2013

Management's Discussion and Analysis

For the Years Ended December 31, 2013 and 2012

CHARTWELL
retirement residences
making people's lives BETTER

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Years Ended December 31, 2013 and 2012

Contents

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 year ended December 31, 2013. This MD&A should be read in conjunction with Chartwell's audited, consolidated financial statements for the year ended December 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, 2013, 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 March 5, 2014.

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 2013 and Q4 2013 are in comparison to results from 2012 and Q4 2012, respectively.

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"), "Same Property NOI", "Same Property Revenue", "Same Property Direct Operating Expenses", "G&A Expenses as a percentage of Revenue", "Interest Coverage Ratio", "Indebtedness Ratio", "Net Debt to Adjusted EBITDA Ratio" and any related per unit amounts to measure, compare and explain the operating results and financial performance of the Trust. These key performance indicators do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and, therefore, may not be comparable to similar measures presented by other publicly-traded entities. Please refer to the "Key Performance Indicators" section of this MD&A for details of each of these non-IFRS 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 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 December 31, 2013, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 31,489 suites in 227 communities. At December 31, 2013, our portfolio of owned and leased communities consisted of interests in 30,317 suites in 219 communities.

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

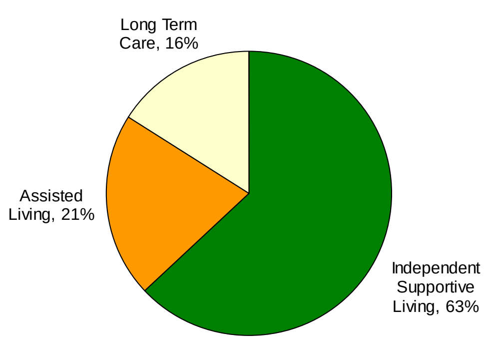
	Canadian Retirement Operations		Canadian Long Term Care Operations		United States Operations		Total	
	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds
Owned Properties: (1)								
100% Owned								
Operating	108	12,641	24	3,137	37	5,580	169	21,358
Lease-up	1	105	-	-	-	-	1	105
Total 100% Owned	109	12,746	24	3,137	37	5,580	170	21,463
Partially Owned - operating (2)	47	8,621	-	-	-	-	47	8,621
Total Owned	156	21,367	24	3,137	37	5,580	217	30,084
Properties under Operating Lease								
100% Interest	-	-	-	-	2	233	2	233
Total Owned and Leased	156	21,367	24	3,137	39	5,813	219	30,317
Managed Properties	4	564	4	608	-	-	8	1,172
Total	160	21,931	28	3,745	39	5,813	227	31,489

(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.

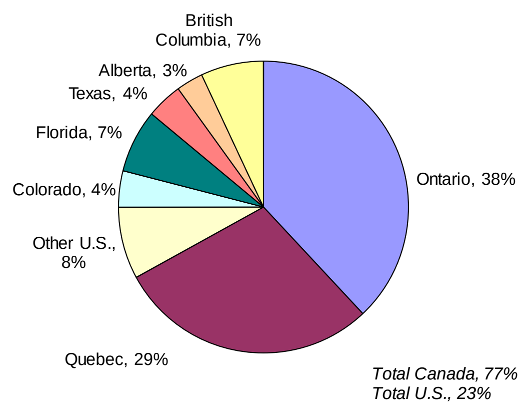
(2) We have a 50% ownership interest in these properties with the exception of one Canadian property in which we had a 33.3% ownership interest and subsequent to December 31, 2013, we acquired the remaining 66.7% interest and now have a 100% ownership interest in this property.

Composition of Portfolio of Owned and Leased Suites
at Chartwell's Share of Ownership or Leased Interest, at December 31, 2013 by:

Level of Care



Geographic Location



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 sustainable growth in our AFFO per unit, and 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 and interest rate risks.
- Financing our properties with long-term debt, while managing interest costs.
- Gradually reducing our debt levels to our targeted range.

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 moderate development program.
- 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 in 2013:

Grow core property portfolio contribution	• Re-branding of our Canadian communities is ongoing. • Same property NOI [1] grew $4.2 million or 1.9% in 2013. • Same property occupancy improved 0.3 percentage points to 89.6% in 2013.
Maintain a strong financial position	• At December 31, 2013, we had cash on hand [2] of $11.7 million and $62.1 million of available borrowing capacity under our secured revolving operating credit facility ("Credit Facility"). • Interest Coverage Ratio [1] improved to 2.16 in 2013 from 2.03 in 2012. • Net Debt to Adjusted EBITDA Ratio [1] improved to 8.6 at December 31, 2013 from 8.7 at December 31, 2012. • Indebtedness Ratio [1] improved to 56.6% at December 31, 2013, from 57.9% at December 31, 2012. • Obtained $321.3 million of new fixed-rate mortgages with a weighted average term to maturity of 12.5 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. • Completed the implementation of a capital budgeting system. • Completed the development of a procurement system. • Commenced the implementation of a fixed asset management system.
Build value of our real estate portfolio	• Acquired four properties (483 suites) for $67.5 million in 2013 and the remaining 66.7% interest in another property (113 suites) for $21.3 million in January 2014. • The redevelopment of three LTC residences (235 beds) and the development of a retirement residence (119 suites) are now complete. Two other projects (54 suites) are in progress for completion in 2014 and 2015. • Completed the sales of interests in twelve non-core U.S. properties for $225.9 million.

(1) Non-IFRS; refer to the "Key Performance Indicators" section of this MD&A.
(2) Non-IFRS; includes our share of joint-venture cash of $3.1 million. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A.

2014 Outlook

We believe that the projected growth in seniors' population in Canada and in the United States will provide support for positive trends in the seniors housing industry in 2014 and beyond.

Canadian Retirement Operations

We expect to generate moderate growth through rate and occupancy increases in our Canadian Retirement Operations segment, supported by improving economic conditions, a stable housing market and a slower pace of new supply growth.

We believe that our recent investments in branding, marketing and sales initiatives will allow us to increase awareness of Chartwell's name, prospect traffic to our residences and our occupancies. Building on the successes in 2012 and 2013, we expect to continue to grow our revenue from additional care and services offered to our residents. We expect to continue our focus on managing controllable costs through ongoing operations efficiency reviews, centralized purchasing and energy management programs.

- In Ontario, primarily due to competitive pressures, our average same property portfolio occupancy has declined to 87.6% in 2013 from 89.2% in 2012. This decline in occupancy is primarily a result of the significant growth in supply that occurred in the past four years. Although we believe that the current pace of supply growth is more in line with the demographic growth of seniors' population, certain oversupplied markets are likely to take longer to fully recover. As a result, we expect to see moderate occupancy improvements in 2014 and while we expect average rental rates to grow by 3.0%, it is possible that some targeted incentives may be required to effectively compete in certain markets.
- Our Western Canada platform delivered strong performance in 2013 with the same property portfolio occupancy reaching 93.2% in Q4 2103. In 2013, we have seen strong improvements in the previously underperforming markets in Chilliwack, Maple Ridge and Mission. The supply demand conditions remain positive in Alberta and have generally been improving in British Columbia. We expect continuing occupancy growth in our Western Canada platform and expect average rental rate growth of 3.5%.
- In Quebec, market conditions remain stable with the supply growth staying largely in line with the demographic growth of seniors' population. Our Quebec portfolio occupancies gradually increased throughout 2013 and we saw strong improvements in our properties located in the competitive Outaouais region. We expect this trend to continue in 2014. We expect average rental rate growth of 2.75% in 2014.

Canadian Long Term Care Operations

In 2013, our Canadian LTC same property portfolio NOI grew by 5.7%, driven by disciplined operations management and increases in resident rental rates for preferred accommodation. Our occupancies remain high at 98.7% and we expect stable performance and high occupancies in 2014 as there are approximately 21,000 people on the waiting list for LTC accommodation in Ontario. In 2013 and early 2014, we completed our three Ontario LTC redevelopment projects which now provide higher contribution to our results. We continue our work with the industry association and the Ontario government to develop a viable redevelopment program for the remaining Class B and Class C beds in the province.

U.S. Operations

The U.S. economy is expected to continue to grow in 2014 and beyond and the U.S. housing market is expected to continue its recovery. Although the pace of seniors housing construction activity has increased in 2013, we believe that, at this time, it is at a sustainable level given senior population demographic growth. These fundamentals are expected to support occupancy and same property NOI growth in our U.S. portfolio in 2014 with the average rental rate growth of 3.5%.

General, Administrative and Trust Expenses

Our general, administrative and Trust ("G&A") expenses increased in 2013 compared to 2012 as we invested in our corporate infrastructure following the significant growth in our property portfolio in 2012. We expect more moderate growth in our G&A expenses in 2014 as we continue our investments in training and development of our staff, in improving our information management systems as well as corporate support processes.

Development

During the past two years, we completed seven development projects which included redevelopment of four LTC properties in Ontario and British Columbia and development of three retirement residences in Ontario. At this time we have two development projects in progress; both being expansions of our existing residences. The expected financial returns of such add-on projects are generally more attractive than returns on standalone developments since, in many cases, we already own the land required for such projects. In addition, we have identified a number of other development opportunities that would increase density on our existing sites or would develop a complementary product on sites adjacent to our existing residences. We expect to commence several such developments in 2014 and to continue to evaluate a number of other development opportunities.

Acquisitions

In 2013 and early 2014, we completed acquisitions of five residences in Ontario, British Columbia and Quebec, investing $88.8 million. We expect these properties to generate strong growth in occupancy and NOI as they continue to lease-up. We are evaluating a number of other acquisition opportunities in our core markets and continue to look for additional opportunities to add newer, well-located and well-built product to our portfolio.

Dispositions

As part of our ongoing review of our real estate portfolio we may identify assets that no longer fit with the strategic direction of our company due to their age, location or other attributes. In 2013, we completed sales of our interests in 12 non-core properties in the United States. These sales were completed as part of our strategy to narrow our U.S. holdings to our core states of Florida, Texas and Colorado. On February 27, 2014, we also signed a definitive agreement to sell a non-core property in Ontario for $24.5 million. We own a 50% interest in this property. The sale is expected to close in Q3 2014. We expect to continue to work to divest of other non-core assets in 2014.

Taxation

In 2013, 78.1% of our distributions were classified as return of capital, 2.6% as foreign-source interest income and 19.3% as other income. We were not subject to cash SIFT taxes in 2013 and based on our forecasts, we do not expect to be subject to cash SIFT taxes in 2014 and 2015.

Significant Events

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

The following events have had a significant effect on our financial results in 2013 and may be expected to affect our results in the future.

Acquisitions

During Q2 2013, we purchased a 171-unit retirement residence and a 65-bed LTC residence located at the Cite Jardin complex in Gatineau, Quebec. We now own a 100% interest in this six-tower complex with a total of 863 suites. These properties were constructed in 2007. The purchase price was $19.0 million, not including closing costs, and was fully financed by a two-year mortgage bearing interest at 4.5%.

During Q3 2013, we purchased a 109-unit retirement residence built in 2011 and located in Kamloops, British Columbia. The purchase price was $21.5 million, not including closing costs, and was financed through an $11.8 million five-year mortgage bearing interest at 3.65%, with the balance paid in cash utilizing our Credit Facility.

During Q4 2013, we completed the acquisition of a 138-unit retirement residence built in 2009 and located in Mission, British Columbia. The purchase price was $27.0 million, not including closing costs, and was financed through a $15.3 million five-year mortgage bearing interest at 4.35%, with the balance paid in cash utilizing our Credit Facility.

The following tables summarize acquisitions completed in 2013:

($millions, except communities and suites/beds)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013
Number of communities	-	2	1	1	4
Number of suites/beds	-	236	109	138	483
Purchase price (including closing costs)	-	19,261	22,191	27,656	69,108
Financed as follows:					
Cash	-	19,000	21,309	27,000	67,309
Liabilities assumed	-	-	191	-	191
Acquisition costs (1)	-	261	691	656	1,608
Total	-	19,261	22,191	27,656	69,108

(1) Under IFRS, these costs are expensed as incurred.

