2011 YTD of \$71.7 million or \$0.49 per unit diluted.

Net loss in Q3 2012 was \$18.5 million compared to a net loss in Q3 2011 of \$0.8 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 primarily related to growth in trading values of our Trust Units, as follows:

(\$000s)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Distributions on subscription receipts recorded as interest expense	-	-	-	2,242	-	2,242
Transaction costs on business acquisitions and asset disposals	1,621	292	1,329	12,670	627	12,043
Issuance costs on convertible debentures	-	-	-	5,363	-	5,363
Changes in fair value of convertible debentures	5,805	(435)	6,240	10,725	(1,485)	12,210
Changes in fair value of subscription receipts	-	-	-	29,647	-	29,647
Changes in fair value of Class B Units	732	(1,430)	2,162	2,835	(1,060)	3,895
Changes in fair value of the Long-Term Incentive Plan ("LTIP") option component	94	(2,808)	2,902	1,760	(1,396)	3,156
Changes in fair value of Deferred Trust Units ("DTUs")	185	(237)	422	687	151	536
	8,437	(4,618)	13,055	65,929	(3,163)	69,092

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)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Canadian retirement:						
NOI	33,946	31,695	2,251	96,999	92,738	4,261
Occupancy	88.3%	87.4%	0.9pp	87.9%	87.3%	0.6pp
Canadian LTC:						
NOI	6,628	6,168	460	18,844	18,148	696
Occupancy	99.0%	98.6%	0.4pp	98.5%	98.5%	-
U.S.:						
NOI (U.S.\$)	13,217	12,574	643	40,601	36,928	3,673
Occupancy	89.9%	88.8%	1.1pp	89.8%	88.0%	1.8pp
Combined:						
NOI ⁽¹⁾	53,791	50,437	3,354	156,444	147,814	8,630
Occupancy	90.3%	89.5%	0.8pp	89.9%	89.2%	0.7pp

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

For Q3 2012, combined same property occupancy improved to 90.3% with same property NOI increasing \$3.4 million or 6.6% as follows:

- In our Canadian retirement portfolio, same property NOI increased 7.1%, primarily as a result of occupancy improvements, increased ancillary revenues, rental rate increases in line with competitive market conditions and strong expense controls. Q3 2012 occupancy improved to 88.3% compared to 87.4% in Q3 2011.

- In our Canadian LTC portfolio, same property NOI improved \$0.5 million or 7.5% primarily due to higher government funding, preferred resident accommodation rate increases and strong expense controls. Occupancy remained high at 99.0% compared to 98.6% in Q3 2011.
- In our U.S. portfolio, same property NOI increased 5.1%, primarily due to higher revenues as a result of improved occupancy and expense savings. Occupancy improved to 89.9% in Q3 2012 from 88.8% in Q3 2011.

For 2012 YTD, combined same property occupancy improved to 89.9% with same property NOI increasing \$8.6 million or 5.8% as follows:

- In our Canadian retirement portfolio, same property NOI increased 4.6%, primarily as a result of occupancy improvements, increased ancillary revenues, and rental rate increases in line with competitive market conditions. 2012 YTD occupancy improved to 87.9% compared to 87.3% in 2011 YTD.
- In our Canadian LTC portfolio, same property NOI increased 3.8%, primarily due to higher government funding and strong expense controls. Occupancy remained consistent with 2011 YTD at 98.5%.
- In our U.S. portfolio, same property NOI increased 9.9%, primarily due to higher revenues as a result of improved occupancy and savings in controllable expenses. Occupancy improved to 89.8% in 2012 YTD from 88.0% in 2011 YTD.

Consolidated Results of Operations

Summary of Property Revenue

(\$000s, except occupancy rates)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Same property ⁽¹⁾	173,094	168,340	4,754	514,704	496,648	18,056
Acquisitions and other ⁽¹⁾	53,852	20,043	33,809	129,046	62,472	66,574
Eliminations	-	(950)	950	-	(3,673)	3,673
Foreign exchange on U.S. dollar revenue	(319)	(924)	605	360	(3,087)	3,447
Total property revenue	226,627	186,509	40,118	644,110	552,360	91,750
Weighted average occupancy rate - same property portfolio	90.3%	89.5%	0.8pp	89.9%	89.2%	0.7pp
Weighted average occupancy rate - total portfolio	88.8%	88.9%	(0.1pp)	88.4%	88.6%	(0.2pp)

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

Total property revenue grew 21.5% in Q3 2012 and 16.6% for 2012 YTD, through increased revenue from our same property and acquisitions portfolios.

Same property revenue increased \$4.8 million or 2.8% for Q3 2012 and \$18.1 million or 3.6% for 2012 YTD. We continue to drive revenue growth by offering new additional services for our residents, improving occupancies through investments in innovative sales and marketing initiatives and implementing rental rate increases that are competitive to local market conditions.

