



Q1

Management's Discussion and Analysis

First Quarter Report, March 31, 2013



CHARTwell
retirement residences

making people's lives BETTER



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

For the Three Months Ended March 31, 2013 and 2012

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Chartwell Retirement Residences ("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 months ended March 31, 2013. This MD&A should be read in conjunction with Chartwell's unaudited, interim condensed consolidated financial statements for the three months ended March 31, 2013 and the notes thereto (the "Financial Statements"), the audited financial statements for the year ended December 31, 2012 and the notes thereto (the "2012 Financial Statements") and the annual Management's Discussion and Analysis for the year ended December 31, 2012 (the "2012 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, 2012, 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 May 2, 2013.

All references to "Chartwell", "we", "our", "us" or the "Trust", unless the context indicates otherwise, refer to Chartwell Retirement Residences and its subsidiaries. For ease of reference "Chartwell" and the "Trust" are used in reference to the ownership and the operation of retirement and long term care 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; "2013" refers to the calendar year 2013; "2012" refers to the calendar year 2012 and "YTD" means year-to-date.

Unless otherwise indicated, all comparisons of results for Q1 2013 are in comparison to results from Q1 2012.

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, Net Debt to Adjusted EBITDA 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.\$.

This document contains forward-looking information based on management's expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry as of the date of this MD&A. Refer to the "Forward-Looking Information and Risks and Uncertainties" section of this MD&A for more information.

Business Overview

Chartwell is an unincorporated, open-ended real estate investment trust governed by 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 provide a happier, healthier and more fulfilled life experience for seniors;
- to provide peace of mind for our residents’ loved ones; and
- to attract and retain employees who care about making a difference in our residents’ lives.

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 March 31, 2013, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 31,708 suites in 231 communities. At March 31, 2013, our portfolio of owned and leased communities consisted of interests in 30,461 suites in 222 communities.

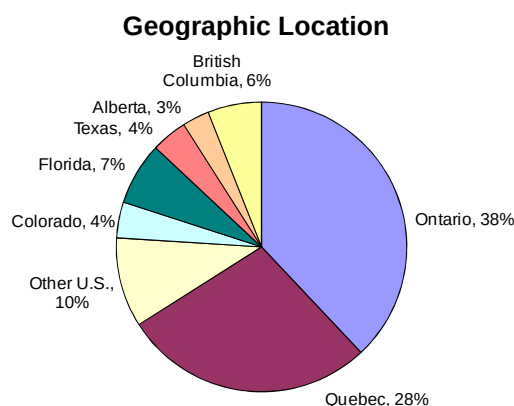
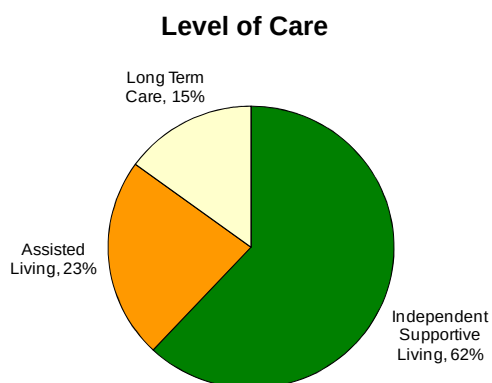
The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at March 31, 2013:

	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	11,927	24	3,135	44	6,188	170	21,250
Lease-up	3	340	-	-	-	-	3	340
Total 100% Owned	105	12,267	24	3,135	44	6,188	173	21,590
Partially Owned - operating ⁽²⁾	47	8,638	-	-	-	-	47	8,638
Total Owned	152	20,905	24	3,135	44	6,188	220	30,228
Properties under Operating Lease – 100% Interest	-	-	-	-	2	233	2	233
Total Owned and Leased	152	20,905	24	3,135	46	6,421	222	30,461
Managed Properties	5	639	4	608	-	-	9	1,247
Total	157	21,544	28	3,743	46	6,421	231	31,708

(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 Canadian property in which we have a 33.3% ownership interest.

**Composition of Portfolio of Owned and Leased Suites
at Chartwell's Share of Ownership or Leased Interest, at March 31, 2013 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 achieve a sustainable growth in our AFFO per unit and a long-term value creation for our unitholders. The following summarizes our key strategic objectives:

Grow core property portfolio contribution by:

- Providing high quality and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Enhancing our brand recognition.
- 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.
- Mitigating inflationary pressures on our operating costs through specific vendor management and cost-control initiatives.

Maintain a strong financial position by:

- Maintaining sufficient liquidity to execute on our strategic priorities.
- 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.

Improve quality and efficiency of our corporate support services by:

- Implementing information technology solutions to better understand our customers, communicate with our employees, and reduce administrative time commitment in the field.
- 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 projects per year.
- Sourcing accretive acquisitions of newer properties in our existing markets.
- Divesting non-core assets.

The following summarizes the progress we made in executing our strategy to date:

Grow core property portfolio contribution	• Commenced re-branding of our communities. • Same property NOI improved by \$0.3 million or 0.6%. • Same property occupancy improved 0.5 percentage points to 89.5%.
Maintain a strong financial position	• At March 31, 2013, we had cash on hand of \$17.3 million and \$44.8 million available borrowing capacity on our secured revolving operating credit facility ("Credit Facility"). • Interest Coverage Ratio improved to 2.08 in Q1 2013 from 1.92 in Q1 2012. • Net Debt to Adjusted EBITDA Ratio improved to 8.6 from 9.4 at March 31, 2012. • Indebtedness Ratio improved to 57.1% at March 31, 2013, from 57.9% at December 31, 2012. • Obtained \$37.8 million of new fixed-rate mortgages with a weighted average term of 18 years, bearing a weighted average interest rate of 3.76%.
Improve quality and efficiency of our corporate support services	• Completed the implementation of our core financial system. • Completed the implementation of a prospect management system. • Continued functionality enhancements to our website and financial reporting system. • Commenced the development of capital budgeting and procurement systems.
Build value of our real estate portfolio	• Four development/redevelopment projects (354 suites) are in progress for completion in 2013. • Commenced development of a memory care addition to one of our communities in Florida. • Divested of five properties located in New York State which closed in February 2013.

2013 Outlook

Our 2012 MD&A contains a detailed discussion of our 2013 Outlook. There were no significant changes in Q1 2013.

Significant Events

Significant events that have affected or may be expected to affect our results in the future are described in our 2012 MD&A. There were no significant changes in Q1 2013, except as follows:

On January 11, 2013, we announced that we changed our name from Chartwell Seniors Housing Real Estate Investment Trust to Chartwell Retirement Residences.

On February 13, 2013, we, along with our joint venture partner, completed the sale of a five-property portfolio located in New York State (the "Bristol Portfolio"). The sale price was U.S.\$290.0 million and was settled by the purchaser's assumption of debt of U.S.\$197.7 million, with the balance, net of working capital adjustments and holdbacks, received in cash. We owned a 50% interest in the Bristol Portfolio and, as a result of this sale, a \$48.9 million gain is included in our share of income from this joint venture.

Adoption of IFRS 11 – Joint Arrangements

As of January 1, 2013, we have adopted IFRS 11 which requires certain joint ventures that were previously accounted for using line-by-line proportionate ("line-by-line") consolidation to now be accounted for using the equity method (Please refer to the "Critical Accounting Policies and Estimates – IFRS 11, Joint Arrangements" section of this MD&A). Under IFRS 11, as applied to Chartwell, equity accounting is required where an interest in a joint venture is held through a separate legal entity such as a partnership or corporation; however, where an interest is held directly, line-by-line consolidation continues to apply. The following table summarizes the details of our joint ventures and related accounting methods:

Joint Arrangements	# of Properties	Suites/Beds	Chartwell ownership	Method of accounting
Chartwell-HCN Landlord ⁽¹⁾	39	7,662	50%	Line-by-line
Chartwell-HCN Operator ⁽¹⁾	Same as above	Same as above	50%	Equity
Bristol Portfolio ⁽²⁾	5	768	50%	Equity
Robert Speck	1	113	33%	Line-by-line
Oakville	1	147	50%	Equity
Constantia	1	121	50%	Equity
Pickering	1	117	50%	Equity
Valley Vista	1	151	50%	Line-by-line
Riverside	1	138	50%	Line-by-line
Churchill	1	97	50%	Line-by-line

(1) Chartwell directly holds its interest in real estate where interest in operations is held through separate legal entities.