On January 2, 2014, we completed the acquisition of the remaining 66.7% interest in Robert Speck, a 113-unit retirement residence located in Mississauga, Ontario. The purchase price was $21.3 million, not including closing costs, and was settled through the assumption of mortgage debt of $15.2 million, with the balance paid using cash on hand.

Dispositions

During Q1 2013, we, along with our joint venture partner, completed the sale of a non-core five-property portfolio located in New York State (the “Bristal 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 Bristal Portfolio and, as a result of this sale, a U.S.$48.5 million gain is included in our share of income from this joint venture.

During Q4 2013, we completed the sale of seven non-core communities (comprising 613 suites), located in the U.S. The sale price was U.S.$80.9 million and was settled by the purchaser’s assumption of debt of U.S.$52.7 million, with the balance, net of working capital adjustments and holdbacks, received in cash. On closing, U.S.$7.5 million of the proceeds was used to repay the mortgage debt on one of the sold properties. As a result of this sale, a U.S.$21.3 million gain before transaction costs was recorded.

On February 27, 2014, we entered into a definitive agreement to sell a non-core property in Ontario for $24.5 million. We own a 50% interest in this property. The closing is expected in Q3 2014.

Development Activities

Our goal is to maintain an active development program by commencing up to five new projects per year. The following table summarizes our recent development projects:

Project	Location	Suites/ Beds	Development Costs (1) ($millions)	Estimated Construction Completion Date	Details
Chartwell Aylmer LTC	Aylmer, ON	64	9.0	Q2 2013 (complete)	Redevelopment of an existing 60-bed Class C LTC property into a 64-bed Class A LTC property.
Chartwell Parkhill LTC	Parkhill, ON	64	10.7	Q3 2013 (complete)	Redevelopment of an existing 59-bed Class C LTC property into a 64-bed Class A LTC property.
Chartwell Pine Grove LTC	Woodstock, ON	107	13.6	Q4 2013 (complete)	Redevelopment of an existing 100-bed Class B LTC and 40-suite retirement residence into a 96-bed Class A LTC and 11-suite retirement residence.
Chartwell Deerview Crossing	Hamilton, ON	119	32.3	Q1 2014 (complete)	New retirement residence with a 28-suite dedicated AL area.
Chartwell Tamarac Memory Care	Tamarac, FL	24	U.S.$4.5	Q4 2014	New development of a standalone memory care unit with 24 suites, adjacent to our existing residence.
Chartwell Georgian Traditions	Collingwood, ON	30	9.2	Q1 2015	Development to add 10 IL units and a separate 20-unit AL area to our existing residence.
		408			

(1) Includes imputed debt and equity costs. Also includes estimated results of operations during lease-up period which are recorded in profit and loss as incurred under IFRS.

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” 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	50.0%	Line-by-line
Chartwell-HCN Operator (1)	Same as above	Same as above	50.0%	Equity
Bristal Portfolio (2)	5	768	50.0%	Equity
Robert Speck (3)	1	113	33.3%	Line-by-line
Oakville	1	147	50.0%	Equity
Constantia	1	121	50.0%	Equity
Pickering	1	117	50.0%	Equity
Valley Vista	1	151	50.0%	Line-by-line
Riverside	1	138	50.0%	Line-by-line
Churchill	1	97	50.0%	Line-by-line

(1) Chartwell directly holds its interest in real estate but its interest in operations is held through separate legal entities.
(2) On February 13, 2013, Chartwell sold its interest in this portfolio.
(3) Chartwell completed the acquisition of the remaining 66.7% interest in this property on January 2, 2014.

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, a non-IFRS basis, 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 Q4 2013 Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

($000s)	Q4 2013 (1)	IFRS 11 adjustments (2)	Q4 2013 using line-by-line (3)
Revenue			
Resident	208,348	25,532	233,880
Management and other fees	1,901	-	1,901
Lease revenue from joint ventures	8,037	(8,037)	-
Mezzanine loan interest	24	-	24
	218,310	17,495	235,805
Expenses			
Direct operating	150,421	16,363	166,784
G&A	8,547	-	8,547
	158,968	16,363	175,331
Income before the undernoted	59,342	1,132	60,474
Finance costs	29,920	398	30,318
Property lease expense	654	-	654
Other expense/(income)	(8,863)	41	(8,822)
Depreciation of property, plant and equipment ("PP&E")	51,000	751	51,751
Amortization of intangible assets	397	-	397
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	367	-	367
Share of joint venture loss/(income)	58	(58)	-
Income/(loss) before income taxes	(14,191)	-	(14,191)
Income tax expense/(benefit):			
Current	66	-	66
Deferred	-	-	-
	66	-	66
Loss for the period	(14,257)	-	(14,257)
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	1,533	-	1,533
Total comprehensive loss	(12,724)	-	(12,724)

(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 Q4 2012 Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

($000s)	Q4 2012 (1)	IFRS 11 Adjustments (2)	Q4 2012 using line-by-line (3)
Revenue			
Resident	199,054	31,339	230,393
Management and other fees	3,529	-	3,529
Lease revenue from joint ventures	7,473	(7,473)	-
Mezzanine loan interest	794	-	794
	210,850	23,866	234,716
Expenses			
Direct operating	144,044	19,900	163,944
G&A	7,190	-	7,190
	151,234	19,900	171,134
Income before the undernoted	59,616	3,966	63,582
Finance costs	28,511	2,007	30,518
Property lease expense	625	-	625
Other expense/(income)	11,117	(237)	10,880
Depreciation of PP&E	58,185	997	59,182
Amortization of intangible assets	671	-	671
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	1,605	-	1,605
Share of joint venture loss/(income)	(1,199)	1,199	-
Income/(loss) before income taxes	(39,899)	-	(39,899)
Income tax expense/(benefit):			
Current	78	-	78
Deferred	(1,423)	-	(1,423)
	(1,345)	-	(1,345)
Income/(loss) for the period	(38,554)	-	(38,554)
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	276	-	276
Total comprehensive income/(loss)	(38,278)	-	(38,278)

(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 2013 Statement of Comprehensive Income adjusted to remove the effects of IFRS 11:

($000s)	2013 (1)	IFRS 11 adjustments (2)	2013 using line-by-line (3)
Revenue			
Resident	819,114	103,546	922,660
Management and other fees	7,925	-	7,925
Lease revenue from joint ventures	31,386	(31,386)	-
Mezzanine loan interest	154	-	154
	858,579	72,160	930,739
Expenses			
Direct operating	585,988	65,244	651,232
G&A	31,016	-	31,016
	617,004	65,244	682,248
Income before the undernoted	241,575	6,916	248,491
Finance costs	113,716	2,430	116,146
Property lease expense	2,673	-	2,673
Other expense/(income)	(9,262)	(48,194)	(57,456)
Depreciation of PP&E	166,979	3,611	170,590
Amortization of intangible assets	1,974	-	1,974
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	(9,580)	-	(9,580)
Share of joint venture loss/(income)	(49,069)	49,069	-
Income/(loss) before income taxes	24,144	-	24,144
Income tax expense/(benefit):			
Current	260	-	260
Deferred	-	-	-
	260	-	260
Income/(loss) for the period	23,884	-	23,884
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	3,103	-	3,103
Total comprehensive income/(loss)	26,987	-	26,987

(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 2012 Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

($000s)	2012 (1)	IFRS 11 Adjustments (2)	2012 using line-by-line (3)
Revenue			
Resident	781,039	93,464	874,503
Management and other fees	7,725	-	7,725
Lease revenue from joint ventures	19,933	(19,933)	-
Mezzanine loan interest	1,493	-	1,493
	810,190	73,531	883,721
Expenses			
Direct operating	557,786	57,528	615,314
G&A	26,166	-	26,166
	583,952	57,528	641,480
Income before the undernoted	226,238	16,003	242,241
Finance costs	119,090	8,077	127,167
Property lease expense	2,504	-	2,504
Other expense/(income)	20,215	79	20,294
Depreciation of PP&E	193,642	6,741	200,383
Amortization of intangible assets	3,537	-	3,537
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	49,379	-	49,379
Share of joint venture loss/(income)	(1,106)	1,106	-
Income/(loss) before income taxes	(161,023)	-	(161,023)
Income tax expense/(benefit):			
Current	296	-	296
Deferred	(21,977)	-	(21,977)
	(21,681)	-	(21,681)
Income/(loss) for the period	(139,342)	-	(139,342)
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	(1,504)	-	(1,504)
Total comprehensive income/(loss)	(140,846)	-	(140,846)

(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, 2013 adjusted to remove the impact of IFRS 11:

($000s)	December 31, 2013 (1)	IFRS 11 Adjustments (2)	December 31, 2013 using line-by-line (3)
Assets			
Current assets:			
Cash and cash equivalents	8,601	3,086	11,687
Trade and other receivables	17,881	36	17,917
Mezzanine loans receivables	-	-	-
Capital funding receivable	4,698	-	4,698
Other assets	26,668	3,125	29,793
Total current assets	57,848	6,247	64,095
Non-current assets:			
Other assets	7,397	-	7,397
Capital funding receivable	66,481	-	66,481
Investment in joint ventures	28,319	(28,319)	-
Intangible assets	49,777	5	49,782
PP&E	2,628,140	47,327	2,675,467
Total non-current assets	2,780,114	19,013	2,799,127
Total assets	2,837,962	25,260	2,863,222
Liabilities and Unitholders' Equity			
Current liabilities:			
Credit Facility	27,000	-	27,000
Accounts payable and other liabilities	129,020	(3,702)	125,318
Distributions payable	7,884	-	7,884
Mortgages payable	219,347	12,866	232,213
Total current liabilities	383,251	9,164	392,415
Non-current liabilities:			
Mortgages payable	1,784,889	16,096	1,800,985
Convertible debentures	144,005	-	144,005
Class B Units of Chartwell Master Care LP	16,583	-	16,583
Total non-current liabilities	1,945,477	16,096	1,961,573
Total liabilities	2,328,728	25,260	2,353,988
Unitholders' equity	509,234	-	509,234
Total liabilities and unitholders' equity	2,837,962	25,260	2,863,222

(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 related to assets 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)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Resident revenue [1]	233,880	230,393	3,487	922,660	874,503	48,157
Weighted average occupancy rate - same property portfolio [2]	89.8%	90.1%	(0.3pp)	89.6%	89.3%	0.3pp
Same property NOI [3]	56,014	54,277	1,737	223,329	219,137	4,192
AFFO [4][5][6]	26,635	30,104	(3,469)	119,085	111,554	7,531
AFFO per unit diluted [7][8]	0.15	0.17	(0.02)	0.68	0.66	0.02
FFO [6][9]	30,459	33,421	(2,962)	133,487	124,157	9,330
FFO per unit diluted [7][8]	0.17	0.19	(0.02)	0.75	0.73	0.02
Distributions declared [10]	23,586	23,329	257	93,964	90,700	3,264
Distributions declared per unit [8]	0.14	0.14	-	0.54	0.54	-
Distributions declared as a percentage of AFFO	88.6%	77.5%	11.1pp	78.9%	81.3%	(2.4pp)
Net income/(loss) for the period	(14,257)	(38,554)	24,297	23,884	(139,342)	163,226

(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) Non-IFRS; excludes the effects of foreign exchange on the U.S. dollar. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.
(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 $0.8 million and $2.1 million in negative AFFO incurred on properties in lease-up in Q4 2013 and 2013, respectively ($0.5 million and $2.8 million in Q4 2012 and 2012, respectively).
(6) Excludes reversal of provisions for impairment of mezzanine loans and accounts receivable of $9.4 million recorded in Q4 2012.
(7) Includes dilutive impact of conversion of convertible debentures into Trust Units.
(8) Refer to the "Key Performance Indicators – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.
(9) Refer to the "Non-IFRS Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net income/(loss) and calculations of FFO per unit diluted.
(10) Includes distributions declared on Trust Units and distributions on Class B Units of Chartwell Master Care LP ("Class B Units") and subscription receipts recorded as interest expense.