Summary of Direct Operating Expenses

(\$000s)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Same property ⁽¹⁾	119,303	117,903	1,400	358,260	348,834	9,426
Acquisitions and other ⁽¹⁾	38,114	15,317	22,797	92,883	47,418	45,465
Eliminations	-	(950)	950	-	(3,673)	3,673
Foreign exchange on U.S. dollar expenses	(214)	(618)	404	227	(2,058)	2,285
Total direct operating expenses	157,203	131,652	25,551	451,370	390,521	60,849

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

Total direct operating expenses increased \$25.6 million or 19.4% in Q3 2012 and \$60.8 million or 15.6% 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 \$1.4 million or 1.2% for Q3 2012 and \$9.4 million or 2.7% 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. We strive to mitigate the inflationary increases in our direct operating expenses by capitalizing on our improved economies of scale and active management of our vendor relationships.

General, Administrative and Trust Expenses

(\$000s, except percentage of revenue)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
G&A expenses	5,847	4,621	1,226	18,976	17,163	1,813
Severance costs	-	1,397	(1,397)	-	1,397	(1,397)
Total G&A	5,847	6,018	(171)	18,976	18,560	416
As % of revenue (excluding severance costs)	2.5%	2.5%	-	2.9%	3.1%	(0.2pp)

G&A expenses, excluding severance costs, increased \$1.2 million or 26.5% in Q3 2012, and \$1.8 million or 10.6% for 2012 YTD. Growth in G&A expenses is primarily related to costs incurred to support significant growth in our Canadian property portfolio in 2012. In Q3 2012, G&A expenses were reduced by reallocation of certain transaction-related costs previously recorded in G&A and other one-time refunds totalling \$0.7 million, combined.

G&A expenses, as a percentage of revenue, were 2.5% in Q3 2012, same as in Q3 2011, and decreased to 2.9% for 2012 YTD compared to 3.1% for 2011 YTD.

Management Fee Revenue

(\$000s)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
HCN	1,336	-	1,336	2,191	-	2,191
Spectrum	116	64	52	321	463	(142)
ING	26	69	(43)	97	211	(114)
Other	484	554	(70)	1,587	1,655	(68)
Total management fee revenue	1,962	687	1,275	4,196	2,329	1,867

Management fee revenue increased \$1.3 million in Q3 2012 and \$1.9 million for 2012 YTD. In Q3 2012, we earned \$1.3 million, representing HCN's share of management fees from the Maestro portfolio

acquired in 2012. 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.

As discussed under the "Significant Events" section of this MD&A, in October 2012 we reached settlement with Spectrum and will no longer receive management fees from them.

Fees from ING relate to the jointly-owned Bristol portfolio, which is expected to be sold in Q4 2012.

Mezzanine Loans

The following table summarizes the changes in our investments in mezzanine loans for the first nine 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	(2.6)	(8.2)
Written off	-	(10.7)
Gross mezzanine loans outstanding (end of the period)	19.0	23.2

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 September 30, 2012	14.1	0.7	14.8

During the first nine 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)	-
Total	7	19.0	(0.5)	(14.1)	4.4

During Q3 2012, Seasons repaid their \$2.6 million mezzanine loan in full.

In October 2012, Spectrum paid \$16.6 million in settlement of all amounts due to Chartwell. After this payment, our mezzanine loans will be limited to loans on three properties totalling \$6.4 million, against

which an impairment provision of \$6.4 million will remain recorded. Please refer to the “Significant Events” section of this MD&A.

Finance Costs

(\$000s)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Mortgages and loans payable						
Same property ⁽¹⁾	20,025	20,615	(590)	60,808	61,122	(314)
Acquisitions and other ⁽¹⁾	8,042	2,912	5,130	20,144	9,247	10,897
Foreign exchange on U.S. dollar expenses	(57)	(177)	120	72	(598)	670
	28,010	23,350	4,660	81,024	69,771	11,253
Convertible debentures	1,934	1,106	828	5,232	3,319	1,913
Credit Facility and other interest ⁽²⁾	931	172	759	2,191	1,090	1,101
	30,875	24,628	6,247	88,447	74,180	14,267
Amortization of financing costs and debt mark-to-market adjustments	(279)	728	(1,007)	1,392	2,317	(925)
	30,596	25,356	5,240	89,839	76,497	13,342
Interest capitalized to properties under development	(431)	(468)	37	(1,477)	(1,041)	(436)
Distributions on Class B Units recorded as interest expense	228	226	2	682	681	1
Distributions on subscription receipts recorded as interest expense	-	-	-	2,242	-	2,242
Convertible debenture issuance costs	-	-	-	5,363	-	5,363
Total finance costs	30,393	25,114	5,279	96,649	76,137	20,512

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

(2) Includes \$0.4 million relating to a penalty on early extinguishment of a mortgage.

Interest expense on the same property portfolio decreased slightly in Q3 2012 and 2012 YTD due to repayments of certain mortgages during the first nine months of 2012. Acquisitions added incremental interest expense of \$5.1 million for Q3 2012 and \$10.9 million for 2012 YTD as a result of mortgages assumed on acquisitions completed in 2011 and the first nine months of 2012.