(2) Bristol joint venture disposed of all of its five properties in February 2013.

The adoption of IFRS 11 has had a significant impact on the presentation of our consolidated financial statements. We believe that presenting our operating and financial results of our joint arrangements using line-by-line consolidation provides more useful information to current and prospective investors to assist them with their understanding of our financial performance. Therefore, the discussion of our operating results in this MD&A is based on financial information developed using line-by-line consolidation for all

our joint ventures. The following tables provide a complete reconciliation of our consolidated financial statements to the financial information used in this MD&A.

The following is the Q1 2013 Statement of Comprehensive Income adjusted to remove the effects of IFRS 11:

(\$000s)	Q1 2013 ⁽¹⁾	IFRS 11 adjustments ⁽²⁾	Q1 2013 using line-by-line consolidation ⁽³⁾
Revenue			
Resident	199,374	27,905	227,279
Management and other fees	2,042	-	2,042
Lease revenue from joint ventures	7,475	(7,475)	-
Mezzanine loan interest	62	-	62
	208,953	20,430	229,383
Expenses			
Direct operating	143,648	17,982	161,630
General, administrative and Trust ("G&A")	7,876	-	7,876
	151,524	17,982	169,506
Income before the undernoted	57,429	2,448	59,877
Finance costs	27,820	1,287	29,107
Property lease expense	656	-	656
Other expense/(income)	414	(48,256)	(47,842)
Depreciation of property, plant and equipment ("PP&E")	38,875	875	39,750
Amortization of intangible assets	434	-	434
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	564	-	564
Share of joint venture loss/(income)	(48,542)	48,542	-
Income before income taxes	37,208	-	37,208
Income tax expense/(benefit):			
Current	63	-	63
Deferred	-	-	-
	63	-	63
Income/(loss) for the period	37,145	-	37,145
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	1,436		1,436
Total comprehensive income	38,581	-	38,581

(1) Per our Financial Statements.

(2) Represents adjustments for equity-accounted joint ventures and the removal of the investment in joint ventures.

(3) Non-IFRS measure.

The following is the Q1 2012 Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

(\$000s)	Q1 2012 ⁽¹⁾	IFRS 11 Adjustments ⁽²⁾	Q1 2012 using line-by-line consolidation ⁽³⁾
Revenue			
Resident	192,446	7,929	200,375
Management and other fees	699	-	699
Mezzanine loan interest	574	-	574
	193,719	7,929	201,648
Expenses			
Direct operating	137,996	4,573	142,569
G&A	6,363	-	6,363
	144,359	4,573	148,932
Income before the undernoted	49,360	3,356	52,716
Finance costs	31,001	2,019	33,020
Property lease expense	627	-	627
Other expense/(income)	2,084	93	2,177
Depreciation of PP&E	41,031	2,431	43,462
Amortization of intangible assets	1,109	-	1,109
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	28,001	-	28,001
Share of joint venture loss/(income)	1,187	(1,187)	-
Loss before income taxes	(55,680)	-	(55,680)
Income tax expense/(benefit):			
Current	59	-	59
Deferred	(7,376)	-	(7,376)
	(7,317)	-	(7,317)
Loss for the period	(48,363)	-	(48,363)
Other comprehensive loss:			
Unrealized foreign currency loss on translation of foreign operations	(1,411)	-	(1,411)
Total comprehensive loss	(49,774)	-	(49,774)

(1) Per our Financial Statements.

(2) Represents adjustments for equity-accounted joint ventures and the removal of the investment in joint ventures.

(3) Non-IFRS measure.

The following is the Balance Sheet at March 31, 2013 adjusted to remove the impact of IFRS 11:

(\$000s)	March 31, 2013 ⁽¹⁾	IFRS 11 Adjustments ⁽²⁾	March 31, 2013 using line-by-line consolidation ⁽³⁾
Assets			
Current assets:			
Cash and cash equivalents	13,260	4,052	17,312
Trade and other receivables	22,944	(180)	22,764
Mezzanine loans receivables	-	-	-
Capital funding receivable	4,504	-	4,504
Other assets	25,352	9,085	34,437
Assets held for sale	-	-	-
Total current assets	66,060	12,957	79,017
Non-current assets:			
Other assets	7,259	-	7,259
Capital funding receivable	62,031	-	62,031
Investment in joint ventures	34,367	(34,367)	-
Intangible assets	50,379	-	50,379
PP&E	2,663,948	48,668	2,712,616
Total non-current assets	2,817,984	14,301	2,832,285
Total assets	2,884,044	27,258	2,911,302
Liabilities and Unitholders' Equity			
Current liabilities:			
Credit Facility	37,500	-	37,500
Accounts payable and other liabilities	110,439	(2,383)	108,056
Distributions payable	7,821	-	7,821
Obligation to joint venture	-	-	-
Mortgages payable	307,050	13,212	320,262
Deferred consideration on business combinations	520	-	520
Liabilities held for sale	-	-	-
Total current liabilities	463,330	10,829	474,159
Non-current liabilities:			
Mortgages payable	1,678,380	16,429	1,694,809
Convertible debentures	148,500	-	148,500
Class B Units of Chartwell Master Care LP	18,374	-	18,374
Deferred tax liabilities	-	-	-
Total non-current liabilities	1,845,254	16,429	1,861,683
Total liabilities	2,308,584	27,258	2,335,842
Unitholders' equity	575,460	-	575,460
Total liabilities and unitholders' equity	2,884,044	27,258	2,911,302

(1) Per our Financial Statements.

(2) Represents adjustments for equity-accounted joint ventures and the removal of the investment in joint ventures.

(3) Non-IFRS measure.

The following is the Balance Sheet at December 31, 2012 adjusted to remove the impact of IFRS 11:

(\$000s)	December 31, 2012 Restated for IFRS 11 ⁽¹⁾	IFRS 11 Adjustments ⁽²⁾	December 31, 2012 As previously reported ⁽³⁾
Assets			
Current assets:			
Cash and cash equivalents	25	5,284	5,309
Trade and other receivables	20,970	(674)	20,296
Mezzanine loans receivables	-	-	-
Capital funding receivable	4,396	-	4,396
Other assets	25,859	2,459	28,318
Assets held for sale	-	97,404	97,404
Total current assets	51,250	104,473	155,723
Non-current assets:			
Other assets	7,186	-	7,186
Capital funding receivable	56,661	-	56,661
Investment in joint ventures	33,498	(33,498)	-
Intangible assets	50,775	-	50,775
PP&E	2,685,431	49,512	2,734,943
Total non-current assets	2,833,551	16,014	2,849,565
Total assets	2,884,801	120,487	3,005,288
Liabilities and Unitholders' Equity			
Current liabilities:			
Credit Facility	77,000	-	77,000
Accounts payable and other liabilities	122,993	(1,921)	121,072
Distributions payable	7,800	-	7,800
Obligation to joint venture	7,296	(7,296)	-
Mortgages payable	269,026	13,197	282,223
Deferred consideration on business combinations	520	-	520
Liabilities held for sale	-	99,969	99,969
Total current liabilities	484,635	103,949	588,584
Non-current liabilities:			
Mortgages payable	1,680,589	16,538	1,697,127
Convertible debentures	147,150	-	147,150
Class B Units of Chartwell Master Care LP	18,302	-	18,302
Deferred tax liabilities	-	-	-
Total non-current liabilities	1,846,041	16,538	1,862,579
Total liabilities	2,330,676	120,487	2,451,163
Unitholders' equity	554,125	-	554,125
Total liabilities and unitholders' equity	2,884,801	120,487	3,005,288

(1) Per our Financial Statements.