In 2013, AFFO was $119.1 million or $0.68 per unit diluted. This represents an increase of $7.5 million or 6.8% compared to 2012 AFFO of $111.6 million or $0.66 per unit diluted. The changes in AFFO, including our share of amounts from joint ventures, include the following:

- Incremental AFFO from our same property portfolio of $9.2 million, primarily due to NOI growth and interest cost savings;
- Incremental AFFO from our acquisitions and other portfolio of $10.1 million, primarily due to the full-year contribution from the Maestro Portfolio;
- Other items combined for $0.2 million;

partially offset by:

- Higher G&A expenses of $4.9 million incurred to support significant growth in our property portfolio;
- Lower AFFO of $3.3 million, primarily due to sales of non-core U.S. properties;
- Defeasance costs of $2.5 million incurred as a result of early debt repayments; and

- Lower mezzanine loan interest income of $1.3 million, primarily due to mezzanine loan collections in Q4 2012 as a result of the Spectrum settlement [*]

Fourth Quarter: In Q4 2013, AFFO was $26.6 million or $0.15 per unit diluted. This represents a decrease of $3.5 million or 11.5% compared to AFFO in Q4 2012 of $30.1 million or $0.17 per unit diluted. The changes in AFFO include the following:

- Incremental AFFO from our same property portfolio of $3.0 million, primarily due to NOI growth and interest cost savings;
- Incremental AFFO from our acquisitions and other portfolio of $1.0 million, primarily due to NOI growth and contribution from acquisitions and developments completed in 2013;
- Other items combined for $0.4 million;

offset by:

- Lower management fee income and mezzanine loan interest income of $2.4 million, primarily due to collection of mezzanine loans and fees in Q4 2012 as a result of the Spectrum settlement;
- Lower AFFO of $1.6 million, primarily due to sales of non-core U.S. properties;
- Defeasance costs of $2.4 million as a result of early debt repayments; and
- Higher G&A expenses of $1.5 million incurred to support significant growth in our property portfolio.

Per unit amounts were also impacted by the dilutive effect of the $135.0 million aggregate principal amount of 5.7% convertible debentures issued in Q1 2012.

In 2013, FFO increased by $9.3 million or 7.5% to $133.5 million or $0.75 per unit diluted compared to 2012 FFO of $124.2 million or $0.73 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.

In Q4 2013, FFO was $30.5 million or $0.17 per unit diluted. This represents a decrease of $3.0 million or 8.9% compared to Q4 2012 FFO of $33.4 million or $0.19 per unit diluted.

In 2013, net income was $23.9 million compared to a net loss in 2012 of $139.3 million. For Q4 2013, net loss was $14.3 million compared to a net loss of $38.6 million in Q4 2012. In addition to items which impacted AFFO and FFO as discussed above, net income was also impacted by depreciation of properties and amortization of limited life intangibles, impairment of PP&E, changes in fair value of financial instruments and unrealized foreign exchange, and changes in deferred income taxes. Furthermore, net income in 2013 increased primarily due to a $70.9 million gain on the sales of non-core U.S. properties. Net loss for 2012 included transaction costs related to the acquisition of the Maestro Portfolio, convertible debenture issuance costs and distributions on subscription receipts recorded as interest expense. There were no such expenses in 2013.

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

[*] *Refer to the "Significant Events – Spectrum Settlement" section of the 2012 MD&A for a discussion of the Spectrum settlement.*

Same Property Portfolio Highlights

($000s, except occupancy rates)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Canadian retirement:						
NOI (1)	32,654	31,462	1,192	130,783	130,343	440
Occupancy	87.9%	88.8%	(0.9pp)	87.7%	87.8%	(0.1pp)
Canadian LTC:						
NOI (1)	7,142	6,598	544	26,885	25,441	1,444
Occupancy	99.0%	98.9%	0.1pp	98.7%	98.5%	0.2pp
U.S.:						
NOI (U.S.$) (1)	16,218	16,217	1	65,661	63,353	2,308
Occupancy	89.2%	88.5%	0.7pp	88.9%	87.7%	1.2pp
Combined:						
NOI (1)(2)	56,014	54,277	1,737	223,329	219,137	4,192
Occupancy	89.8%	90.1%	(0.3pp)	89.6%	89.3%	0.3pp

(1) Non-IFRS; includes our share of NOI 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) Non-IFRS; excludes the effect of foreign exchange. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.

In 2013, combined same property occupancy improved to 89.6%, with same property NOI increasing $4.2 million or 1.9% as follows:

- In our Canadian retirement portfolio, same property NOI increased $0.4 million or 0.3% as revenue growth from ancillary services and regular annual rental rate increases in line with competitive market conditions more than offset higher staffing costs incurred to address regulatory requirements in Quebec, and to deliver enhanced services to our residents, as well as higher utilities, food and marketing expenses. Occupancy decreased to 87.7% compared to 2012 occupancy of 87.8%.
- In our Canadian LTC portfolio, same property NOI improved $1.4 million or 5.7% primarily due to higher government funding and preferred accommodation rates. Occupancy remained high at 98.7%.
- In our U.S. portfolio, same property NOI increased 3.6% primarily due to higher revenues as a result of regular annual rental rate increases in line with competitive market conditions, improved occupancy; partially offset by higher resident move-in incentives, higher staffing costs, bad debt, and insurance expenses. Occupancy improved to 88.9% in 2013 from 87.7% in 2012.

Fourth Quarter: In Q4 2013, combined same property occupancy decreased to 89.8%, with same property NOI increasing $1.7 million or 3.2% as follows:

- In our Canadian retirement portfolio, same property NOI increased 3.8%. The growth in revenues, primarily due to regular annual rental rate increases in line with competitive market conditions, lower resident move-in incentives and higher ancillary services, was partially offset by higher staffing costs and utilities. Occupancy decreased to 87.9% from 88.8% in Q4 2012.
- In our Canadian LTC portfolio, same property NOI increased 8.2%, primarily due to higher government funding, increased retirement and other revenues and higher preferred accommodation rates. Occupancy remained high at 99.0% compared to 98.9% in Q4 2012.
- In our U.S. portfolio, same property NOI was consistent with Q4 2012, primarily due to higher revenues as a result of improved occupancy and regular annual rental rate increases in line with competitive market conditions; partially offset by higher resident move-in incentives, higher staffing costs and property taxes and lower management fees. Occupancy improved to 89.2% in Q4 2013 from 88.5% in Q4 2012.

Summary of Net Operating Income

($000s, except occupancy rates)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Resident Revenue						
Same property [1][2]	196,171	189,689	6,482	766,155	746,720	19,435
Acquisitions and other [1][2]	35,247	41,233	(5,986)	150,132	127,951	22,181
Foreign exchange on U.S. dollar revenue [1]	2,462	(529)	2,991	6,373	(168)	6,541
	233,880	230,393	3,487	922,660	874,503	48,157
Less: Share of resident revenue from joint ventures	25,532	31,339	(5,807)	103,546	93,464	10,082
Total resident revenue	208,348	199,054	9,294	819,114	781,039	38,075
Direct Operating Expenses						
Same property [1][2]	140,157	135,412	4,745	542,826	527,583	15,243
Acquisitions and other [1][2]	24,965	28,887	(3,922)	104,114	87,857	16,257
Foreign exchange on U.S. dollar expenses [1]	1,662	(355)	2,017	4,292	(126)	4,418
	166,784	163,944	2,840	651,232	615,314	35,918
Less: Share of direct operating expenses from joint ventures	16,363	19,900	(3,537)	65,244	57,528	7,716
Total direct operating expenses	150,421	144,044	6,377	585,988	557,786	28,202
Net Operating Income						
Same property [1][2]	56,014	54,277	1,737	223,329	219,137	4,192
Acquisitions and other [1][2]	10,282	12,346	(2,064)	46,018	40,094	5,924
Foreign exchange on U.S. dollar expenses [1]	800	(174)	974	2,081	(42)	2,123
	67,096	66,449	647	271,428	259,189	12,239
Less: Share of NOI from joint ventures	9,169	11,439	(2,270)	38,302	35,936	2,366
Total NOI	57,927	55,010	2,917	233,126	223,253	9,873
Weighted average occupancy rate - same property portfolio	89.8%	90.1%	(0.3pp)	89.6%	89.3%	0.3pp
Weighted average occupancy rate - total portfolio	89.2%	89.5%	(0.3pp)	89.1%	88.7%	0.4pp

(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) Non-IFRS; excludes the effect of foreign exchange. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.

Total resident revenue grew 4.9% in 2013 and 4.7% in Q4 2013 through increased revenue in our same property and acquisitions portfolios, partially offset by the sales of non-core U.S. properties.

Same property resident revenue increased $19.4 million or 2.6% for 2013 and $6.5 million or 3.4% for Q4 2013, primarily as a result of regular annual rental rate increases in line with competitive market conditions and higher ancillary services revenues.

Total direct operating expenses grew 5.1% in 2013 and 4.4% in Q4 2013, due to growth in our same property and acquisition portfolios, partially offset by the sales of non-core U.S. properties.

Same property direct operating expenses increased $15.2 million or 2.9% in 2013 and $4.7 million or 3.5% in Q4 2013, primarily due to higher staffing costs related to growth in the scope of services provided to our residents and to respond to new regulatory requirements, higher management fees and increases in food, marketing, utilities, bad debt and insurance expenses.

Total NOI increased in 2013 due to growth in our same property and acquisitions portfolios, partially offset by the sales of non-core U.S. properties.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	Q4 2013	Q4 2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
G&A expenses	8,547	7,190	1,357	31,016	26,166	4,850
G&A as a percentage of revenue (1)	3.6%	3.0%	0.6pp	3.3%	2.9%	0.4pp

(1) Non-IFRS; refer to the "Key Performance Indicators – General, Administrative and Trust Expenses as a Percentage of Revenue" section of this MD&A for a discussion of the significance of this metric.

G&A expenses increased $4.9 million or 18.5% in 2013 primarily due to staffing costs incurred to support a 49.2% growth in our Canadian suites under management since 2011, as well as our increased investments in training, education, employee recognition and information technology, partially offset by lower insurance and other corporate expenses.

G&A expenses as a percentage of revenue, including our share of revenue from joint ventures, were 3.3% in 2013 compared to 2.9% in 2012.

Fourth Quarter: G&A expenses increased $1.4 million or 18.9% in Q4 2013 primarily due to costs incurred to support significant growth in our Canadian property portfolio and higher legal costs and investments in information technology.

G&A expenses, as a percentage of revenue, including our share of revenue from joint ventures, were 3.6% in Q4 2013 compared to 3.0% in Q4 2012.

Management Fee Revenue

($000s)	Q4 2013	Q4 2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
HCN	1,429	1,327	102	6,062	3,519	2,543
Other	472	2,202	(1,730)	1,863	4,206	(2,343)
Total management fee revenue	1,901	3,529	(1,628)	7,925	7,725	200

Management fee revenue increased $0.2 million or 2.6% in 2013 primarily due to operations management and capital project oversight fees earned from HCN. Under our agreements with HCN, 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.

The decrease in other management fees primarily relates to the sale of the Bristal Portfolio in Q1 2013, the loss of one management contract in Q3 2013, and the loss of one management contract in 2012 as a result of the sale of the property by the owner. In addition, 2012 amounts include a collection of fees from Spectrum in connection with the Spectrum settlement. We no longer earn fees from this entity.

Fourth Quarter: Management fee revenue decreased $1.6 million in Q4 2013 primarily due to a reduction for management fees no longer earned from Spectrum.