Interest expense on convertible debentures increased \$0.8 million in Q3 2012 and \$1.9 million for 2012 YTD. In Q1 2012, we issued a new series of 5.7% convertible debentures with a principal value of \$135.0 million and redeemed the old series of 5.9% convertible debentures with a principal value of \$75.0 million.

During Q3 2012, we capitalized interest of \$0.4 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.

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.

Other (Expense)/Income

(\$000s)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Transaction costs arising on business acquisitions and asset disposals	(1,621)	(292)	(1,329)	(12,670)	(627)	(12,043)
Interest income on loans and receivables	868	1,066	(198)	2,967	2,855	112
Gain on sale of assets	9	7,328	(7,319)	288	7,328	(7,040)
Impairment on non-current assets	-	-	-	-	(8,500)	8,500
Gain on remeasurement of previously-held equity interest on acquisition	-	-	-	-	2,090	(2,090)
Total other (expense)/income	(744)	8,102	(8,846)	(9,415)	3,146	(12,561)

Transaction costs incurred in Q3 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 decreased in Q3 2012 primarily due to lower cash balances.

In 2012 YTD, 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 2011 YTD 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 2011 YTD 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)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Property lease expense	620	632	(12)	1,879	1,776	103
Depreciation on property, plant and equipment	47,700	39,028	8,672	141,201	120,054	21,147
Amortization of limited life intangible assets	807	322	485	2,866	1,313	1,553
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	9,262	(8,753)	18,015	47,775	(6,144)	53,919
Current income tax expense/(benefit)	77	80	(3)	218	251	(33)
Deferred income tax expense/(benefit)	(5,495)	2,072	(7,567)	(20,554)	(5,398)	(15,156)

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

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

The provision for deferred tax expense/(recovery) 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)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Changes in fair value of convertible debentures	5,805	(435)	6,240	10,725	(1,485)	12,210
Changes in fair value of interest rate swap	(111)	111	(222)	(346)	(28)	(318)
Unrealized foreign exchange (gain)/loss	2,557	(3,954)	6,511	2,467	(2,326)	4,793
Changes in fair value of LTIP option component	94	(2,808)	2,902	1,760	(1,396)	3,156
Changes in fair value of Class B Units	732	(1,430)	2,162	2,835	(1,060)	3,895
Changes in fair value of DTUs	185	(237)	422	687	151	536
Changes in fair value of subscription receipts	-	-	-	29,647	-	29,647
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	9,262	(8,753)	18,015	47,775	(6,144)	53,919

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)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Net loss for the period	(18,538)	(770)	(17,768)	(100,788)	(38,082)	(62,706)
<i>Add (Subtract):</i>						
Depreciation of properties	47,700	39,028	8,672	141,201	120,054	21,147
Amortization of limited life intangible assets	807	322	485	2,866	1,313	1,553
Depreciation of leasehold improvements and software costs included in depreciation and amortization above	(144)	(131)	(13)	(433)	(478)	45
Loss/(gain) on disposal of property	(9)	(7,328)	7,319	(288)	(7,328)	7,040
Impairment of non-current assets	-	-	-	-	8,500	(8,500)
Loss/(gain) on remeasure to fair value of existing interest	-	-	-	-	(2,090)	2,090
Transaction costs arising on business acquisitions and asset disposals	1,621	292	1,329	12,670	627	12,043
Deferred income taxes	(5,495)	2,072	(7,567)	(20,554)	(5,398)	(15,156)
Distributions on Class B Units recorded as interest expense	228	226	2	682	681	1
Distributions on subscription receipts recorded as interest expense	-	-	-	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)	9,262	(8,753)	18,015	47,775	(6,144)	53,919
FFO ⁽¹⁾	35,432	24,958	10,474	90,736	71,655	19,081
Interest expense on 5.7% convertible debentures	1,934	-	1,934	4,322	-	4,322
Diluted FFO	37,366	24,958	12,408	95,058	71,655	23,403
FFO per unit	0.20	0.17	0.03	0.55	0.49	0.06
FFO per unit diluted ⁽²⁾	0.20	0.17	0.03	0.54	0.49	0.05

(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) Includes dilutive impact of 5.7% convertible debentures.

FFO increased \$10.5 million in Q3 2012 primarily due to increased contributions from the property portfolio, management fees and lower G&A expenses, offset by higher interest expenses.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

(\$000s, except per unit amounts)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
FFO ⁽¹⁾	35,432	24,958	10,474	90,736	71,655	19,081
<i>Add (Subtract):</i>						
Principal portion of capital subsidy receivable from Health Authorities	942	783	159	2,787	2,634	153
Amounts received under income guarantees	621	-	621	1,087	-	1,087
Amortization of financing costs and fair value adjustments on mortgages payable	319	925	(606)	3,010	2,957	53
Amortization of mark-to-market adjustments on acquisition	(888)	(197)	(691)	(1,906)	(640)	(1,266)
Financing cost reserve ⁽²⁾	(484)	(371)	(113)	(1,379)	(1,065)	(314)
AFFO before capex reserve	35,942	26,098	9,844	94,335	75,541	18,794
Maintenance capex reserve - 2% of property revenue	(4,533)	(3,730)	(803)	(12,883)	(11,047)	(1,836)
AFFO ⁽³⁾	31,409	22,368	9,041	81,452	64,494	16,958
Interest expense on 5.7% convertible debentures	1,934	-	1,934	4,322	-	4,322
Diluted AFFO	33,343	22,368	10,975	85,774	64,494	21,280
AFFO per unit	0.18	0.15	0.03	0.49	0.44	0.05
AFFO per unit diluted ⁽⁴⁾	0.18	0.15	0.03	0.49	0.44	0.05

(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.