(2) Represents adjustments for equity-accounted joint ventures and the removal of the investment in joint ventures.

(3) Non-IFRS measure.

The implementation of IFRS 11 has had a significant impact on the presentation of our consolidated financial statements; however, it had no impact on our operating performance, financial position or key performance indicators.

Consolidated Results of Operations

Highlights

The following table summarizes selected financial and operating performance measures:

(\$000s, except occupancy rates, per unit amounts and number of units)	Q1 2013	Q1 2012	Increase / (Decrease)
Resident revenue ⁽¹⁾	227,279	200,375	26,904
Weighted average occupancy rate - same property portfolio ⁽²⁾	89.5%	89.0%	0.5pp
Same property NOI ⁽³⁾	55,499	55,187	312
AFFO ⁽⁴⁾⁽⁵⁾	27,625	22,217	5,408
AFFO per unit diluted ⁽⁶⁾⁽⁷⁾	0.16	0.15	0.01
FFO ⁽⁸⁾	31,147	25,512	5,635
FFO per unit diluted ⁽⁶⁾⁽⁷⁾	0.18	0.17	0.01
Distributions declared ⁽⁹⁾	23,433	19,774	3,659
Distributions declared per unit ⁽⁷⁾	0.14	0.14	-
Distributions declared as a percentage of AFFO	84.8%	89.0%	(4.2pp)
Net income/(loss) for the period	37,145	(48,363)	85,508

(1) Non-IFRS; includes our share of revenue from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.

(2) pp = percentage points.

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

(4) 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.

(5) Includes \$0.5 million in negative AFFO incurred on properties in lease-up in Q1 2013 (\$0.6 million in Q1 2012).

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

(7) 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.

(8) 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.

(9) Includes distributions declared on Trust Units and distributions on Class B Units of Chartwell Master Care LP ("Class B Units").

In Q1 2013, AFFO was \$27.6 million or \$0.16 per unit diluted. This represents an increase of \$5.4 million or 24.3% compared to Q1 2012 AFFO of \$22.2 million or \$0.15 per unit diluted. The changes in AFFO, including our share of amounts from joint ventures, include the following:

- Incremental contribution from our property portfolio of \$7.9 million, primarily due to acquisitions;
- Higher management fee income of \$1.3 million, primarily due to fees generated by providing management services for Health Care REIT ("HCN") for the Maestro properties acquired in 2012;

Offset by:

- Higher G&A expenses of \$1.5 million incurred to support significant growth in our property portfolio;
- Higher interest expense of \$1.5 million, primarily due to acquisitions in 2012; and
- Lower mezzanine loan interest income and other combined for \$0.8 million.

Per unit amounts were also impacted by the dilutive effect of the \$135.0 million aggregate principal amount of 5.7% convertible debentures.

In Q1 2013, FFO increased by \$5.6 million or 22.1% to \$31.1 million or \$0.18 per unit diluted compared to Q1 2012 FFO of \$25.5 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.

Net income in Q1 2013 was \$37.1 million compared to a net loss in Q1 2012 of \$48.4 million. In addition to items which impacted AFFO and FFO as discussed above, net income was also impacted by a \$48.9 million gain on sale of the Bristol Portfolio, depreciation of properties, amortization of limited life intangibles totalling \$40.2 million combined, transaction costs on acquisitions and dispositions of \$2.1 million, changes in fair value of financial instruments and unrealized foreign exchange of \$0.6 million and other items.

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)	Q1 2013	Q1 2012	Increase / (Decrease)
Canadian retirement:			
NOI	30,794	31,943	(1,149)
Occupancy	88.1%	87.3%	0.8pp
Canadian LTC:			
NOI	6,103	5,852	251
Occupancy	98.1%	97.9%	0.2pp
U.S.:			
NOI (U.S.\$)	18,602	17,392	1,210
Occupancy	88.4%	88.1%	0.3pp
Combined:			
NOI ⁽¹⁾	55,499	55,187	312
Occupancy	89.5%	89.0%	0.5pp

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

For Q1 2013, combined same property occupancy improved to 89.5% with same property NOI increasing \$0.3 million or 0.6% as follows:

- In our Canadian retirement portfolio, same property NOI decreased \$1.1 million or 3.6% as occupancy improvements and higher ancillary revenues were offset by higher move-in incentives. Q1 2013 occupancy improved to 88.1% compared to 87.3% in Q1 2012.
- In our Canadian LTC portfolio, same property NOI improved \$0.3 million or 4.3% primarily due to higher government funding and increased preferred accommodation rates, offset by higher utility costs. Occupancy remained high at 98.1% compared to 97.9% in Q1 2012.
- In our U.S. portfolio, same property NOI increased 7.0% primarily due to higher revenues as a result of improved occupancy, regular annual rental rate increases and strong expense controls. Occupancy improved to 88.4% in Q1 2013 from 88.1% in Q1 2012.

Summary of Resident Revenue

(\$000s, except occupancy rates)	Q1 2013	Q1 2012	Increase / (Decrease)
Same property ⁽¹⁾⁽²⁾	192,979	190,106	2,873
Acquisitions and other ⁽¹⁾⁽²⁾	33,819	10,194	23,625
Foreign exchange on U.S. dollar revenue ⁽²⁾	481	75	406
	227,279	200,375	26,904
Less: Share of resident revenue from joint ventures	27,905	7,929	19,976
Total resident revenue	199,374	192,446	6,928
Weighted average occupancy rate - same property portfolio	89.5%	89.0%	0.5pp
Weighted average occupancy rate - total portfolio	89.1%	88.4%	0.7pp

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

(2) Non-IFRS; includes our share of revenue from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.

Total resident revenue grew 3.6% in Q1 2013 through increased revenue in our same property and acquisitions portfolios.

Same property resident revenue increased \$2.9 million or 1.5% for Q1 2013 primarily as a result of occupancy improvements, regular annual rental rate increases and higher ancillary services revenues, offset by higher move-in incentives in our Canadian retirement portfolio.

Summary of Direct Operating Expenses

(\$000s)	Q1 2013	Q1 2012	Increase / (Decrease)
Same property ⁽¹⁾⁽²⁾	137,480	134,917	2,563
Acquisitions and other ⁽¹⁾⁽²⁾	23,838	7,605	16,233
Foreign exchange on U.S. dollar expenses ⁽²⁾	312	47	265
	161,630	142,569	19,061
Less: Share of direct operating expenses from joint ventures	17,982	4,573	13,409
Total direct operating expenses	143,648	137,996	5,652

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

(2) Non-IFRS; includes our share of direct operating expenses from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.

In Q1 2013, total direct operating expenses increased \$5.7 million or 4.1% due to growth in our same property and acquisition portfolios.

Same property direct operating expenses increased \$2.6 million or 1.9% in Q1 2013 primarily due to inflationary increases in staffing and other cost categories, offset by lower property taxes.

General, Administrative and Trust Expenses

(\$000s, except percentage of revenue)	Q1 2013	Q1 2012	Increase / (Decrease)
G&A expenses	7,876	6,363	1,513
As % of revenue	3.4%	3.1%	0.3pp

G&A expenses increased \$1.5 million or 23.8% in Q1 2013 primarily due to staffing costs incurred to support significant growth in our Canadian property portfolio as well as our increased investments in training, education, employee recognition and information technology.

G&A expenses as a percentage of revenue, including our share of revenue from joint ventures, were 3.4% in Q1 2013 compared to 3.1% in Q1 2012.