Finance Costs

($000s)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Mortgages and loans payable [1]						
Same property [2]	20,965	21,871	(906)	85,147	89,333	(4,186)
Acquisitions and other [2][3]	3,953	6,010	(2,057)	17,869	19,497	(1,628)
Foreign exchange on U.S. dollar expenses	423	(104)	527	1,080	(29)	1,109
	25,341	27,777	(2,436)	104,096	108,801	(4,705)
Convertible debentures	1,940	1,961	(21)	7,695	7,193	502
Credit Facility and other interest expense	2,793	672	2,121	4,233	2,863	1,370
	30,074	30,410	(336)	116,024	118,857	(2,833)
Amortization of financing costs and debt mark-to-market adjustments [1]	262	247	15	513	1,639	(1,126)
	30,336	30,657	(321)	116,537	120,496	(3,959)
Interest capitalized to properties under development	(241)	(366)	125	(1,286)	(1,843)	557
Distributions on Class B Units recorded as interest expense	223	227	(4)	895	909	(14)
Distributions on subscription receipts	-	-	-	-	2,242	(2,242)
Convertible debenture issuance costs	-	-	-	-	5,363	(5,363)
	30,318	30,518	(200)	116,146	127,167	(11,021)
Less: Share of joint-venture finance costs	398	2,007	(1,609)	2,430	8,077	(5,647)
Total finance costs	29,920	28,511	1,409	113,716	119,090	(5,374)

(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) Non-IFRS; excludes the effect of foreign exchange. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.
(3) Includes $0.4 million and $1.6 million related to properties in lease-up in Q4 2013 and 2013, respectively ($0.5 million and $1.7 million in Q4 2012 and 2012, respectively).

Interest expense on the same property portfolio decreased $0.9 million and $4.2 million in Q4 2013 and 2013, respectively, due to regular mortgage principal repayments and lower interest rates achieved on renewals.

Interest expense in our acquisitions and other portfolio decreased $1.6 million in 2013 primarily due to the sales of non-core U.S. properties.

Interest expense on our convertible debentures increased in 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.

Credit Facility and other interest expense increased in Q4 2013 and 2013 primarily due to defeasance costs of $2.4 million and $2.5 million incurred in Q4 2013 and 2013, respectively, as a result of early debt repayments, partially offset by lower drawings on our Credit Facility.

Amortization of financing costs and debt mark-to-market adjustments decreased $1.1 million in 2013 primarily as a result of debt mark-to-market adjustments.

We capitalized interest of $1.3 million in 2013 related to our development projects under construction. Interest capitalization stops once a development project becomes available for use.

In Q2 2012, on conversion of the subscription receipts to Trust Units, we paid $2.2 million of distributions related to the period when the subscription receipts were outstanding. Under IFRS, such distributions are recorded as interest expense.

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

Other (Expense)/Income

($000s)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Transaction costs arising on business acquisitions and dispositions [(1)]	(2,776)	(325)	(2,451)	(6,276)	(12,995)	6,719
Interest income on capital funding receivable and bank balances [(1)]	1,020	1,212	(192)	4,102	4,180	(78)
Gain on sale of assets [(1)]	22,080	37	22,043	71,132	325	70,807
Impairment of PP&E	(11,502)	(21,203)	9,701	(11,502)	(21,203)	9,701
Reversal of previously recorded impairment provisions	-	9,399	(9,399)	-	9,399	(9,399)
	8,822	(10,880)	19,702	57,456	(20,294)	77,750
Less: Share of joint ventures	(41)	237	(278)	48,194	(79)	48,273
Total other (expense)/income	8,863	(11,117)	19,980	9,262	(20,215)	29,477

(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.

Transaction costs arising on business acquisitions and dispositions are expensed as incurred and fluctuate from period to period based on the timing and volume of transactions. 2013 amounts primarily relate to the sales of non-core U.S. properties and 2012 amounts relate primarily to the acquisition of the Maestro Portfolio.

Gain on sale of assets of $71.1 million in 2013 is primarily due to the sales of non-core U.S. properties.

In 2013, the impairment of PP&E primarily relates to two properties in our Quebec portfolio and one property in our U.S. portfolio whose carrying values exceeded estimated recoverable amounts. In addition, impairment was recorded for land held for development in Quebec.

In 2012, the impairment of PP&E primarily relates to three properties in our Quebec portfolio, whose carrying values exceeded estimated recoverable amounts.

In 2012, we reversed a previously-recorded provision for impairment of mezzanine loans and accounts receivable in connection with the Spectrum settlement.

Other Items

($000s)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Property lease expense	654	625	29	2,673	2,504	169
Depreciation of PP&E [(1)]	51,751	59,182	(7,431)	170,590	200,383	(29,793)
Amortization of limited life intangible assets	397	671	(274)	1,974	3,537	(1,563)
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	367	1,605	(1,238)	(9,580)	49,379	(58,959)
Current income tax expense/(benefit)	66	78	(12)	260	296	(36)
Deferred income tax expense/(benefit)	-	(1,423)	1,423	-	(21,977)	21,977

(1) Non-IFRS; includes our share of joint-venture depreciation of $0.8 million and $3.6 million in Q4 2013 and 2013, respectively ($1.0 million and $6.7 million in Q4 2012 and 2012, respectively). 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 in 2012 and 2013.

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.
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 2012, we recorded a loss of $29.6 million, related to the change in fair value of these subscription receipts. There were no comparable amounts in 2013.

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)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Net income/(loss) for the period	(14,257)	(38,554)	24,297	23,884	(139,342)	163,226
Add (Subtract):						
Depreciation of PP&E	51,751	59,182	(7,431)	170,590	200,383	(29,793)
Amortization of limited life intangible assets	397	671	(274)	1,974	3,537	(1,563)
Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above	(220)	(379)	159	(922)	(811)	(111)
Loss/(gain) on disposal of assets	(22,080)	(37)	(22,043)	(71,132)	(325)	(70,807)
Impairment of PP&E	11,502	21,203	(9,701)	11,502	21,203	(9,701)
Transaction costs arising on business acquisitions and dispositions	2,776	325	2,451	6,276	12,995	(6,719)
Deferred income taxes	-	(1,423)	1,423	-	(21,977)	21,977
Distributions on Class B Units recorded as interest expense	223	227	(4)	895	909	(14)
Distributions on subscription receipts	-	-	-	-	2,242	(2,242)
Convertible debenture issuance costs	-	-	-	-	5,363	(5,363)
Changes in fair value of financial instruments and unrealized foreign exchange gains/losses	367	1,605	(1,238)	(9,580)	49,379	(58,959)
FFO (1)	30,459	42,820	(12,361)	133,487	133,556	(69)
Reversal of provision for impairment of mezzanine loans and accounts receivable	-	(9,399)	9,399	-	(9,399)	9,399
FFO excluding reversal of provision for impairment	30,459	33,421	(2,962)	133,487	124,157	9,330
FFO	30,459	42,820	(12,361)	133,487	133,556	(69)
Interest expense on 5.7% convertible debentures	1,940	1,960	(20)	7,695	6,282	1,413
Diluted FFO	32,399	44,780	(12,381)	141,182	139,838	1,344
Reversal of provision for impairment of mezzanine loans and accounts receivable	-	(9,399)	9,399	-	(9,399)	9,399
Diluted FFO excluding reversal of provision for impairment	32,399	35,381	(2,982)	141,182	130,439	10,743
FFO per unit						
Basic	0.17	0.25	(0.08)	0.76	0.79	(0.03)
Diluted (2)	0.17	0.24	(0.07)	0.75	0.79	(0.04)
FFO per unit excluding reversal of impairment provision						
Basic	0.17	0.19	(0.02)	0.76	0.74	0.02
Diluted (2)	0.17	0.19	(0.02)	0.75	0.73	0.02

(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.

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

<u>Adjusted Funds from Operations (“AFFO”)</u>

The following table provides the calculation of AFFO:

($000s, except per unit amounts)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
FFO [1]	30,459	42,820	(12,361)	133,487	133,556	(69)
Add (Subtract):						
Principal portion of capital subsidy receivable from Health Authorities	1,130	1,024	106	4,321	3,812	509
Amounts received under income guarantees	-	552	(552)	1,361	1,639	(278)
Amortization of financing costs and debt mark-to-market adjustments [2]	225	197	28	343	1,301	(958)
Financing cost reserve [3]	(502)	(482)	(20)	(1,974)	(1,865)	(109)
AFFO before capex reserve	31,312	44,111	(12,799)	137,538	138,443	(905)
Maintenance capex reserve - 2% of property revenue [4]	(4,677)	(4,608)	(69)	(18,453)	(17,490)	(963)
AFFO [5]	26,635	39,503	(12,868)	119,085	120,953	(1,868)
Reversal of provision for impairment of mezzanine loans and accounts receivable	-	(9,399)	9,399	-	(9,399)	9,399
AFFO excluding reversal of provision for impairment	26,635	30,104	(3,469)	119,085	111,554	7,531
AFFO	26,635	39,503	(12,868)	119,085	120,953	(1,868)
Interest expense on 5.7% convertible debentures	1,940	1,960	(20)	7,695	6,282	1,413
Diluted AFFO	28,575	41,463	(12,888)	126,780	127,235	(455)
Reversal of provision for impairment of mezzanine loans and accounts receivable	-	(9,399)	9,399	-	(9,399)	9,399
Diluted AFFO excluding reversal of provision for impairment	28,575	32,064	(3,489)	126,780	117,836	8,944
AFFO per unit						
Basic	0.15	0.23	(0.08)	0.68	0.72	(0.04)
Diluted [6]	0.15	0.22	(0.07)	0.68	0.71	(0.03)
AFFO per unit excluding reversal of provision for impairment						
Basic	0.15	0.17	(0.02)	0.68	0.66	0.02
Diluted [6]	0.15	0.17	(0.02)	0.68	0.66	0.02

(1) Refer to the “Key Performance Indicators – Funds from Operations” section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.
(2) Excludes amortization of financing costs incurred in respect of renewal of our Credit Facility.
(3) 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.
(4) Refer to the “Liquidity and Capital Commitments – Capital Expenditures” section of this MD&A for a discussion of the nature of this reserve.
(5) 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.
(6) Diluted AFFO is solely utilized for the purposes of calculating AFFO per unit diluted.
(7) Includes the dilutive impact of 5.7% convertible debentures.

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

Weighted Average Number of Units

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

(000s)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Weighted average number of units [(1)]	175,470	173,529	1,941	174,844	168,142	6,702
Dilutive impact of 5.7% convertible debentures	12,273	12,273	-	12,273	9,993	2,280
Weighted average number of units, diluted	187,743	185,802	1,941	187,117	178,135	8,982

(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:

	2013				**2012** (Restated)			
($000s)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues	218,310	218,600	212,716	208,953	210,850	205,059	200,564	193,717
Direct operating expenses	(150,421)	(148,740)	(143,179)	(143,648)	(144,044)	(137,937)	(137,809)	(137,996)
G&A expenses	(8,547)	(6,800)	(7,793)	(7,876)	(7,190)	(5,847)	(6,766)	(6,363)
Income before the understated [(1)]	59,342	63,060	61,744	57,429	59,616	61,275	55,989	49,358
Finance costs	(29,920)	(28,176)	(27,800)	(27,820)	(28,511)	(28,378)	(31,200)	(31,001)
Property lease expense	(654)	(682)	(681)	(656)	(625)	(619)	(632)	(628)
Other income/(expense)	8,863	286	527	(414)	(11,117)	(714)	(6,300)	(2,084)
Depreciation and amortization	(51,397)	(40,611)	(37,636)	(39,309)	(58,856)	(47,316)	(48,869)	(42,138)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(367)	3,074	7,437	(564)	(1,605)	(9,262)	(10,512)	(28,000)
Share of earnings (loss)/gain	(58)	333	252	48,542	1,199	1,058	36	(1,187)
Current income tax (expense)/recovery	(66)	(65)	(66)	(63)	(78)	(77)	(82)	(59)
Deferred income tax (expense)/recovery	-	-	-	-	1,423	5,495	7,683	7,376
Net income/(loss) for the period	(14,257)	(2,781)	3,777	37,145	(38,554)	(18,538)	(33,887)	(48,363)
FFO [(2)]	30,459	36,577	35,302	31,147	33,421	35,432	29,793	25,512
Diluted FFO	32,399	38,516	37,220	33,044	44,780	37,366	31,711	25,512
FFO per unit diluted	0.17	0.21	0.20	0.18	0.19	0.20	0.17	0.17
AFFO [(2)]	26,635	32,569	32,254	27,625	30,104	31,409	27,825	22,217
Diluted AFFO	28,575	34,508	34,172	29,522	41,463	33,343	29,743	22,217
AFFO per unit diluted	0.15	0.18	0.18	0.16	0.17	0.18	0.16	0.15

(1) Refers to income before finance costs, property lease expense, other income/(expense), depreciation and amortization, changes in fair value of financial instruments and unrealized foreign exchange gains/(losses), and income tax.
(2) 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, including the acquisition of the Maestro Portfolio in Q2 2012, the sale of the Bristal Portfolio in Q1 2013, the sale of seven other non-core U.S. properties in Q4 2013, lower mezzanine loan interest, changes in foreign exchange rates resulting in foreign exchange gains and losses on cross-border intercompany loans, and the issuance of Trust Units.