(4) Includes the dilutive impact of 5.7% convertible debentures.

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

Weighted Average Number of Units

The following table provides details of the weighted average number of units:

(000s)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Weighted average number of units ⁽¹⁾	173,067	146,137	26,930	166,315	145,571	20,744
Dilutive impact of 5.7% convertible debentures	12,273	-	12,273	9,227	-	9,227
Weighted average number of units, diluted	185,340	146,137	39,203	175,542	145,571	29,971

(1) Includes Class B Units and units issued under LTIP, DTU and subscription receipts.

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

(\$000s)	2012				2011			2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	228,620	218,739	201,648	199,530	187,293	185,047	183,502	189,269
Direct operating expenses	(157,203)	(151,598)	(142,569)	(141,611)	(131,652)	(129,406)	(129,463)	(133,793)
G&A expenses	(5,847)	(6,766)	(6,363)	(6,198)	(6,018)	(6,381)	(6,161)	(6,970)
Income before the understated ⁽¹⁾	65,570	60,375	52,716	51,721	49,623	49,260	47,878	48,506
Finance costs	(30,393)	(33,236)	(33,020)	(27,194)	(25,114)	(25,561)	(25,463)	(27,729)
Property lease expense	(620)	(632)	(627)	(644)	(632)	(492)	(651)	(769)
Other income/(expense)	(744)	(6,494)	(2,177)	(2,538)	8,102	(5,896)	940	115
Depreciation and amortization	(48,507)	(50,989)	(44,571)	(52,032)	(39,350)	(41,244)	(40,773)	(45,401)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(9,262)	(10,512)	(28,001)	(3,212)	8,753	1,755	(4,364)	1,693
Current income tax (expense)/recovery	(77)	(82)	(59)	(79)	(80)	(95)	(76)	(35)
Deferred income tax (expense)/recovery	5,495	7,683	7,376	8,729	(2,072)	3,425	4,045	(745)
Net loss for the period	(18,538)	(33,887)	(48,363)	(25,249)	(770)	(18,848)	(18,464)	(24,365)
FFO	35,432	29,793	25,512	24,792	24,958	24,047	22,650	21,211
FFO per unit diluted	0.20	0.17	0.17	0.17	0.17	0.17	0.16	0.15
AFFO	31,409	27,825	22,217	22,036	22,368	21,876	20,250	18,848
AFFO per unit diluted	0.18	0.16	0.15	0.15	0.15	0.15	0.14	0.13

(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 and Q3 2012 were 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 Q3 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	2,491	488	11,407
50%	6	730	37	-	767
Total same property owned	104	9,158	2,528	488	12,174
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	3,162	736	20,771

(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)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Revenue						
Same property	86,938	84,319	2,619	258,397	249,415	8,982
Acquisitions and development	28,658	4,843	23,815	53,926	16,411	37,515
Total revenue	115,596	89,162	26,434	312,323	265,826	46,497
Direct Operating Expenses						
Same property	52,992	52,624	368	161,398	156,677	4,721
Acquisitions and development	19,507	3,866	15,641	37,848	12,868	24,980
Total direct operating expenses	72,499	56,490	16,009	199,246	169,545	29,701
Net Operating Income						
Same property	33,946	31,695	2,251	96,999	92,738	4,261
Acquisitions and development ⁽¹⁾	9,151	977	8,174	16,078	3,543	12,535
Total net operating income	43,097	32,672	10,425	113,077	96,281	16,796
Weighted average occupancy rate - same property	88.3%	87.4%	0.9pp	87.9%	87.3%	0.6pp
Weighted average occupancy rate – total portfolio	86.9%	86.8%	0.1pp	86.6%	86.8%	(0.2pp)

(1) Includes \$0.4 million and \$1.1 million of negative NOI in Q3 2012 and 2012 YTD, respectively, related to two development projects in Ontario which commenced operations in March 2012.

Same property revenues increased 3.1% in Q3 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 0.7% in Q3 2012 as increases in compensation, staff benefits, liabilities and administration costs were offset by lower repairs and maintenance, lower property taxes and higher purchasing volume incentives.