Management Fee Revenue

(\$000s)	Q1 2013	Q1 2012	Increase / (Decrease)
HCN	1,576	-	1,576
Spectrum	-	124	(124)
ING	13	44	(31)
Other	453	531	(78)
Total management fee revenue	2,042	699	1,343

Management fee revenue increased \$1.3 million in Q1 2013, of which \$1.6 million represents fees earned from HCN related to the Maestro portfolio acquired in Q2 2012. Under our management agreement for these properties, we are entitled to operations management fees of 5% of gross revenues, which could be increased to up to 6% of gross revenues, or decreased no lower than 4% of gross revenues upon over or under achievement of agreed-upon operating results, respectively. In addition, we are entitled to capital project oversight fees of between 3% and 7% of the value of the capital project, depending on the size of the project. Only HCN's share of these fees is reported as management fee revenue. The portion of fees related to our ownership in the joint venture properties is offset against G&A expenses, or capital cost of the assets, on consolidation, as applicable.

Fees from ING relate to the jointly-owned Bristol Portfolio, which was sold in Q1 2013.

Finance Costs

(\$000s)	Q1 2013	Q1 2012	Increase / (Decrease)
Mortgages and loans payable ⁽¹⁾			
Same property ⁽²⁾	22,311	23,628	(1,317)
Acquisitions and other ⁽²⁾⁽³⁾	4,251	1,900	2,351
Foreign exchange on U.S. dollar expenses	80	19	61
	26,642	25,547	1,095
Convertible debentures	1,897	1,374	523
Credit Facility and other interest ⁽¹⁾	514	723	(209)
	29,053	27,644	1,409
Amortization of financing costs and debt mark-to-market adjustments ⁽¹⁾	79	225	(146)
	29,132	27,869	1,263
Interest capitalized to properties under development	(284)	(439)	155
Distributions on Class B Units recorded as interest expense	259	227	32
Convertible debenture issuance costs	-	5,363	(5,363)
	29,107	33,020	(3,913)
Less: Share of joint-venture finance costs	1,287	2,019	(732)
Total finance costs	27,820	31,001	(3,181)

(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.

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

(3) Includes \$0.4 million related to properties in lease-up in Q1 2013 (\$0.2 million in Q1 2012).

Interest expense on the same property portfolio decreased \$1.3 million in Q1 2013 due to regular mortgage principal repayments and lower interest rates achieved on renewals.

Interest expense on our convertible debentures increased \$0.5 million in Q1 2013. In Q1 2012, we issued a new series of \$135.0 million aggregate principal amount of 5.7% convertible debentures and redeemed all of the issued and outstanding \$75.0 million aggregate principal amount of 5.9% convertible debentures.

During Q1 2013, we capitalized interest of \$0.3 million which relates to our development projects under construction. Interest capitalization stops once a development project becomes available for use.

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 issuance of the \$135.0 million aggregate principal amount of 5.7% debentures were expensed in Q1 2012.

As we did not incur convertible debenture issuance costs in Q1 2013, total finance costs decreased \$3.2 million.

Other (Expense)/Income

(\$000s)	Q1 2013	Q1 2012	Increase / (Decrease)
Transaction costs arising on business acquisitions and dispositions ⁽¹⁾	(2,088)	(3,233)	1,145
Interest income on capital funding receivable and bank balances ⁽¹⁾	983	1,056	(73)
Gain on sale of assets ⁽¹⁾	48,947	-	48,947
	47,842	(2,177)	50,019
Less: Share of joint ventures	48,256	(93)	48,349
Total other (expense)/income	(414)	(2,084)	1,670

(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.

Gain on sale of assets of \$48.9 million represents the disposition of the Bristol Portfolio.

Transaction costs arising on business acquisitions and dispositions are expensed as incurred and fluctuate from period to period based on the volume of transactions. Transaction costs incurred in Q1 2013 primarily relate to the disposition of the Bristol Portfolio.

Other Items

(\$000s)	Q1 2013	Q1 2012	Increase / (Decrease)
Property lease expense	656	627	29
Depreciation of PP&E ⁽¹⁾	39,750	43,462	(3,712)
Amortization of limited life intangible assets	434	1,109	(675)
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	564	28,001	(27,437)
Current income tax expense/(benefit)	63	59	4
Deferred income tax expense/(benefit)	-	(7,376)	7,376

(1) Non-IFRS; includes our share of joint-venture depreciation of \$0.9 million in Q1 2013 (\$2.4 million in Q1 2012). Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.

Depreciation of PP&E and limited life intangible assets decreased primarily due to certain assets being fully amortized as at December 31, 2012.

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)	Q1 2013	Q1 2012	Increase / (Decrease)
Changes in fair value of convertible debentures	1,350	3,975	(2,625)
Changes in fair value of interest rate swap	(45)	(153)	108
Unrealized foreign exchange (gain)/loss	(878)	1,428	(2,306)
Changes in fair value of Long-Term Incentive Plan ("LTIP") option component	(251)	487	(738)
Changes in fair value of Class B Units	299	1,093	(794)
Changes in fair value of Deferred Trust Units ("DTUs")	89	244	(155)
Changes in fair value of subscription receipts	-	20,927	(20,927)
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	564	28,001	(27,437)

Under IFRS, subscription receipts issued on March 9, 2012 were required to be recorded 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. As a result, in Q1 2012 we recorded a \$20.9 million loss related to the change in fair value of these 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)	Q1 2013	Q1 2012	Increase / (Decrease)
Net income/(loss) for the period	37,145	(48,363)	85,508
<i>Add (Subtract):</i>			
Depreciation of PP&E ⁽¹⁾	39,750	43,462	(3,712)
Amortization of limited life intangible assets	434	1,109	(675)
Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above	(146)	(144)	(2)
Gain on sale of assets ⁽¹⁾	(48,947)	-	(48,947)
Transaction costs arising on business acquisitions and dispositions ⁽¹⁾	2,088	3,233	(1,145)
Deferred income taxes	-	(7,376)	7,376
Distributions on Class B Units recorded as interest expense	259	227	32
Convertible debenture issuance costs	-	5,363	(5,363)
Changes in fair value of financial instruments and unrealized foreign exchange gains/losses	564	28,001	(27,437)
FFO ⁽²⁾	31,147	25,512	5,635
Interest expense on 5.7% convertible debentures	1,897	-	1,897
Diluted FFO ⁽²⁾⁽³⁾	33,044	25,512	7,532
FFO per unit	0.18	0.17	0.01
FFO per unit diluted ⁽⁴⁾	0.18	0.17	0.01

(1) Non-IFRS; includes our share of amounts from joint-ventures. Refer to the “Adoption of IFRS 11 – Joint Arrangements” section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.

(2) 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.

(3) Diluted FFO is solely utilized for the purposes of calculating FFO per unit diluted.

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

FFO increased by \$5.6 million or 22.1% in Q1 2013 primarily due to higher contribution from the property portfolio and higher management fees, offset by higher finance costs and G&A as a result of the significant growth in our property portfolio.

Adjusted Funds from Operations (“AFFO”)

The following table provides the calculation of AFFO:

(\$000s, except per unit amounts)	Q1 2013	Q1 2012	Increase / (Decrease)
FFO ⁽¹⁾	31,147	25,512	5,635
<i>Add (Subtract):</i>			
Principal portion of capital subsidy receivable from Health Authorities	1,043	916	127
Amounts received under income guarantees	430	-	430
Amortization of financing costs and debt mark-to-market adjustments	29	225	(196)
Financing cost reserve ⁽²⁾	(478)	(428)	(50)
AFFO before capex reserve	32,171	26,225	5,946
Maintenance capex reserve - 2% of property revenue	(4,546)	(4,008)	(538)
AFFO ⁽³⁾	27,625	22,217	5,408
Interest expense on 5.7% convertible debentures	1,897	-	1,897
Diluted AFFO ⁽³⁾⁽⁴⁾	29,522	22,217	7,305
AFFO per unit	0.16	0.15	0.01
AFFO per unit diluted ⁽⁵⁾	0.16	0.15	0.01

(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) Diluted AFFO is solely utilized for the purposes of calculating AFFO per unit diluted.