Selected Annual Financial Information

The following table summarizes selected annual financial information, including our share of joint ventures, for each of the past three years ended December 31:

($000s, except per unit amounts)	**2013**	**2012**	**2011**
Property revenues	922,660	874,503	750,634
Total revenues	930,739	883,721	755,372
Direct operating expenses	651,232	615,314	532,132
Net income/(loss)	23,884	(139,342)	(63,331)
Total assets	2,863,222	3,005,288	2,706,521
Total liabilities	2,353,988	2,451,163	2,170,729
Distributions declared per unit	0.5400	0.5400	0.5400

Our annual results for the past three years have been primarily affected by the contribution of acquisitions and dispositions, including the acquisition of the Maestro portfolio in Q2 2012 and the sales of the non-core U.S. properties in 2013.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments in 2013 and Q4 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:

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property					
100% owned	101	8,517	2,663	675	11,855
Partially owned (1)	7	848	37	-	885
Total same property owned	108	9,365	2,700	675	12,740
Acquisitions & Development					
100% owned:					
Operating	7	574	30	182	786
Development suites in lease-up	1	75	30	-	105
	8	649	60	182	891
50% owned - operating	40	7,244	434	58	7,736
Total acquisitions & development	48	7,893	494	240	8,627
Total	156	17,258	3,194	915	21,367

(1) We have a 50% ownership interest in these properties with the exception of one Canadian property in which we had a 33.3% ownership interest and subsequent to December 31, 2013, we acquired the remaining 66.7% interest and now have a 100% ownership interest in this property.

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

($000s)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Revenue						
Same property	94,493	91,638	2,855	371,469	362,404	9,065
Acquisitions and development	31,232	25,647	5,585	115,612	67,205	48,407
Total revenue	125,725	117,285	8,440	487,081	429,609	57,472
Direct Operating Expenses						
Same property	61,839	60,176	1,663	240,686	232,061	8,625
Acquisitions and development	21,256	17,252	4,004	76,911	44,612	32,299
Total direct operating expenses	83,095	77,428	5,667	317,597	276,673	40,924
Net Operating Income						
Same property	32,654	31,462	1,192	130,783	130,343	440
Acquisitions and development	9,976	8,395	1,581	38,701	22,593	16,108
Total net operating income	42,630	39,857	2,773	169,484	152,936	16,548
Weighted average occupancy rate - same property	87.9%	88.8%	(0.9pp)	87.7%	87.8%	(0.1pp)
Weighted average occupancy rate – total portfolio	87.5%	87.9%	(0.4pp)	87.0%	86.9%	0.1pp

Same property revenues increased 2.5% in 2013 primarily due to higher ancillary revenues from enhanced services provided to our residents and regular annual rental rate increases in line with competitive market conditions.

Same property direct operating expenses increased 3.7% in 2013 primarily due to higher staffing costs incurred to deliver enhanced services to our residents and to comply with new regulatory requirements, as well as higher utilities, food and marketing expenses.

Same property NOI increased $0.4 million or 0.3% in 2013 as follows:

- Our Ontario retirement platform same property NOI decreased $0.9 million or 1.3%. These results were impacted by lower occupancy, higher staffing costs, utilities, food and marketing expenses; partially offset by regular annual rental rate increases in line with competitive market conditions.
- Our Western Canada platform same property NOI increased $1.9 million or 6.2% primarily due to strong improvements in occupancy and regular annual rental rate increases in line with competitive market conditions; partially offset by higher staffing costs.
- Our Quebec platform same property NOI decreased $0.6 million or 1.8% primarily due to higher staffing costs to comply with new regulatory requirements, higher utilities and marketing expenses; partially offset by improved occupancy, regular annual rental rate increases in line with competitive market conditions, lower property taxes and office and general expenses.

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

	2013	2012	Increase / (Decrease)
Ontario	87.6%	89.2%	(1.6pp)
Western Canada	92.6%	91.8%	0.8pp
Quebec	85.7%	84.6%	1.1pp
Combined	87.7%	87.8%	(0.1pp)

In 2013, occupancies in our Canadian retirement same property portfolio decreased slightly to 87.7%. The strong occupancy growth in Western Canada and Quebec has been offset by a 1.6 percentage point decline in Ontario.

Fourth Quarter: Same property NOI increased $1.2 million or 3.8% in Q4 2013 as follows:

- Our Ontario retirement platform same property NOI was consistent with Q4 2012 with decreased occupancies being partially offset by lower short-term move-in incentives and regular annual rental rate increases in line with competitive market conditions.
- Our Western Canada platform same property NOI increased $0.3 million or 4.1% primarily due to regular annual rental rate increases in line with competitive market conditions, lower short-term move-in incentives and improved occupancies.
- Our Quebec platform same property NOI increased $0.9 million or 11.7% primarily due to regular annual rental rate increases in line with competitive market conditions, lower short-term move-in incentives and improved occupancies.

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

	Q4 2013	Q4 2012	Increase / (Decrease)	Q3 2013	Increase / (Decrease)
Ontario	87.3%	89.8%	(2.5pp)	87.1%	0.2pp
Western Canada	93.2%	92.6%	0.6pp	92.9%	0.3pp
Quebec	86.4%	85.9%	0.5pp	85.7%	0.7pp
Total	87.9%	88.8%	(0.9pp)	87.5%	0.4pp

In Q4 2013, occupancies in our Canadian retirement same property portfolio decreased to 87.9%, a 0.9 percentage point decrease from Q4 2012 and a 0.4 percentage point increase from Q3 2013.

Canadian Long Term Care Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property – 100% owned	21	-	125	2,777	2,902
Acquisitions & Development - 100% owned	3	-	11	224	235
Total	24	-	136	3,001	3,137

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)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Revenue						
Same property	52,083	49,485	2,598	195,848	191,892	3,956
Acquisitions and development	4,025	3,655	370	14,843	14,274	569
Total revenue	56,108	53,140	2,968	210,691	206,166	4,525
Direct Operating Expenses						
Same property	44,941	42,887	2,054	168,963	166,451	2,512
Acquisitions and development	3,638	3,297	341	13,547	12,856	691
Total direct operating expenses	48,579	46,184	2,395	182,510	179,307	3,203
Net Operating Income						
Same property	7,142	6,598	544	26,885	25,441	1,444
Acquisitions and development	387	358	29	1,296	1,418	(122)
Total net operating income	7,529	6,956	573	28,181	26,859	1,322
Weighted average occupancy rate - same property	99.0%	98.9%	0.1pp	98.7%	98.5%	0.2pp
Weighted average occupancy rate – total portfolio	98.6%	99.0%	(0.4pp)	98.4%	98.5%	(0.1pp)

Same property NOI increased $1.4 million or 5.7% in 2013 primarily due to higher government funding, increased contribution from retirement revenue, higher preferred accommodation rates and strong expense controls.

Weighted average occupancies in the same property portfolio remained high at 98.7% in 2013.

Fourth Quarter: Same property NOI increased $0.5 million or 8.2% in Q4 2013 primarily due to higher government funding, higher retirement and other revenues, higher preferred accommodation rates and strong expense controls.

Weighted average occupancies in the same property portfolio increased to 99.0% in Q4 2013 compared to 98.9% in Q4 2012.

U.S. Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same property - 100% owned	37	3,268	2,122	190	5,580
Properties under operating lease – 100% interest	2	42	191	-	233
Total	39	3,310	2,313	190	5,813

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)	**Q4 2013**	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Revenue						
Same property	49,595	48,566	1,029	198,838	192,424	6,414
Acquisitions and other (1)	(10)	11,931	(11,941)	19,677	46,472	(26,795)
Total revenue	49,585	60,497	(10,912)	218,515	238,896	(20,381)
Direct Operating Expenses						
Same property	33,377	32,349	1,028	133,177	129,071	4,106
Acquisitions and other (1)	71	8,338	(8,267)	13,656	30,389	(16,733)
Total direct operating expenses	33,448	40,687	(7,239)	146,833	159,460	(12,627)
Net Operating Income						
Same property	16,218	16,217	1	65,661	63,353	2,308
Acquisitions and other (1)	(81)	3,593	(3,674)	6,021	16,083	(10,062)
Total net operating income	16,137	19,810	(3,673)	71,682	79,436	(7,754)
Foreign exchange in CDN	801	(174)	975	2,082	(41)	2,123
Total net operating income in CDN	16,938	19,636	(2,698)	73,764	79,395	(5,631)
Weighted average occupancy rate – same property	89.2%	88.5%	0.7pp	88.9%	87.7%	1.2pp
Weighted average occupancy rate – total portfolio	89.2%	89.3%	(0.1pp)	89.9%	88.6%	1.3pp

(1) Represents results of the Bristal Portfolio sold in Q1 2013, and seven other non-core U.S. properties sold in Q4 2013.

Same property revenue increased U.S.$6.4 million or 3.3% in 2013 primarily due to regular annual rental rate increases in line with competitive market conditions and improved occupancies, partially offset by higher resident move-in incentives.

Weighted average occupancy rate in our same property U.S operating segment improved by 1.2 percentage points to 88.9% in 2013 from 87.7% in 2012.

Same property direct operating expenses increased U.S.$4.1 million or 3.2% in 2013, primarily due to higher staffing, bad debt and insurance expenses, partially offset by lower office and general expenses.

As a result of the above, same property NOI increased U.S.$2.3 million or 3.6% in 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:

	Q4 2013	Q4 2012	Increase / (Decrease)	**2013**	2012	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	1.05	0.99	0.06	1.03	1.00	0.03

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

Fourth Quarter: Same property NOI remained consistent with Q4 2012.

Same property revenue increased U.S.$1.0 million or 2.1% in Q4 2013, primarily due to regular annual rental rate increases in line with competitive market conditions and improved occupancies; partially offset by higher resident move-in incentives.

Weighted average occupancy rate in our same property U.S operating segment increased 0.7 percentage points to 89.2%, and decreased 0.6 percentage points from Q3 2013 occupancy of 89.8%.

Same property direct operating expenses increased U.S.$1.0 million or 3.2% in Q4 2013. Increased staffing costs required to provide additional care and services to our residents and increased property taxes and bad debt expenses were partially offset by lower management fees.