Same property NOI increased \$2.3 million or 7.1% in Q3 2012 as follows:

- Our Ontario retirement platform same property NOI increased \$1.3 million or 7.7%, primarily due to higher resident revenue from additional services provided to our residents, rental rate growth, improved occupancies as well as lower property taxes and strong cost controls.
- Our Western Canada platform same property NOI increased \$0.6 million or 8.2%, primarily due to higher revenues as a result of improved occupancies and strong expense controls.
- Our Quebec platform same property NOI increased \$0.4 million or 5.0%, also due to higher revenues from occupancy improvements and strong expense controls.

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

	Q3 2012	Q3 2011	Increase / (Decrease)	Q2 2012	Increase / (Decrease)
Ontario	88.4%	87.9%	0.5pp	87.6%	0.8pp
Western Canada	91.2%	90.3%	0.9pp	91.0%	0.2pp
Quebec	86.8%	85.6%	1.2pp	85.4%	1.4pp
Total	88.3%	87.4%	0.9pp	87.3%	1.0pp

In Q3 2012, occupancies in our Canadian retirement same property portfolio increased to 88.3%, a 0.9 percentage point increase from Q3 2011 and a 1.0 percentage point increase from Q2 2012. Including acquisitions and development properties, our occupancies increased to 86.9% in Q3 2012 compared to 86.0% in Q2 2012.

We attribute this occupancy growth to our investments in new sales and marketing initiatives and improving supply-demand balance in a number of our markets. We expect these factors will contribute to improvement in occupancies for the remainder of 2012 and beyond.

In 2012 YTD, the results from the Chartwell-HCN properties were 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. Operations in these properties continue during the redevelopment process.

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

(\$000s, except occupancy rates)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Revenue						
Same property	47,912	47,006	906	142,408	137,696	4,712
Acquisitions and development	3,637	3,472	165	10,619	10,186	433
Total revenue	51,549	50,478	1,071	153,027	147,882	5,145
Direct Operating Expenses						
Same property	41,284	40,838	446	123,564	119,548	4,016
Acquisitions and development	3,213	3,112	101	9,559	9,249	310
Total direct operating expenses	44,497	43,950	547	133,123	128,797	4,326
Net Operating Income						
Same property	6,628	6,168	460	18,844	18,148	696
Acquisitions and development	424	360	64	1,060	937	123
Total net operating income	7,052	6,528	524	19,904	19,085	819
Weighted average occupancy rate - same property	99.0%	98.6%	0.4pp	98.5%	98.5%	-
Weighted average occupancy rate – total portfolio	99.0%	98.7%	0.3pp	98.4%	98.5%	(0.1pp)

Same property revenues increased 1.9% in Q3 2012, primarily due to higher government funding and an increase in preferred accommodation rate. Direct operating expenses increased 1.1% in Q3 2012, as the increased staffing and utility costs were offset by lower supplies, repairs and maintenance and property taxes.

Weighted average occupancies in the same property portfolio remained high at 99.0% in Q3 2012.

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	1,576	190	3,306
50%	5	-	768	-	768
Total same property owned	34	1,540	2,344	190	4,074
Properties under Operating Lease					
100% Interest	2	42	191	-	233
Total same property owned and leased	36	1,582	2,535	190	4,307
Acquisitions					
100% owned - operating	15	1,848	1,034	-	2,882
Total acquisitions	15	1,848	1,034	-	2,882
Total	51	3,430	3,569	190	7,189

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

(U.S.\$000s, except as noted otherwise)	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Revenue						
Same property	38,244	37,015	1,229	113,899	109,537	4,362
Acquisitions and other ⁽¹⁾	21,557	11,728	9,829	64,523	35,875	28,648
Intercompany eliminations	-	(950)	950	(22)	(3,673)	3,651
Total revenue	59,801	47,793	12,008	178,400	141,739	36,661
Direct Operating Expenses						
Same property	25,027	24,441	586	73,298	72,609	689
Acquisitions and other ⁽¹⁾	15,394	8,338	7,056	45,498	25,300	20,198
Intercompany eliminations	-	(950)	950	(22)	(3,673)	3,651
Total direct operating expenses	40,421	31,829	8,592	118,774	94,236	24,538
Net Operating Income						
Same property	13,217	12,574	643	40,601	36,928	3,673
Acquisitions and other ⁽¹⁾	6,163	3,390	2,773	19,025	10,575	8,450
Total net operating income	19,380	15,964	3,416	59,626	47,503	12,123
Foreign exchange in CDN	(105)	(307)	202	133	(1,030)	1,163
Total net operating income in CDN	19,275	15,657	3,618	59,759	46,473	13,286
Weighted average occupancy rate – same property	89.9%	88.8%	1.1pp	89.8%	88.0%	1.8pp
Weighted average occupancy rate – total portfolio	88.6%	87.9%	0.7pp	88.3%	87.0%	1.3pp

(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, which were divested in Q3 2011.

Same property revenue increased U.S.\$1.2 million or 3.3% in Q3 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 1.1 percentage points to 89.9% in Q3 2012 from 88.8% in Q3 2011, and by 0.5 percentage points from 89.4% in Q2 2012. Total portfolio occupancy was 88.6% in Q3 2012 compared to 87.9% in Q3 2011 and 87.9% in Q2 2012.