(5) 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 outstanding:

(000s)	Q1 2013	Q1 2012	Increase / (Decrease)
Weighted average number of units ⁽¹⁾	174,071	153,153	20,918
Dilutive impact of 5.7% convertible debentures	12,273	-	12,273
Weighted average number of units, diluted	186,344	153,153	33,191

(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)	2013		2012 (Restated)		2011 ⁽¹⁾			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	208,953	203,374	197,584	195,580	193,719	199,530	187,293	185,047
Direct operating expenses	(143,648)	(144,044)	(137,937)	(137,809)	(137,996)	(141,611)	(131,652)	(129,406)
G&A expenses	(7,876)	(7,190)	(5,847)	(6,766)	(6,363)	(6,198)	(6,018)	(6,381)
Income before the understated ⁽²⁾	57,429	52,140	53,800	51,005	49,360	51,721	49,623	49,260
Finance costs	(27,820)	(28,511)	(28,378)	(31,200)	(31,001)	(27,194)	(25,114)	(25,561)
Property lease expense	(656)	6,848	6,856	4,352	(627)	(644)	(632)	(492)
Other income/(expense)	(414)	(11,117)	(714)	(6,300)	(2,084)	(2,538)	8,102	(5,896)
Depreciation and amortization	(39,309)	(58,856)	(47,316)	(48,868)	(42,140)	(52,032)	(39,350)	(41,244)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(564)	(1,604)	(9,262)	(10,512)	(28,001)	(3,212)	8,753	1,755
Share of earnings (loss)/gain	48,542	1,120	1,058	36	(1,187)	-	-	-
Current income tax (expense)/recovery	(63)	(78)	(77)	(82)	(59)	(79)	(80)	(95)
Deferred income tax (expense)/recovery	-	1,423	5,495	7,683	7,376	8,729	(2,072)	3,425
Net income/(loss) for the period	37,145	(38,635)	(18,538)	(33,886)	(48,363)	(25,249)	(770)	(18,848)
FFO ⁽³⁾	31,147	33,421	35,432	29,793	25,512	24,792	24,958	24,047
Diluted FFO	33,044	44,780	37,366	29,793	25,512	24,792	24,958	24,047
FFO per unit diluted	0.18	0.19	0.20	0.17	0.17	0.17	0.17	0.17
AFFO ⁽³⁾	27,625	30,104	31,409	27,825	22,217	22,036	22,368	21,876
Diluted AFFO	29,522	41,463	33,343	27,825	22,217	22,036	22,368	21,876
AFFO per unit diluted	0.16	0.17	0.18	0.16	0.15	0.15	0.15	0.15

(1) 2011 results have not been restated for the impact of IFRS 11 and include our share of amounts from joint ventures.

(2) 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.

(3) Q4 2012 amounts exclude the \$9.4 million reversal of provision for impairment associated with the Spectrum settlement.

Our results for the past eight quarters have been affected by the contribution of acquisitions and dispositions, 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. Beginning in Q2 2012, our results were also affected by the Maestro portfolio acquisition and in Q1 2013, our results were affected by the sale of the Bristol Portfolio.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments in Q1 2013.

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					
100% owned	101	8,533	2,648	676	11,857
Partially owned ⁽¹⁾	7	847	37	-	884
Total same property owned	108	9,380	2,685	676	12,741
Acquisitions & Development					
100% owned:					
Operating	1	70	-	-	70
Development suites in lease-up	3	163	60	117	340
	4	233	60	117	410
50% owned - operating	40	7,266	428	60	7,754
Total acquisitions & development	44	7,499	488	177	8,164
Total	152	16,879	3,173	853	20,905

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

The following table presents the results of operations of our Canadian Retirement Operations segment using line-by-line consolidation:

(\$000s)	Q1 2013	Q1 2012	Increase / (Decrease)
Revenue			
Same property	91,031	89,830	1,201
Acquisitions and development	27,025	554	26,471
Total revenue	118,056	90,384	27,672
Direct Operating Expenses			
Same property	60,237	57,887	2,350
Acquisitions and development	18,376	775	17,601
Total direct operating expenses	78,613	58,662	19,951
Net Operating Income			
Same property	30,794	31,943	(1,149)
Acquisitions and development ⁽¹⁾	8,649	(221)	8,870
Total net operating income	39,443	31,722	7,721
Weighted average occupancy rate - same property	88.1%	87.3%	0.8pp
Weighted average occupancy rate – total portfolio	87.6%	86.1%	1.5pp

(1) Q1 2012 amount includes \$0.4 million of negative NOI related to two development projects in Ontario that commenced operations in March 2012.

Same property revenues increased 1.3% in Q1 2013 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, offset by higher move-in incentives.

Same property direct operating expenses increased 4.1% in Q1 2013 primarily due to higher staffing costs incurred to provide additional services to our residents, new regulatory requirements in certain jurisdictions and one statutory holiday that fell in Q1 2013 compared to Q2 2012. These increases and inflationary increases in other cost categories were offset by lower marketing and realty tax expenses and higher purchasing volume incentives.

Same property NOI decreased \$1.1 million or 3.6% in Q1 2013 as follows:

- Our Ontario retirement platform same property NOI decreased \$0.8 million or 4.6% as the impact of occupancy improvements, regular annual rental rate increases and higher ancillary services revenue were offset by higher resident move-in incentives and higher staffing and utility expenses.
- Our Western Canada platform same property NOI increased \$0.4 million or 5.8% primarily due to improved occupancies and lower realty tax expenses.
- Our Quebec platform same property NOI decreased \$0.8 million or 10.7% as the impact of higher occupancies, regular annual rental rate increases and higher purchasing volume incentives were offset by higher resident move-in incentives, higher staffing costs incurred in response to new regulatory requirements and higher bad debt, repairs and maintenance and utility costs.

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

	Q1 2013	Q1 2012	Increase / (Decrease)	Q4 2012	Increase / (Decrease)
Ontario	88.9%	88.7%	0.2pp	89.8%	(0.9pp)
Western Canada	92.2%	91.6%	0.6pp	92.6%	(0.4pp)
Quebec	85.5%	84.1%	1.4pp	85.9%	(0.4pp)
Combined	88.1%	87.3%	0.8pp	88.7%	(0.6pp)

In Q1 2013, occupancies in our Canadian retirement same property portfolio increased to 88.1%, a 0.8 percentage point increase from Q1 2012 and a decrease of 0.6 percentage points from Q4 2012. In Q1 2013, we have seen higher than normal attrition rates in our Ontario and Quebec portfolios which we attribute to a higher-than-average number of flu outbreaks. In April 2013, the attrition rates have started to stabilize.

In Q1 2013, 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	-	11	219	230
Total	24	-	134	3,001	3,135

(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 using line-by-line consolidation:

(\$000s, except occupancy rates)	Q1 2013	Q1 2012	Increase / (Decrease)
Revenue			
Same property	47,109	47,026	83
Acquisitions and development	3,517	3,461	56
Total revenue	50,626	50,487	139
Direct Operating Expenses			
Same property	41,006	41,174	(168)
Acquisitions and development	3,245	3,169	76
Total direct operating expenses	44,251	44,343	(92)
Net Operating Income			
Same property	6,103	5,852	251
Acquisitions and development	272	292	(20)
Total net operating income	6,375	6,144	231
Weighted average occupancy rate - same property	98.1%	97.9%	0.2pp
Weighted average occupancy rate – total portfolio	97.7%	97.9%	(0.2pp)

Same property NOI increased \$0.3 million or 4.3% in Q1 2013, primarily due to higher government funding and increased preferred accommodation rates, offset by higher utility costs. In Q1 2013, acuity-related government funding was lower than in Q1 2012 and was offset by a corresponding reduction in staffing costs, which together, had no impact on NOI.

Weighted average occupancies in the same property portfolio remained high at 98.1% in Q1 2013.