Financial Position

Balance Sheet Analysis

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

	Increase / (Decrease) ($millions)	Explanation
Total assets	**(46.8)**	The decrease in total assets is primarily due to the following:
Cash	8.6	Cash increased primarily due to proceeds received from sales transactions in 2013, with an increase in cash provided by operating activities, mostly generated by the acquisition of the Maestro portfolio in 2012.
Capital funding receivable	10.1	Capital funding increased primarily due to the completion of three LTC redevelopment projects in 2013.
Investment in joint ventures	(5.2)	Investment in joint ventures decreased primarily due to the distributions received from the sale of the Bristal Portfolio in Q1 2013 and net losses from joint ventures primarily as a result of non-cash depreciation expense.
PP&E	(57.3)	PP&E decreased primarily due to disposal of assets of $63.0 million and depreciation of $167.0 million. These were partially offset by net capital additions of $69.3 million, acquisitions of $67.5 million and foreign exchange translation of $47.3 million.
Total liabilities	**(1.9)**	The change in total liabilities is primarily due to the following:
Credit Facility	(50.0)	Credit Facility decreased primarily due to repayments from the net proceeds from sales of non-core U.S. properties, as well as refinancing of mortgages in 2013.
Mortgages payable	54.6	Mortgages payable increased primarily due to net proceeds from mortgages, including acquisition and development-related financing of $126.2 million; partially offset by regular principal repayments of $54.5 million, mortgages on sold assets of $54.5 million and changes in foreign exchange rates.
Unitholders' equity	**(44.9)**	The decrease in unitholders' equity is primarily due to cash distributions, which was partially offset by the allocation of net income to the Trust's unitholders.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 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")	1,920,043	-	-	-	1,920,043
Trust Units issued under LTIP	-	296,023	-	-	296,023
Trust Units surrendered for cancellation under LTIP	-	(349,145)	-	-	(349,145)
Trust Units released on settlement of LTIP receivable	261,268	(261,268)	-	-	-
DTUs issued	-	-	-	94,378	94,378
DTU distributions	-	-	-	28,103	28,103
Exchange of Class B Units	20,816	-	(20,816)	-	-
Balance December 31, 2013	171,643,982	1,893,074	1,658,312	607,986	175,803,354

Liquidity and Capital Commitments

Liquidity

Our cash commitments include payments related to mortgages and convertible debentures, contractual purchase obligations, obligations under operating leases as well as cash distributions to unitholders.

Our principal source of liquidity is cash flow from operations. At December 31, 2013, we had cash on hand in the amount of $11.7 million, including our share of joint-venture cash of $3.1 million. In order to provide for our operating and capital requirements, we also raise funds through the capital markets, arrange mortgage debt financing and have put a Credit Facility in place.

On June 22, 2013, we renewed our Credit Facility for a two-year term, expiring on June 22, 2015 and increased our borrowing capacity to $95.0 million. Under the renewal terms, the Credit Facility bears interest at the bank's prime rate plus 0.95%, or the applicable borrower's acceptance rate plus 1.95%. 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 December 31, 2013, based on security provided, the maximum available borrowing capacity under the Credit Facility was $91.7 million, of which $2.7 million was utilized to support outstanding letters of credit and $27.0 million was drawn, leaving available borrowing capacity at $62.1 million.

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").

The following table presents the calculation of our Indebtedness Ratio, including our share of amounts from joint ventures and excluding assets and liabilities related to assets held for sale:

($000s)	**2013**	2012
Mortgages payable (contractual amount)	2,034,301	1,975,625
Credit Facility	27,000	77,000
Total Indebtedness excluding convertible debentures	2,061,301	2,052,625
Convertible debentures (at face value)	135,000	135,000
Total Indebtedness	2,196,301	2,187,625
Total assets	2,863,222	2,907,884
Accumulated depreciation and amortization	637,842	489,761
Cumulative transaction costs on business combinations	17,848	16,129
Change in GBV on transition to IFRS	361,994	365,314
GBV of assets	3,880,906	3,779,088
Less: Assets financed by deferred purchase consideration on acquisition properties	-	520
GBV of assets (net of deferred consideration)	3,880,906	3,778,568
Indebtedness Ratio before convertible debentures (1)(2)	53.1%	54.3%
Indebtedness Ratio including convertible debentures (1)(2)	56.6%	57.9%

(1) Refer to the "Key Performance Indicators – Indebtedness Ratio" section of this MD&A for a discussion of Indebtedness Ratio.
(2) If assets and liabilities held for sale were included in this table, the 2012 Indebtedness Ratio would be 54.9% excluding, and 58.4% including convertible debentures.

In addition to the Indebtedness Ratio restrictions under our Declaration of Trust, we employ 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. 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 and assets held for sale:

($000s, except Interest Coverage Ratio)	**Q4 2013**	Q4 2012	**2013**	2012
Interest expense including capitalized interest	30,336	30,657	116,537	120,496
Property lease expense	654	625	2,673	2,504
	30,990	31,282	119,210	123,000
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") (1)	62,624	65,818	256,914	250,233
Interest Coverage Ratio (2)	2.02	2.10	2.16	2.03
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, including our share of amounts from joint ventures and assets held for sale:

($000s)	**Q4 2013**	Q4 2012	**2013**	2012
Net income/(loss) for the period	(14,257)	(38,554)	23,884	(139,342)
Add (Subtract):				
Current income tax	66	78	260	296
Deferred income tax	-	(1,423)	-	(21,977)
Loss/(gain) on sale of assets	(22,080)	(37)	(71,132)	(325)
Reversal of previously-recorded impairment provision	-	(9,399)	-	(9,399)
Write-down of carrying value of assets	11,502	21,203	11,502	21,203
Transaction costs arising on business acquisitions and dispositions	2,776	325	6,276	12,995
Finance costs	30,318	30,518	116,146	127,167
Property lease expense	654	625	2,673	2,504
Depreciation of PP&E	51,751	59,182	170,590	200,383
Amortization of intangible assets	397	671	1,974	3,537
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	367	1,605	(9,580)	49,379
Principal portion of capital funding receivable from Health Authorities (1)	1,130	1,024	4,321	3,812
Adjusted EBITDA	62,624	65,818	256,914	250,233

(1) In Q1 2013, we changed our definition of Adjusted EBITDA to include principal portion of capital funding 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 December 31, 2013 and 2012, including our share of amounts from joint ventures:

($000s, except Net Debt to Adjusted EBITDA Ratio)	**December 31, 2013**	December 31, 2012
Trailing 12-month Adjusted EBITDA	256,914	250,233
Add (Subtract):		
Adjustment for part-year acquisitions	2,156	11,422
Adjustment for part-year dispositions and assets held for sale	(6,269)	(10,136)
Trailing12-month Adjusted EBITDA (net of part-year acquisitions and dispositions)	252,801	251,519
Indebtedness[1]	2,196,301	2,187,625
Less: Cash and cash equivalents	11,687	5,309
Net debt	2,184,614	2,182,316
Net Debt to Adjusted EBITDA Ratio [2]	8.6	8.7

(1) Excludes indebtedness related to assets held for sale.
(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;
- 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; and
- Proactively manage our short-term maturities and where appropriate, refinance maturing mortgages early with long-term debt.

Mortgage Debt

At December 31, 2013, we had $2,034.3 million of mortgages payable of which $1,431.4 million related to our Canadian properties and $602.9 million (U.S.$566.8 million) related to our U.S. properties. Our Canadian property net balance includes $29.3 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 December 31, 2013.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Debt	Weighted Average Interest Rate on Maturing Debt
2014	62,215	169,237	231,452	11%	4.38%
2015	52,491	317,594	370,085	18%	4.84%
2016	45,493	318,466	363,959	18%	6.04%
2017	36,211	214,529	250,740	12%	5.62%
2018	37,290	80,168	117,458	6%	4.62%
2019	36,461	10,591	47,052	2%	4.53%
2020	36,882	51,331	88,213	4%	4.30%
2021	35,039	50,150	85,189	4%	4.59%
2022	31,699	62,200	93,899	5%	3.54%
2023	26,667	58,992	85,659	4%	4.25%
2024	18,605	57,582	76,187	5%	4.74%
Thereafter	178,641	45,767	224,408	11%	4.54%
Total	597,694	1,436,607	2,034,301	100%	
Mark-to-market adjustments arising on acquisition			16,904		
Less: Financing costs			(18,008)		
Total Mortgage Debt			2,033,197		

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

	At December 31, 2013					At December 31, 2012
	Canadian Debt		U.S. Debt		Combined	Combined
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Amount ($millions)	1,289.7	141.7	578.6	24.3	2,034.3	1,975.6
Weighted average interest rate	4.73%	4.45%	5.92%	2.57%	5.02%	5.23%
Average term to maturity (years)	9.4	1.0	2.5	0.3	6.7	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 December 31, 2013, approximately 65% of our total Canadian mortgage debt was CMHC insured. We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt upon renewal.

In the U.S., approximately 72% 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.

In 2013 we arranged $321.3 million of new mortgage financing on 41 properties, excluding acquisition financing. These mortgages bear a weighted average interest rate of 3.76% and a weighted average term to maturity of 12.5 years and were partially used to replace $259.0 million of maturing debt on 36 properties bearing a weighted average interest rate of 4.12%. Early mortgage prepayment penalties of $2.5 million were incurred as part of these financing.

In addition, we financed the purchase of three new properties through mortgages of $51.1 million with a weighted average rate of 3.97% and a weighted average term to maturity of 3.9 years.

Our variable-rate mortgages primarily relate to recently-acquired communities in lease-up and our development projects in Canada. Variable-rate mortgages 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.

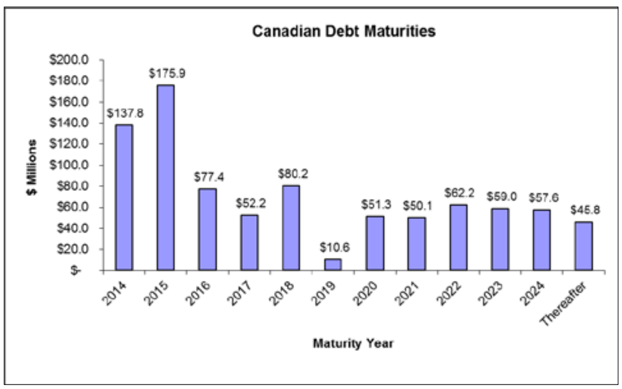
The following table summarizes our variable-rate mortgages as at December 31, 2013:

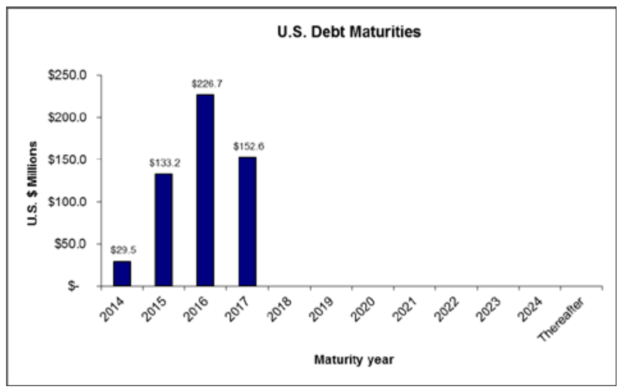
($000s, except number of projects)	Number of Projects	**December 31, 2013**	Number of Projects	**December 31, 2012**
Mortgages on properties under construction	-	-	3	13,452
Mortgages on properties in lease-up [(1)]	12	135,766	11	145,939
Mortgages on stabilized properties	5	30,255	3	8,249
Total	17	166,021	17	167,640

(1) Includes our share of one joint-venture variable-rate mortgage of $12.4 million.

Subsequent to December 31, 2013, we arranged for a two-year U.S. dollar-denominated secured revolving operating credit facility (“USD Credit Facility”) of U.S.$25.0 million secured by three of our U.S. properties. This USD Credit Facility, and cash on hand, were used to refinance U.S.$29.5 million of 2014 U.S. maturities. The amounts outstanding on the USD Credit Facility bear interest at London Interbank Offered Rate (“Libor”) plus 3.25%.

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 December 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 property 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, including our share of joint venture properties, during 2013 and 2012:

($000s)	**2013**	2012
Development	17,709	46,704
Acquisition	14,326	8,914
Revenue enhancing and repositioning	7,167	6,979
Maintenance	42,278	24,765
Total (1)	81,480	87,362

(1) Excludes $5.1 million in capital additions relating to land held for development, corporate office leasehold improvements and information technology assets as well as other intangibles in 2013 ($4.4 million in 2012).