Same property direct operating expenses increased U.S.\$0.6 million or 2.4% in Q3 2012, as higher compensation costs were partially offset by savings in purchased goods and services and lower utilities, insurance and property taxes.

As a result of the above, same property NOI increased U.S.\$0.6 million or 5.1% in Q3 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:

	Q3 2012	Q3 2011	Increase / (Decrease)	2012 YTD	2011 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	1.00	0.98	0.02	1.00	0.98	0.02

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 September 30, 2012 compared to December 31, 2011:

	Increase / (Decrease) (\$millions)	Explanation
Total assets	339.3	The increase in total assets is primarily due to the following:
Property, plant and equipment	103.2	Property, plant and equipment increased due to acquisitions of \$455.2 million, building improvements and other capital expenditures of \$54.9 million. This was offset by amounts transferred to assets held for sale of \$236.0 million, depreciation of \$141.2 million, the disposal of land held for development of \$0.3 million and foreign exchange translation of \$29.4 million.
Capital funding receivable	(2.8)	In 2012 YTD, we collected capital funding of \$5.3 million, of which \$2.5 million was recorded as interest income and \$2.8 million was recorded as a reduction of the receivable.
Intangible assets	(2.5)	Intangible assets decreased primarily due to YTD amortization of \$2.9 million offset by additions of \$0.4 million.
Assets held for sale	240.3	Represents assets related to 11 properties in the U.S. which are expected to be sold in Q4 2012.
Total liabilities	264.7	The increase in total liabilities is primarily due to the following:
Mortgages payable	13.9	Mortgages payable increased as a result of net new mortgage financings of \$25.9 million and assumed mortgages on acquired properties of \$251.3 million. This was offset by regular amortizing principal repayments of \$34.0 million, amounts transferred to liabilities held for sale of \$201.6 million, foreign exchange translation of \$25.6 million and net financing costs and mark-to-market amortization of \$2.1 million.
Convertible debentures	70.7	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 \$12.1 million. This increase was offset by a decrease of \$76.4 million due to the redemption of debentures.
Accounts payable and other liabilities	(12.5)	Accounts payable and other liabilities decreased primarily due to the settlement of various liabilities and the effects of foreign exchange translation.
Credit Facility	6.0	Credit Facility increased primarily due to the settlement of various liabilities during the period.
Liabilities related to assets held for sale	207.3	Represents liabilities related to 11 properties in the U.S. which are expected to be sold in Q4 2012.
Unitholders' equity	74.5	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")	1,216,947	-	-	-	1,216,947
Trust Units issued under LTIP	-	299,542	-	-	299,542
Trust Units surrendered for cancellation under LTIP	-	(119,353)	-	-	(119,353)
Trust Units released on settlement of LTIP receivable	122,657	(122,657)	-	-	-
DTUs issued	-	-	-	86,183	86,183
DTU distributions	-	-	-	17,206	17,206
Exchange of Class B Units	2,397	-	(2,397)	-	-
Trust Units issued upon conversion of subscription receipts	24,913,125	-	-	-	24,913,125
Balance September 30, 2012	168,946,752	2,250,377	1,679,128	457,939	173,334,196

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 September 30, 2012, we had cash on hand in the amount of \$16.9 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. Our Credit Facility matures on June 22, 2013. Under the terms of the Credit Facility, outstanding balances bear interest at the rate equal to bank's prime rate plus 1.25% or the applicable banker's acceptance rate plus 2.25%. The Credit Facility is secured by charges on certain of our properties and includes minimum equity requirements and covenants requiring limitations on the amounts of distributions that can be paid to unitholders. At September 30, 2012, the maximum available borrowing capacity under the Credit Facility was \$85.0 million, based on security provided, of which \$2.7 million was utilized to support outstanding letters of credit and \$59.0 million was drawn, leaving available borrowing capacity at \$23.3 million.

We expect to partially repay amounts outstanding on our Credit Facility in Q4 2012 from the proceeds of certain mortgage financings and from the proceeds from sales of our interests in two portfolios in the U.S.

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").

At September 30, 2012, our Indebtedness Ratio was 54.1% excluding, and 57.9% including convertible debentures.