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%	44	3,388	2,610	190	6,188
50%	-	-	-	-	-
Total same property owned	44	3,388	2,610	190	6,188
Properties under Operating Lease					
100% Interest	2	42	191	-	233
Total same property owned and leased	46	3,430	2,801	190	6,421
Acquisitions and Other - Owned					
100%	-	-	-	-	-
50% ⁽¹⁾	5	-	768	-	768
Total acquisitions and other owned	5	-	768	-	-
Total	51	3,430	3,569	190	7,189

(1) These properties were sold in February 2013.

The following table presents the results of operations of our U.S. Operations segment using line-by-line consolidation:

(U.S.\$000s, except as noted otherwise)	Q1 2013	Q1 2012	Increase / (Decrease)
Revenue			
Same property	54,839	53,249	1,590
Acquisitions and other ⁽¹⁾	3,276	6,180	(2,904)
Total revenue	58,115	59,429	(1,314)
Direct Operating Expenses			
Same property	36,237	35,857	380
Acquisitions and other ⁽¹⁾	2,217	3,660	(1,443)
Total direct operating expenses	38,454	39,517	(1,063)
Net Operating Income			
Same property	18,602	17,392	1,210
Acquisitions and other ⁽¹⁾	1,059	2,520	(1,461)
Total net operating income	19,661	19,912	(251)
Foreign exchange in CDN	169	28	141
Total net operating income in CDN	19,830	19,940	(110)
Weighted average occupancy rate – same property	88.4%	88.1%	0.3pp
Weighted average occupancy rate – total portfolio	88.9%	88.4%	0.5pp

(1) Represents results of Bristol Portfolio sold in February 2013.

Same property revenue increased U.S.\$1.6 million or 3.0% in Q1 2013 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 0.3 percentage points to 88.4% in Q1 2013 from 88.1% in Q1 2012. Total portfolio occupancy was 88.9% in Q1 2013 compared to 88.4% in Q1 2012.

Same property direct operating expenses increased U.S.\$0.4 million or 1.1% in Q1 2013, as higher marketing, supplies, insurance and management fees were offset by lower staffing, utility and realty tax expenses.

As a result of the above, same property NOI increased U.S.\$1.2 million or 7.0% in Q1 2013.

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:

	Q1 2013	Q1 2012	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	1.01	1.00	0.01

A \$0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar would impact AFFO by approximately \$0.3 million in 2013.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and unitholders' equity for March 31, 2013 compared to December 31, 2012.

	Increase / (Decrease) (\$millions)	Explanation
Total assets	(0.8)	The decrease in total assets is primarily due to the following:
Current assets	14.8	Current assets increased primarily due to the timing of cash receipts.
PP&E	(21.5)	PP&E decreased primarily due to depreciation of \$38.9 million, offset by net additions of \$2.2 million and foreign exchange translation of \$15.2 million.
Capital funding receivable	5.5	In Q1 2013 we increased capital funding receivable by \$6.5 million as a result of improvements made to two LTC properties. This was partially offset by \$1.0 million from the regular reduction of the receivable due to capital funding collected during the period.
Total liabilities	(22.1)	The decrease in total liabilities is primarily due to the following:
Mortgages payable	35.8	Mortgages payable increased as a result of net new mortgage financings of \$37.2 million and foreign exchange translation of \$13.5 million. This was offset by regular amortizing principal repayments of \$13.5 million and additions to finance costs of \$2.0 million.
Accounts payable and other liabilities	(12.6)	Accounts payable and other liabilities decreased primarily due to the timing of settlement of liabilities.
Credit Facility	(39.5)	Credit Facility decreased primarily due to repayments from the net proceeds of sale from the Bristol Portfolio.
Unitholders' equity	21.3	The increase in unitholders' equity is primarily due to the allocation of net income to the Trust's unitholders which was partially offset by cash distributions.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during Q1 2013:

	Trust Units	Trust Units issued under LTIP	Class B Units	Deferred Trust Units	Total
Balance December 31, 2012	169,441,855	2,207,464	1,679,128	485,505	173,813,952
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	543,420	-	-	-	543,420
Trust Units issued under LTIP	-	-	-	-	-
Trust Units surrendered for cancellation under LTIP	-	(88,083)	-	-	(88,083)
Trust Units released on settlement of LTIP receivable	5,279	(5,279)	-	-	-
DTUs issued	-	-	-	20,203	20,203
DTU distributions	-	-	-	6,057	6,057
Exchange of Class B Units	20,816	-	(20,816)	-	-
Balance March 31, 2013	170,011,370	2,114,102	1,658,312	511,765	174,295,549

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 March 31, 2013, we had cash on hand in the amount of \$17.3 million, including our share of joint-venture cash of \$4.0 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 March 31, 2013, 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 \$37.5 million was drawn, leaving available borrowing capacity at \$44.8 million. We have commenced renewal discussions with the syndicate lenders and expect to complete the renewal of our Credit Facility on or before June 22, 2013.

Indebtedness Ratio:

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 March 31, 2013, our Indebtedness Ratio was 53.6% excluding, and 57.1% including convertible debentures, respectively.

The following table presents the calculation of our Indebtedness Ratio, including our share of amounts from joint ventures:

(\$000s)	March 31, 2013	December 31, 2012
Mortgages payable (contractual amount)	2,012,665	1,975,625
Credit Facility	37,500	77,000
Total Indebtedness excluding convertible debentures	2,050,165	2,052,625
Convertible debentures (at face value)	135,000	135,000
Total Indebtedness	2,185,165	2,187,625
Total assets	2,911,294	2,907,884
Accumulated depreciation and amortization	531,966	489,761
Cumulative transaction costs on business combinations	16,200	16,129
Change in GBV on transition to IFRS	365,314	365,314
GBV of assets	3,824,774	3,779,088
Less: Assets financed by deferred purchase consideration on acquisition properties	520	520
GBV of assets (net of deferred consideration)	3,824,254	3,778,568
Indebtedness Ratio before convertible debentures ⁽¹⁾	53.6%	54.3%
Indebtedness Ratio including convertible debentures ⁽¹⁾	57.1%	57.9%

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

In addition to the Indebtedness Ratio restrictions under our Declaration of Trust, we employ a supplemental targets for managing our debt portfolio and monitor our Interest Coverage Ratio and Net Debt to Adjusted EBITDA Ratio.

Interest Coverage Ratio:

We target to maintain our Interest Coverage Ratio above 1.65 times. Refer to the “Key Performance Indicators – Interest Coverage Ratio” section of this MD&A for a discussion of Interest Coverage Ratio.

The following table summarizes our Interest Coverage Ratio, including our share of amounts from joint ventures:

(\$000s, except Interest Coverage Ratio)	Q1 2013	Q1 2012
Interest expense including capitalized interest	29,132	27,869
Property lease expense	656	627
	29,788	28,496
Adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) ⁽¹⁾	61,903	54,688
Interest Coverage Ratio ⁽²⁾	2.08	1.92
Target Interest Coverage Ratio	>1.65	

(1) In Q1 2013, we changed our definition of Adjusted EBITDA; 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 for Q1 2013 and Q1 2012, including our share of amounts from joint ventures:

(\$000s)	Q1 2013	Q1 2012
Net income/(loss) for the period	37,145	(48,363)
Add (Subtract):		
Current income tax	63	59
Deferred income tax	-	(7,376)
Transaction costs arising on business acquisitions and dispositions	2,088	3,233
Finance costs	29,107	33,020
Property lease expense	656	627
Depreciation of PP&E	39,750	43,462
Amortization of intangible assets	434	1,109
Loss/(gain) on sale of assets	(48,947)	-
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	564	28,001
Principal portion of capital subsidy receivable from Health Authorities ⁽¹⁾	1,043	916
Adjusted EBITDA	61,903	54,688

(1) In Q1 2013, we changed our definition of Adjusted EBITDA to include principal portion of capital funding subsidy receivable; refer to the “Key Performance Indicators – Adjusted EBITDA” section of this MD&A for a discussion of Adjusted EBITDA.