In 2013, maintenance capital expenditures include $6.2 million related to the installation of sprinklers at 16 of our properties and $4.4 million incurred to comply with regulatory requirements in Quebec.

Contractual Obligations and Guarantees

Contractual Obligations

The following table summarizes the major contractual obligations as at December 31, 2013:

($000s)	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Mortgages payable	2,005,013	218,564	369,597	363,444	250,197	109,093	694,118
Accounts payable and other liabilities	130,627	130,627	-	-	-	-	-
Distributions payable	7,884	7,884	-	-	-	-	-
Convertible debentures	135,000	-	-	-	-	135,000	-
Credit Facility	27,000	-	27,000	-	-	-	-
Purchase obligations	9,498	9,498	-	-	-	-	-
Property operating leases	6,804	1,701	1,701	1,701	1,701	-	-
Other operating leases	10,096	1,321	1,306	1,164	1,129	1,129	4,047
Land leases	15,270	395	395	395	395	395	13,295
Total contractual obligations	2,347,192	369,990	399,999	366,704	253,422	245,617	711,460

Purchase obligations relate primarily to construction contracts and deferred purchase considerations.

Property operating leases relate to our 100% leased interests in two seniors housing communities.

Other operating leases relate to the agreements we entered into for office space in Ontario, Quebec, and British Columbia.

Land leases relate to three properties and expire between 2044 and 2061.

Other Contracts

Our U.S. properties are managed by Brookdale. The management agreements are for a term of approximately 10 years, maturing on December 31, 2021, and call for payment of a base management fee of 5% of gross revenue. Such management agreements also provide for an incentive fee of up to 2% of gross revenue and for a reduction of fee of up to 1% of gross revenue based on achievement of certain operating targets.

Guarantees

As of December 31, 2013, together with our joint venture partners, we have jointly and severally guaranteed CMHC-insured loans on three properties. The maximum amount of these guarantees is $52.3 million. As at December 31, 2013, the outstanding balance of these loans was $47.6 million.

Cash Flow Analysis

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

Cash Provided by (Used in):	**Increase / (Decrease)** ($millions)	**Explanation**
Operating activities	34.8	Cash flows from operating activities increased primarily due to increases in net operating income and lower cash interest.
Financing activities	(226.8)	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, and subscription receipts offering in 2012. In addition, in 2013, higher proceeds from mortgage financing, net of repayments, were offset by lower utilization of the Credit Facility.
Investing activities	208.9	Cash flows from investing activities increased primarily due to proceeds from sales of non-core U.S. properties in 2013, higher distributions received from joint ventures, lower additions to PP&E and lower acquisition activity.

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 2013 and Q4 2013, our average DRIP participation was 20.7% and 18.5%, respectively, compared to 18.5% participation in 2012 and 19.8% 2011. In Q1 2013, we eliminated the 1,000-unit participation threshold.

The following table summarizes distributions made in Q4 2013, 2013, 2012 and 2011:

($000s)	**Q4 2013**	**2013**	**2012**	2011
Distributions declared on Trust Units (1)	23,363	93,069	89,791	77,538
Distributions on Class B Units	223	895	909	908
Distributions reinvested under DRIP	(4,282)	(19,058)	(15,791)	(15,075)
Distributions applied against LTIP receivable	(184)	(1,081)	(1,200)	(1,230)
Distributions paid or payable in cash	19,120	73,825	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 Q4 2013, 2013, 2012 and 2011 in relation to net income/(loss) and cash flows from operating activities:

($000s)	**Q4 2013** (1)	**2013** (1)	2012 (1)	2011 (1)
Cash flows from operating activities	44,850	131,852	97,099	110,998
Net income/(loss)	(14,257)	23,884	(139,342)	(63,331)
Distributions paid or payable in cash (2) (3)	19,120	73,825	73,709	62,141
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	25,730	58,027	23,390	48,857
Excess/(shortfall) of net income/(loss) over cash distributions paid	(33,377)	(49,941)	(213,051)	(125,472)

(1) Q4 2013 and 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 while recording net losses in each of Q4 2013, 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, with the appropriate level of capital reinvestment in our properties, their income-generating potential does not generally diminish over time. We also give consideration to our capital expenditure requirements 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 as outlined in this section. These KPIs do not have any standardized meaning prescribed by IFRS and therefore, are unlikely to 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 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 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 funding 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 and a reconciliation to FFO.

Net Operating Income

NOI 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 consolidated 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 the conversion of our convertible debentures.

Same Property Performance

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

The following table summarizes the same property portfolio for 2013:

	Properties	Suites/Beds
Canadian Retirement Operations	108	12,740
Canadian Long Term Care Operations	21	2,902
U.S. Operations (owned and leased)	39	5,813
Total same property portfolio	168	21,455

Same Property Revenue, Same Property Direct Operating Expenses, Same Property NOI

Key metrics used to evaluate same property performance are same property revenue, same property direct operating expenses and same property NOI. These metrics exclude the effects of foreign exchange to enhance comparability between periods and to eliminate the volatility in the Canadian / U.S. dollar exchange rate.

Our same property metrics, as defined above, should not be construed as alternatives to other IFRS metrics. We define same property NOI as the difference between same property revenue and same property direct operating expenses. We believe that the use of these metrics combined with primary IFRS measures is beneficial to users of the financial information in understanding the operating performance of our operating segments and platforms. We monitor our same property metrics on a line-by-line consolidated basis and as such include our share of joint ventures.

Refer to the “Consolidated Results of Operations – Summary of Net Operating Income” section of this MD&A for a reconciliation of these items.

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. This metric is commonly used by the investment community together with the Interest Coverage Ratio and Net Debt to Adjusted EBITDA to evaluate our leverage and the strength of our equity position. 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 should not be construed as an alternative to net earnings as determined by IFRS. EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization. Adjusted EBITDA is useful in evaluating performance of continuing operations, excluding the costs of consuming capital assets and the cost of financing which does not affect the value of an entity’s assets. 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 funding 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 the full amount of capital funding 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

Net Debt to Adjusted EBITDA should not be construed as an alternative to other IFRS metrics. 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 the level of an 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.

G&A Expenses as a percentage of Revenue

G&A as a percentage of revenue should not be construed as an alternative to other IFRS metrics. We believe that G&A as a percentage of revenue is useful as a benchmark to evaluate the required resource level to support our operating business. This percentage is calculated as total G&A expenses divided by the sum of property revenue, management and other fee revenue and mezzanine loan and other interest income. We monitor this metric on a line-by-line consolidated basis, and as such, we include our share of revenue from joint ventures.

Critical Accounting Policies and Estimates

Under IFRS, it is necessary to make estimates when preparing the financial statements and then to re-evaluate the original estimates used on an ongoing basis. Management's estimates are based on past experience and other factors that it believes are reasonable under the circumstances. As this involves varying degrees of judgement and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

Valuation of PP&E

PP&E makes up approximately 93% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the recoverable amount of a cash generating unit ("CGU") exceeds its carrying amount. Factors which could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for our overall business. In some cases, these events are clear, however, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events may occur over a period of time leading to an indication that an asset may be impaired. As a result, events occurring in these situations may not be known until a date subsequent to their occurrence.

Our business, markets and business environment are continually monitored, and judgements and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a) fair value less costs to sell, and b) the value in use calculated on a discounted cash flow basis. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgement.

The assessment of asset impairment requires management to make significant assumptions about future revenues including assumptions about rates and occupancies, labour and other supply rates, and utility costs over the life of the PP&E. Actual results can, and often do, differ from these estimates, and can have either a positive or negative impact on the estimate and whether an impairment situation exists. In addition, when impairment tests are performed, the estimated useful lives of the properties are reassessed, with any change accounted for prospectively.

Useful Life of PP&E

PP&E is depreciated over the estimated useful life of their components. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset components. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as discussed previously.

Guarantees

We continually review our contingent liabilities relating to guarantees we have provided on behalf of third parties. Our guarantees remain in place for certain debts assumed by purchasers in connection with property dispositions, and will remain until such debts are extinguished or lenders agree to release our covenants. Recourse would be available to us under these guarantees in the event of a default by the borrowers, in which case we would have a claim against the underlying real estate investments. We would record a provision for a liability when the carrying values of the related real estate investments are not recovered either as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and/or the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the normal course of business. Our estimates of future cash flow (which amongst others, involve assumptions of estimated occupancy, rental rates and residual value) and fair value could vary and result in a significantly different assessment of such contingent liability.

Income taxes

In accordance with IFRS, we use the asset and liability method of accounting for deferred income taxes and provide for deferred income taxes for all significant temporary differences between the carrying amounts of associated liabilities for financial reporting purposes and the amounts used for taxation purposes.

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes along with the expected reversal pattern of these temporary differences. These differences result in deferred tax assets and liabilities which are included in our balance sheet, calculated based on the estimated tax rate in effect at the time these differences reverse.

Judgement is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets are realizable. The impact of different interpretations and applications could potentially be material.

An assessment must also be made to determine the likelihood that the Trust's deferred tax assets will be recovered from future taxable income. To the extent that recovery is considered less rather than more likely, deferred tax assets are not recognized. Judgement is required in determining the provision for income taxes, and deferred income tax assets and liabilities. To the extent the recognition of deferred tax assets is revised, current period earnings would be affected.

Fair value

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties (that is, other than in a forced or liquidation sale) in an arm's length transaction under no compulsion to act. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. We assess fair value based on estimated discounted cash flow projections and available market information. Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates (including the historical operating results and anticipated trends, local markets and economic conditions).

Our financial statements are affected by fair value measures, the most significant areas affected are as follows:

- Upon acquisition of properties we estimate the fair value of acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (above and below-market leases representing the value of the differential between contractual and market rents, in-place leases, customer relationships, and licenses) and the value of the differential between stated and market interest rates on long term liabilities assumed at acquisition.
- Fair value forms the basis for allocating consideration to each unit of accounting for revenues from contracts with multiple deliverables that meet the criteria for separate unit of accounting revenue recognition.
- As discussed in valuation of properties above, an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of carrying value over its recoverable amount.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing the recoverable amount to carrying value to determine if an impairment loss is required to be recognized.
- In assessing our potential exposure relating to third party guarantees we evaluate the fair value of the borrower's interests in the underlying real estate investments compared to the liability for which we have provided a guarantee.
- All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods may be at fair value depending on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.
- We disclose in our financial statements the fair value of our mortgages based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks, or market quotes where applicable.
- Class B Units of Master LP and convertible debentures are recorded at fair value based on listed prices of the debentures and of Trust Units.

Property Revenue

Revenue is recognized when services are provided to residents. In Canada, the provinces regulate fees charged to residents of long term care homes and provincial or regional programs fund a substantial portion of these fees. We receive reimbursements from these funding authorities for services rendered to residents covered by these programs. Preparation of the financial statements requires an estimate of the amounts recoverable and earned from the various funding authorities in the jurisdictions in which we operate. Judgement is required to assess amounts recoverable under the various funding agreements, and related regulations and legislation, which are continually changing. The impact of different interpretations and applications of these agreements could change revenues.

Changes in Accounting Estimates and Changes in Accounting Policies

<u>IFRS 10, Consolidated Financial Statements ("IFRS 10"):</u>

In May 2011, the IASB issued IFRS 10, with further amendments issued in June and October 2012. IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities ("SIC-12"). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

<u>IFRS 11, Joint Arrangements ("IFRS 11"):</u>

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"), and requires interests in jointly-controlled entities to be accounted for under the equity method. The standard provides guidance regarding joint arrangements, which are arrangements where two or more parties have joint control (before Chartwell transitioned to IFRS 11 all joint arrangements were referred to as joint ventures). A joint arrangement may be classified as a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties have the rights to the assets, and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. Chartwell previously accounted for its interest in all joint arrangements using proportionate consolidation. Chartwell completed the assessment of joint arrangements under IFRS 11 and determined that certain entities are jointly-controlled and therefore are required to be accounted for under the equity method.