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

(\$000s)	September 30, 2012	December 31, 2011
Mortgages payable (contractual amount)	1,885,612	1,880,533
Credit Facility	59,000	53,000
Total Indebtedness excluding convertible debentures	1,944,612	1,933,533
Convertible debentures (at face value)	135,000	75,000
Total Indebtedness	2,079,612	2,008,533
Total assets	2,805,480	2,706,521
Accumulated depreciation and amortization	409,690	304,019
Cumulative transaction costs on business combinations	15,507	4,575
Change in GBV on transition to IFRS	368,338	382,965
GBV of assets	3,599,015	3,398,080
Less: Assets financed by deferred purchase consideration on acquisition properties	5,500	5,328
GBV of assets (net of deferred consideration)	3,593,515	3,392,752
Indebtedness Ratio before convertible debentures ⁽¹⁾	54.1%	57.0%
Indebtedness Ratio including convertible debentures ⁽¹⁾	57.9%	59.2%

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

If assets and liabilities held for sale were included in the above table, our Indebtedness Ratio would be 55.4% excluding, and 58.8% 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. 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)	Q3 2012	Q3 2011	2012 YTD	2011 YTD
Interest expense including capitalized interest	30,596	25,356	89,839	76,497
Property lease expense	620	632	1,879	1,776
	31,216	25,988	91,718	78,273
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") ⁽¹⁾	66,438	50,689	181,628	149,616
Interest Coverage Ratio ⁽²⁾	2.13	1.95	1.98	1.91
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.

(2) Refer to the "Key Performance Indicators – Interest Coverage Ratio" section of this MD&A for a discussion of Interest Coverage Ratio.

The following table presents the calculation of Adjusted EBITDA:

(\$000s)	Q3 2012	Q3 2011	2012 YTD	2011 YTD
Net loss for the period	(18,538)	(770)	(100,788)	(38,082)
<i>Add (Subtract):</i>				
Current income tax	77	80	218	251
Deferred income tax	(5,495)	2,072	(20,554)	(5,398)
Loss/(gain) on sale of assets	(9)	(7,328)	(288)	(7,328)
Total writedown of carrying value of assets	-	-	-	8,500
Transaction costs arising on business acquisitions	1,621	292	12,670	627
Loss/(gain) on remeasure to fair value of existing interest	-	-	-	(2,090)
Finance costs	30,393	25,114	96,649	76,137
Property lease expense	620	632	1,879	1,776
Depreciation of property, plant and equipment	47,700	39,028	141,201	120,054
Amortization of intangible assets	807	322	2,866	1,313
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	9,262	(8,753)	47,775	(6,144)
Adjusted EBITDA	66,438	50,689	181,628	149,616

Mortgage Debt

At September 30, 2012, we had \$1,885.6 million of mortgages payable of which \$1,360.9 million related to our Canadian properties and \$524.7 million (U.S.\$533.7 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 September 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	11,742	97,702	109,444	7%	4.65%
2013	46,513	182,405	228,918	13%	4.82%
2014	50,231	182,708	232,939	13%	4.52%
2015	38,155	257,712	295,867	18%	4.89%
2016	32,786	202,508	235,294	14%	6.12%
2017	24,786	251,352	276,138	18%	5.64%
2018	25,474	41,359	66,833	3%	5.43%
2019	25,518	5,951	31,469	-	6.17%
2020	25,692	48,899	74,591	3%	4.35%
2021	23,523	50,150	73,673	4%	4.59%
2022	19,817	46,505	66,322	3%	3.72%
2023	16,213	14,224	30,437	1%	6.07%
2024	12,081	17,394	29,475	1%	7.13%
Thereafter	112,826	21,386	134,212	2%	4.97%
Total	465,357	1,420,255	1,885,612	100%	
Mark-to-market adjustments arising on acquisition			21,038		
Less: Financing costs			(16,438)		
Total Mortgage Debt			1,890,212		

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

	At September 30, 2012			At December 31, 2011	
	Canadian Debt		U.S. Debt	Combined	Combined
	Fixed Rate	Variable Rate	Fixed Rate		
Amount (\$millions)	1,196.4	164.5	524.7	1,885.6	1,880.5
Weighted average rate	5.00%	4.60%	5.84%	5.20%	5.48%
Average term to maturity (years)	8.0	1.1	3.7	6.2	6.8

Debt maturing through the remainder of 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. In Canada, we generally have access to low-cost, CMHC-insured debt. All of our Canadian properties are eligible for CMHC financing and as of September 30, 2012, approximately 64% 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.\$24.2 million of mortgages (or 4.8% of our total U.S. debt) will mature. The remaining U.S. loans mature between 2015 and 2017.

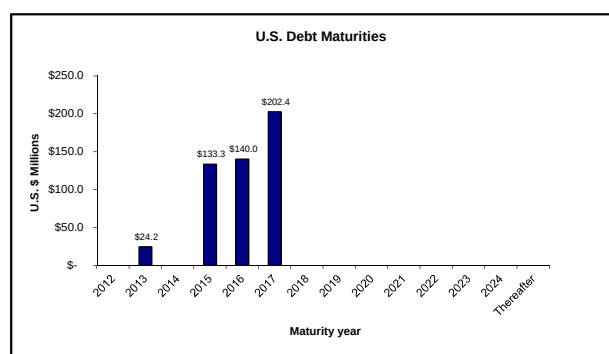
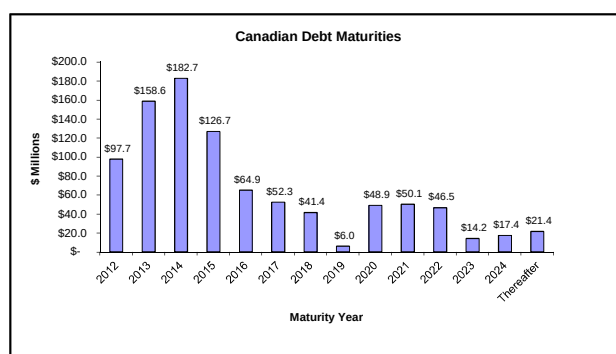
Our variable-rate mortgages primarily relate to recently acquired communities in lease-up and our