Net Debt to Adjusted EBITDA Ratio:

In our calculation of Net Debt to Adjusted EBITDA, we define Net Debt as indebtedness less cash on hand at the end of the reporting period and use trailing 12-month Adjusted EBITDA including the annualized effect of acquisitions and dispositions completed during such 12-month period.

The following table summarizes our Net Debt to Adjusted EBITDA Ratio at March 31, 2013 and 2012, including our share of amounts from joint ventures:

(\$000s, except Net Debt to Adjusted EBITDA Ratio)	March 31, 2013	March 31, 2012
Trailing 12-month Adjusted EBITDA	257,448	210,819
<i>Add (Subtract):</i>		
Adjustment for part-year acquisitions	2,793	8,264
Adjustment for part-year dispositions	(8,740)	(2,638)
Trailing 12-month Adjusted EBITDA (net of part-year acquisitions and dispositions)	251,501	216,445
Indebtedness ⁽¹⁾	2,185,165	2,046,840
Less: Cash and cash equivalents	17,312	8,835
Net debt	2,167,853	2,038,005
Net Debt to Adjusted EBITDA Ratio ⁽²⁾	8.6	9.4

(1) March 31, 2012 amount excludes subscription receipts.

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

Debt Strategy

We currently 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.

Mortgage Debt

At March 31, 2013, we had \$2,012.7 million of mortgages payable of which \$1,367.7 million related to our Canadian properties and \$645.0 million (U.S.\$634.8 million) related to our U.S. properties. Our Canadian properties balance includes \$30.0 million representing our share of joint-venture balances. We monitor our mortgage portfolio on a line-by-line consolidation basis and, as such, this section includes our share of mortgages from joint ventures.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at March 31, 2013.

(\$000s)	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Debt	Weighted Average Interest Rate on Maturing Debt
Year					
Remainder of 2013	38,219	186,774	224,993	11%	4.65%
2014	47,189	227,783	274,972	14%	4.42%
2015	41,795	290,480	332,275	16%	4.84%
2016	36,366	300,010	336,376	17%	6.10%
2017	26,785	257,995	284,780	14%	5.64%
2018	27,483	41,359	68,842	3%	5.43%
2019	27,573	10,591	38,164	2%	4.53%
2020	27,665	48,899	76,564	4%	4.35%
2021	25,574	50,150	75,724	4%	4.59%
2022	21,914	60,395	82,309	4%	3.56%
2023	17,509	14,224	31,733	2%	6.07%
2024	13,017	18,042	31,059	1%	7.09%
Thereafter	130,952	23,922	154,874	8%	4.83%
Total	482,041	1,530,624	2,012,665	100%	
Mark-to-market adjustments arising on acquisition			19,608		
Less: Financing costs			(17,203)		
Total Mortgage Debt			2,015,070		

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

	At March 31, 2013				At December 31, 2012
	Canadian Debt		U.S. Debt		Combined
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Combined
Amount (\$millions)	1,210.6	157.1	621.0	24.0	2,012.7
Weighted average interest rate	4.93%	4.43%	5.91%	2.57%	5.17%
Average term to maturity (years)	8.1	1.3	3.3	0.7	6.0

In Canada, we generally have access to low-cost mortgage financing insured by Canada Mortgage and Housing Corporation ("CMHC"). All of our Canadian properties are eligible for CMHC financing and as of March 31, 2013, approximately 66% 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 upon renewal.

In Q1 2013, in line with our financing strategy, we completed CMHC mortgage financing on six of our properties for the aggregate proceeds of \$37.8 million. Five of these mortgages, totalling \$30.0 million, have term to maturity of 20 years and bear interest at 3.95%. The other \$7.8 million mortgage has a 10-year term and bears interest at 3.03%.

In the U.S., approximately 75% of our mortgages 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.

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.

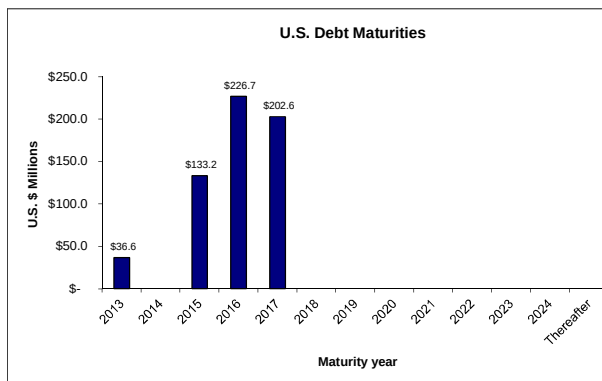
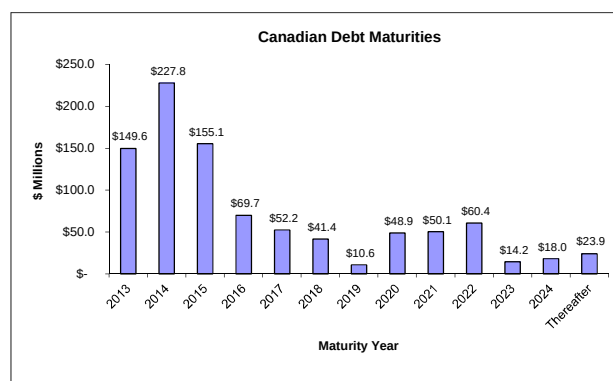
The following table summarizes our variable-rate mortgages as at March 31, 2013:

(\$000s, except number of projects)	Number of Projects	March 31, 2013	Number of Projects	December 31, 2012
Mortgages on properties under construction	4	20,628	3	13,452
Mortgages on properties in lease-up ⁽¹⁾	10	133,608	11	145,939
Mortgages on stabilized properties	4	26,933	3	8,249
Total	18	181,169	17	167,640

(1) Includes our share of one joint-venture variable-rate mortgage of \$12.8 million.

In Q1 2013, we converted a \$14.0 million, variable-rate loan on one of our lease-up properties to a two-year, fixed-rate mortgage. In addition, we refinanced one \$5.3 million, variable-rate mortgage on a stabilized property with a new 10-year, CMHC-insured mortgage in the amount of \$7.8 million bearing interest at 3.03%. Mortgages on two of our stabilized properties in the U.S. in the amount of \$24.0 million, came due in Q1 2013 and we exercised our right to extend these mortgages to the end of 2013, at variable rates.

The following charts provide the breakdown of our debt maturities in Canada and the U.S. including the related mortgages on joint-venture properties:



Convertible Debentures

At March 31, 2013, we have \$135.0 million of 5.7% convertible debentures that 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.

Capital Expenditures

We classify our capital expenditures in the following main categories:

- Development – capital expenditures in respect of our development projects in progress.
- Acquisition – capital expenditures which were identified during acquisition due diligence for newly acquired assets.
- Revenue enhancing and repositioning – capital expenditures that improve the revenue generating potential of our properties.

- Maintenance – capital expenditures incurred to maintain existing revenue generating potential of our properties, such as routine replacement of building components, furniture, fixtures and equipment. We generally reserve 2% of our gross property revenue for maintenance capital expenditures annually; however, actual amounts spent may fluctuate from period to period.

The following table summarizes additions to properties during Q1 2013:

(\$000s)	Q1 2013	Q1 2012
Development	3,942	19,925
Acquisition	622	690
Revenue enhancing and repositioning	127	407
Maintenance	3,955	2,503
Total ⁽¹⁾	8,646	23,525

(1) Excludes \$0.1 million in capital additions relating to corporate office leasehold improvements and corporate office information technology assets.

Contractual Obligations and Guarantees

Details of our contractual obligations and guarantees are disclosed in our 2012 MD&A. There were no significant changes in our contractual obligations and guarantees in Q1 2013 which are outside of the ordinary course of business.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q1 2013 and Q1 2012 using the statements of cash flows prepared in accordance with IFRS 11:

Cash Provided by (Used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	2.8	Cash flows from operating activities increased due to the net change in working capital balances and non-cash items.
Financing activities	(54.9)	Cash flows from financing activities decreased primarily due to the issuance of 5.7% convertible debentures, net of the redemption of the 5.9% convertible debentures in Q1 2012, and was partially offset by higher proceeds from mortgage financing, net of repayments.
Investing activities	66.2	Cash flows from investing activities increased primarily due to higher distributions received from joint ventures, lower additions to PP&E and lower deposits on acquisitions.