<u>IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):</u>

In May 2011, the IASB issued IFRS 12, with further amendments issued in June 2012. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for annual consolidated financial statements for the year ending December 31, 2013.

<u>IFRS 13, Fair Value Measurement ("IFRS 13"):</u>

In May 2011, the IASB published IFRS 13. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. This standard increased the quarterly disclosures for Chartwell fair value measurements.

Amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28"):

In May 2011, the IASB issued amendments to IAS 28. IAS 28 requires any retained portion of an investment in an associate or joint venture that has been classified as held for sale to be measured using the equity method until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires for it to be continued to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. This amended standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"):

In June 2011, the IASB amended IAS 1. This amendment requires that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. This amended standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. Chartwell has assessed this amendment and provided additional disclosures in its condensed consolidated interim statements of comprehensive income (loss).

Amendments to IAS 19, Employee Benefits ("IAS 19"):

In June 2011, the IASB amended IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. This amendment eliminated the use of the 'corridor' approach and mandates that all remeasurement impacts be recognized in other comprehensive income (loss). It also enhances the disclosure requirements, providing better information about the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This amendment clarifies when a company should recognize a liability and an expense for termination benefits. This amended standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

Amendments to IFRS 7, Financial Instruments - Disclosures ("IFRS 7"):

In December 2011, the IASB amended IFRS 7 to include new disclosure requirements for financial assets and liabilities that are offset in the consolidated balance sheets or subject to master netting arrangements or similar arrangements. The amendments to IFRS 7 are effective for fiscal periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

Annual Improvements to IFRSs 2009-2011 Cycle - various standards:

The IASB issued its Annual Improvements to IFRSs - 2009-2011 Cycle, part of the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2013, with retrospective application. The new cycle of improvements contains amendments to the several standards including: IAS 1, IAS 16, IAS 32, and IAS 34. The amendments to the standards are effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

Future accounting Policy Changes:

IFRS 9, Financial Instruments ("IFRS 9"):

In 2013, the IASB issued amendments to, IFRS 9, issued in 2010, which will ultimately replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The current issuance of IFRS 9 includes the first and third phases of the project, which provide guidance on the classification and measurement of financial assets and financial liabilities and hedge accounting. The mandatory effective date of the standard has not been determined due to the incomplete status of the second phase of the project, impairment. The effective date of the entire standard will be determined closer to the completion of the remaining phase. The extent of impact of IFRS 9 adoption has not yet been determined.

Amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"):

In 2011, the IASB amended IAS 32 to clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

Amendments to IAS 36, Impairment of Assets ("IAS 36"):

In May 2013, the IASB released an amendment to IAS 36. This amendment requires entities to disclose the recoverable amount of an impaired CGU only when an impairment loss has been recognised or reversed. The amendment is effective January 1, 2014. Chartwell has assessed this amendment and determined it will not materiality affect the consolidated financial statements.

Interpretation of International Financial Reporting Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"):

In 2013, the IASB issued IFRIC 21. The IFRIC 21 addresses accounting for a liability to pay a levy within the scope of IAS 37, Provisions, contingent liabilities and contingent assets ("IAS 37"). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, Income Taxes and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The extent of impact of adoption has not yet been determined.

Annual improvements to IFRSs 2010-2012 and 2011-2013 Cycle - various standards:

The IASB issued its annual improvements to IFRSs 2010-2012 and 2011-2013 Cycle, part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The amendments are effective July 1, 2014. The extent of the impact of adoption of amendments has not yet been determined.

Controls and Procedures

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. We continue to make significant investments in improvements to our information systems and financial processes to further strengthen our internal controls. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgements 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.

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2013, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of Chartwell's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Chartwell's disclosure controls and procedures were effective December 31, 2013.

Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting as at December 31, 2013, and based on that assessment determined that our internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the 1992 COSO framework as published by the Committee of Sponsoring Organizations of the Treadway Commission.

In 2013, the Committee of Sponsoring Organizations of the Treadway Commission issued an updated Internal Control Integrated Framework. COSO will continue to make available the original 1992 framework during the transition period extending to December 15, 2014, after which time we will consider it as superseded by the updated version.

There were no material changes in our internal controls over financial reporting that occurred during the year ended December 31, 2013, that have significantly affected or are reasonably likely to significantly affect 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:

- our assumptions concerning economic and regulatory conditions or state of the housing market and pace of new supply growth in seniors housing;
- 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;
- our ability to execute on a potential redevelopment program for Class B and Class C Ontario LTC beds;
- our ability to realize returns on our development and redevelopment program;
- 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 expectations regarding achievement of certain occupancy levels at our LTC and retirement communities;
- our ability to renew maturing debt and to obtain new financings, in due course;
- our ability to access low-cost mortgage financing insured by CMHC;
- our ability to realize benefits on technology investments;
- 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;

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 AIF.

Risks and Uncertainties ♦

(a) **Business Risks**: Chartwell is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.

(b) **Taxation**: We currently qualify as a mutual fund trust for Canadian income tax purposes.

With the enactment of the SIFT Rules and the issuance of equity capital in excess of the normal growth guidelines established by the Department of Finance, we were subject to SIFT tax effective January 1, 2007.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to unitholders but serve to reduce the adjusted cost base of a unitholder's units. In 2013, 78.1% of our distributions were classified as return of capital, 2.6% as foreign-source interest income and 19.3% as other income. We were not subject to cash SIFT taxes in 2013 and now, based on our forecasts, we do not expect to be subject to cash SIFT taxes in 2014 and 2015.

(c) **Geographic Concentration**: Our business and operations are conducted in the United States and Canada, and within Canada primarily in Ontario and Quebec. A geographic concentration of our owned and leased suites, at our percentage share of ownership or leasehold interest, is described under the "Business Overview" section of this MD&A. The market value of these properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.

(d) **Maintenance of Assets**: We are committed to keep our communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio, the annual capital maintenance requirements are approximately 2% of annual gross property revenues. In addition to recurring maintenance capital projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the recurring maintenance capital requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in recurring maintenance capital requirements of our communities could adversely impact cash available to us. The details of our actual capital asset spending for 2013 can be found in the "Capital Expenditures" section of this MD&A.

(e) **Acquisition, Development**: Our external growth prospects depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. If we are unable to manage our growth, integrate our acquisitions effectively and achieve expected

♦ *For a complete description of the Risks and Uncertainties, please refer to our most recent AIF.*

returns on acquisitions and development projects, our business, operating results and financial condition could be adversely affected.

Dispositions: From time to time we may dispose of certain assets which are considered non-strategic or non-core to our portfolio. Failure to dispose of such assets at a reasonable price may negatively impact our ability to deliver on our corporate strategies.

(f) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with us in seeking residents. The existence of competing owners, managers and developers and competition for our residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents which may be charged, and could adversely affect our revenues and, consequently, our ability to meet debt obligations. An increased supply of suites in the regions in which we own seniors housing may have an impact on the demand for retirement community suites.

(g) **Government Regulation**: Healthcare in Canada and in the U.S. is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect us. In addition, new regulatory standards and requirements are being considered in a number of jurisdictions which may affect all types of seniors housing communities. Further, aspects of new legislation that was proclaimed into force in Ontario on July 1, 2010, have affected our LTC communities, including: new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of replacement licenses to be based on a home's structural classification that will be issued for a maximum of 25 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of community staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes.

(h) **Personnel Costs**: We compete with other healthcare providers with respect to attracting and retaining qualified personnel. We are also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.

(i) **Labour Relations**: In Canada we employ or supervise over 13,500 persons, of whom approximately 70% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that we will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on our business, operating results and financial condition. Most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply which ensure the continuation of resident care and most services. Non-unionized seniors housing communities may become unionized in the event they are targeted for certification by a trade union. There can be no assurance that the seniors housing communities we own that are not currently unionized will not, in the future, be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing communities' employees.

(j) **Debt Financing**: We have and will continue to have substantial outstanding consolidated indebtedness comprised primarily of mortgages on our retirement and LTC communities.

We may not be able to renegotiate the terms of renewal of our debt at favourable rates. To the extent that any financing requiring CMHC consent or approval is not obtained, or such consent or approval is only available on unfavourable terms, we may be required to finance a conventional mortgage which may be less favourable to us than a CMHC-insured mortgage. In addition, the terms of our indebtedness generally contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the distributions that may be made by the Trust. Therefore, upon an event of default under such indebtedness, our ability to make distributions will be adversely affected.

A portion of our cash flow is devoted to servicing our debt, and there can be no assurance that we will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If we were unable to meet interest or principal payments, we could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. We are also subject to the risk that any of our existing indebtedness may not be able to be refinanced upon maturity or that the terms of such refinancing may not be as favourable as the terms of our existing indebtedness.

(k) **U.S./Canadian Exchange Rate Fluctuations**: We have interests in seniors housing communities located in the U.S. We will, therefore, be subject to foreign currency fluctuations which may, from time to time, have an impact upon our financial position and results. We may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging agreements, if any, would be sufficient to protect against currency exchange rate losses that could adversely affect cash available to us.

(l) **Environmental Liabilities**: Under various environmental laws and regulations, we, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in our properties or disposed of at other locations sometimes regardless of whether or not we knew of or were responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, our management is not aware of any material non-compliance, liability or other claim in connection with any of our owned properties and properties in respect of which mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that it believes would involve material expenditure by the Trust. It is our operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring or financing any property. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted. They are intrusive investigations that involve soil, groundwater or other sampling to confirm the absence or presence and extent of an environmental concern.

Environmental laws and regulation may change and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on our business, financial condition or results of operation and distributions.

(m) **Liability and Insurance**: The businesses, which are carried on, directly or indirectly, by us, entail an inherent risk of liability. Management expects that from time to time we may be subject to such lawsuits as a result of the nature of its businesses. The Trust maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against us not covered by, or in excess of, our insurance could have a material adverse effect on our business, operating results and financial condition. Claims against us, regardless of their merit or eventual outcome, also may have a material adverse effect on our ability to attract residents or expand their businesses, and will require management to devote time to matters unrelated to the operation of the business.

(n) **Joint-Venture Interests**: We have entered into joint-venture arrangements in respect of certain of our seniors housing operations. These joint-venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing properties including those risks described above. However, we may be exposed to adverse developments, including a possible change in control, in the business and affairs of our joint-venture partners which could have a significant impact on, or termination of, our interests in our joint ventures and could affect the value of the joint ventures to us and/or cause us to incur additional costs if we were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint-venture arrangements themselves, including: the risk that the other joint-venture partner may exercise buy-sell, put or other sale or purchase rights which could obligate us to sell our interest or buy the other joint-venture partner's interest at a price which may not be favourable to us or at a time which may not be advantageous to us, the effect of which could be materially adverse to our financial position or resources.

(o) **Economic and Financial Conditions**: Adverse changes to the economic and financial conditions in Canada, the U.S. and globally could impact our ability to execute upon our operating, investing and financing strategies which, in turn, could have a material adverse impact on our business, sales, profitability and financial position. General uncertainty on the timing of a recovery from recent financial market volatility may continue to create a challenging operating environment for us.

(p) **Growth:** The ability to grow may require the issuance of additional units and the ability to do so may not always be a viable capital-raising option. Furthermore, timing differences may occur between the issuance of additional units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive. Additionally, growth may be limited by the properties being owned in a different structure (i.e., a real estate investment trust compared with a corporation) and possibly a different economic environment. We expect that we will have opportunities to acquire properties which will be accretive and enable us to increase cash flow through improved management, but there can be no assurance that will be the case.

(q) **Distributions:** Currently, our distributions are determined in relation to AFFO. While we intend for such distributions to be at least equal to 70% of our AFFO for a specified year, items such as principal repayments, capital expenditures, variances in operating results and redemption of units, if any, or the failure of CSH Trust or Master LP to make distributions, may affect AFFO and, therefore, distributions. We may be required to decrease our distributions in order to accommodate such items. Under the terms of our Credit Facility, distributions to unitholders are limited to 100% of our AFFO.