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 September 30, 2012:

(\$000s, except number of projects)	Number of Projects	September 30, 2012	Number of Projects	December 31, 2011
Mortgages on properties under construction	4	22,167	4	27,276
Mortgages on properties in lease-up	11	131,771	8	62,274
Mortgages on stabilized properties	4	10,578	1	6,148
Total	19	164,516	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 a conversion price of \$11.00 per Trust Unit. Net proceeds, after underwriting fees and other offering costs, was \$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 for 2012 YTD:

(\$000s)	2012 YTD
Development	36,346
Acquisition	2,270
Revenue enhancing and repositioning	1,992
Maintenance	11,811
Total ⁽¹⁾	52,419

(1) Excludes \$3.0 million in capital additions relating to land held for sale, development, corporate office leasehold improvements and corporate office IT assets.

Contractual Obligations and Guarantees

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

(\$000s)	Total	Remainder of 2012	2013	2014	2015	2016	Thereafter
Mortgages payable	1,885,612	109,444	228,918	232,939	295,867	235,294	783,150
Accounts payable and other liabilities	91,891	91,891	-	-	-	-	-
Convertible debentures	135,000	-	-	-	-	-	135,000
Credit Facility	59,000	-	59,000	-	-	-	-
Purchase obligations ⁽¹⁾	11,805	11,689	116	-	-	-	-
Property operating leases	8,526	406	1,624	1,624	1,624	1,624	1,624
Other operating leases	11,663	560	1,279	1,360	1,308	1,132	6,024
Land leases	15,763	99	395	395	395	395	14,084
Total contractual obligations	2,219,260	214,089	291,332	236,318	299,194	238,445	939,882

(1) Relates primarily to construction contracts and deferred purchase considerations.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q3 2012 and Q3 2011:

Cash Provided by (Used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	9.4	Cash flows from operating activities increased primarily due to changes in non-cash working capital items.
Financing activities	(3.2)	Cash flows from financing activities decreased primarily due to decreased proceeds on mortgage finance which was offset by lower repayments on our Credit Facility.
Investing activities	(18.2)	Cash flows from investing activities decreased primarily due lower proceeds from the disposal of property, plant and equipment.

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 Q3 2012, 2012 YTD, 2011 and 2010:

(\$000s)	Q3 2012	2012 YTD	2011	2010
Distributions declared on Trust Units ⁽¹⁾	23,038	66,689	77,538	71,144
Distributions on Class B Units	228	682	908	989
Distributions reinvested under DRIP	(4,003)	(10,977)	(15,075)	(4,795)
Distributions applied against LTIP receivable	(302)	(899)	(1,230)	(1,235)
Distributions paid or payable in cash	18,961	55,495	62,141	66,103

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

The following table summarizes cash distributions made in Q3 2012, 2012 YTD, 2011 and 2010 in relation to net loss and cash flows from operating activities:

(\$000s)	Q3 2012	2012 YTD	2011	2010
Cash flows from operating activities	35,327	59,290	110,998	88,861
Net loss	(18,538)	(100,788)	(63,331)	(61,948)
Distributions paid or payable in cash ⁽¹⁾	18,961	55,495	62,141	66,103
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	16,366	3,795	48,857	22,758
Shortfall of net loss over cash distributions paid	(37,499)	(156,283)	(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 increased cash flows from operating activities by \$4.4 million in Q3 2012 and decreased cash flows by \$18.9 million in 2012 YTD.

Our distributions exceeded net losses in Q3 2012, 2012 YTD, 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 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. In our calculation of FFO per unit diluted and AFFO per unit diluted, we consider the dilutive impact of conversion of our convertible debentures.

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 Q3 2012:

	Properties	Suites/Beds
Canadian Retirement Operations	104	12,174
Canadian Long Term Care Operations	21	2,905
U.S. Operations (owned and leased)	36	4,307
Total Same Property Portfolio	161	19,386

Interest Coverage Ratio

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.

Adjusted EBITDA

EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization. In our calculation of the adjusted EBITDA, we exclude transaction costs arising on business combinations, which are expensed as incurred, 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.

Indebtedness Ratio

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 60% of GBV, excluding convertible debentures, or 65% of GBV including convertible debentures. 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.

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 September 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 and transitioned accounting and finance support of our Quebec portfolio from our Montreal office to our Mississauga office. In addition, effective May 1, 2012, we entered into an agreement with a subsidiary of HCN 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 at our proportionate share.

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 material changes in the Trust's internal controls over financial reporting that occurred during the nine-month period ended September 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.