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 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. In Q1 2013, our average DRIP participation was 24.9% compared to 21.1% participation in Q4 2012. In Q1 2013, Chartwell's Board eliminated the 1,000-unit participation threshold.

The following table summarizes distributions made in Q1 2013, 2012 and 2011:

(\$000s)	Q1 2013	2012	2011
Distributions declared on Trust Units ⁽¹⁾	23,174	89,791	77,538
Distributions on Class B Units	259	909	908
Distributions reinvested under DRIP	(5,705)	(15,791)	(15,075)
Distributions applied against LTIP receivable	(298)	(1,200)	(1,230)
Distributions paid or payable in cash	17,430	73,709	62,141

(1) 2012 amount includes \$2.2 million distributions on subscription receipts recorded as interest expense for accounting purposes.

The following table summarizes cash distributions made in Q1 2013, 2012 and 2011 in relation to net income/(loss) and cash flows from operating activities:

(\$000s)	Q1 2013 ⁽¹⁾	2012 ⁽¹⁾	2011 ⁽¹⁾
Cash flows from operating activities	14,758	102,840	110,998
Net income/(loss)	37,145	(139,342)	(63,331)
Distributions paid or payable in cash ^{(2) (3)}	17,430	73,709	62,141
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	(2,672)	29,131	48,857
Excess/(shortfall) of net income/(loss) over cash distributions paid	19,715	(213,051)	(125,472)

(1) Q1 2013 amounts are disclosed using equity accounting in accordance with IFRS 11. Amounts for 2012 and 2011 are disclosed as previously reported prior to the adoption of IFRS 11.

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

(3) 2012 amount includes \$2.2 million distributions on subscription receipts recorded as interest expense for accounting purposes.

We distributed cash to our unitholders despite recording net losses in each of 2012 and 2011. We do not use net loss as determined 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. We also give consideration to maintenance capital expenditures in establishing the level of annual distributions to unitholders. We believe that our current distribution level is sustainable.

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. We monitor our KPIs on a line-by-line consolidation basis and, as such, we include our share of joint ventures. 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 following where, in our FFO calculation, we add back:

- Issue costs of convertible debentures expensed for the period under IFRS to improve comparability to the reported FFO in prior periods; and
- Transaction costs related to the disposition of properties

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), transaction costs arising on business acquisitions and dispositions, impairment of PP&E, distributions on Class B Units recorded as interest expense, convertible debenture issue costs, changes in fair value of financial instruments, unrealized foreign exchange gains/losses, and adjustments for equity-accounted entities, FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

For the purpose of per unit calculations, to the extent that our convertible debentures are dilutive to FFO per unit, convertible debenture interest is added back to calculate a diluted FFO for the sole purpose of calculating the FFO per unit diluted. The tables presented under the “Consolidated Results of Operations – Non-IFRS Measures” section of this MD&A provide a reconciliation of net loss to FFO, 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 (“MOHLTC”) 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.

For the purpose of per unit calculations, to the extent that our convertible debentures are dilutive to AFFO per unit, convertible debenture interest is added back to calculate a diluted AFFO for the sole purpose of calculating the AFFO per unit diluted. 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. We monitor NOI on a line-by-line consolidation basis and as such, we include our share of NOI from joint ventures.

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. We monitor same property performance on a line-by-line consolidation basis and as such, we include our share of amounts from joint ventures.

The following table summarizes the same property portfolio for Q1 2013:

	Properties	Suites/Beds
Canadian Retirement Operations	108	12,741
Canadian Long Term Care Operations	21	2,905
U.S. Operations (owned and leased)	46	6,421
Total same property portfolio	175	22,067

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. We monitor the Indebtedness Ratio on a line-by-line consolidated basis, and as such, we include our share of assets and liabilities of joint ventures.

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. We monitor the Interest Coverage Ratio on a line-by-line consolidated basis, and as such, we include our share of amounts from joint ventures.

Adjusted EBITDA

EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization. Our calculation of Adjusted EBITDA excludes transaction costs arising on business acquisitions and dispositions, 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 reversal of such provisions, or debenture issuance costs. In Q1 2013, we changed our definition of Adjusted EBITDA to also include the principal portion of the capital subsidy receivable from MOHLTC. This long-term cash flow stream forms part of the business value considered by lenders in financing LTC properties. We use Adjusted EBITDA in our calculations of Net Debt to Adjusted EBITDA and Interest Coverage Ratios and therefore, we believe it is appropriate to include capital funding subsidy in the Adjusted EBITDA definition. This change is made for all periods presented in this MD&A. We monitor Adjusted EBITDA on a line-by-line consolidated basis, and as such, we include our share of amounts from joint ventures.

Net Debt to Adjusted EBITDA Ratio

The Net Debt to Adjusted EBITDA Ratio provides an approximation of the number of years required for current cash flows to cover or repay all indebtedness and is commonly used by investors to evaluate level

of entity's debt in relation to its operating cash flows. Net Debt and Adjusted EBITDA are not susceptible to short-term changes in market values and are not prone to subjective assessments surrounding asset valuations. We monitor our net debt on a line-by-line consolidated basis, and as such, we include our share of amounts from joint ventures.

Critical Accounting Policies and Estimates

Critical Accounting Judgements, Estimates and Assumptions in Applying Accounting Policies

We monitor and assess all accounting pronouncements. In our Q1 2013 Financial Statements as well as in our 2012 MD&A, we identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. There were no significant changes in Q1 2013, except as follows:

IFRS 11, Joint Arrangements ("IFRS 11")

In May 2011, the IASB issued IFRS 11, with further amendments issued in June 2012. IFRS 11 replaces the guidance in IAS 31, Interests in Joint Ventures ("IAS 31"). Upon application of IFRS 11, entities which had previously accounted for joint ventures using line-by-line proportionate consolidation shall collapse such net asset values (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. This new standard is effective for our Q1 2013 interim consolidated financial statements. IFRS 11 had a significant impact on our financial statements as we had previously accounted for our interest in several joint-venture properties using line-by-line consolidation. This MD&A includes metrics using both equity and line-by-line consolidation bases.

Changes in Accounting Estimates and Changes in Accounting Policies

Future Accounting Policy Changes

Future accounting policy changes are described in note 1 of our Financial Statements.

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 March 31, 2013. 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 completed implementation of the New Yardi system (full conversion date effective January 2, 2013). We have considered the corresponding control risks and have performed procedures to obtain reasonable assurance on the design of internal controls over financial reporting that are new or are significantly modified.

Other than the above mentioned item, there were no material changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2013, that have significantly affected or are reasonably likely to significantly affect the our 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 stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- 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;

- growth, or lack thereof, of G&A expenses, which is subject to the risk and uncertainty that economic conditions may result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase;
- 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;
- our ability to access low-cost mortgage financing insured by CMHC;
- our expectations regarding achievement of certain occupancy levels at our LTC and retirement communities;
- certain assumptions relating to the debentures, including, credit risk in respect of the debentures, prior ranking indebtedness and absence of covenant protection, structural subordination of debentures, conversion of debentures following certain transactions, value of conversion privilege of the debentures, debentures redemption prior to maturity, inability of Chartwell to purchase debentures on a change of control and dilution;
- the expected return to be realized by Chartwell as a result of the acquisition of the Maestro portfolio, including the degree to which such acquisition may be accretive;
- the effect of the acquisition of the Maestro portfolio on the financial performance of Chartwell; and
- Chartwell will maintain good relations with HCN and receive the expected benefits associated with the co-ownership.

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 6, 2013 and our 2012 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.