CHARTWELL retirement residences | making people's lives BETTER®

Q ONE

Management's Discussion & Analysis

First Quarter Report • March 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three Months Ended March 31, 2014 and 2013

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 three months ended March 31, 2014. This MD&A should be read in conjunction with Chartwell's unaudited, interim condensed consolidated financial statements for the three months ended March 31, 2014 and the notes thereto (the "Financial Statements"), the audited consolidated financial statements for the year ended December 31, 2013 and the notes thereto (the "2013 Financial Statements") and the annual Management's Discussion and Analysis for the year ended December 31, 2013 (the "2013 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 May 8, 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; "2014" refers to the calendar year 2014; "2013" refers to the calendar year 2013 and "YTD" means year-to-date.

Unless otherwise indicated, all comparisons of results for Q1 2014 are in comparison to results from Q1 2013.

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 March 31, 2014, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 31,566 suites in 228 communities. At March 31, 2014, our portfolio of owned and leased communities consisted of interests in 30,403 suites in 220 communities.

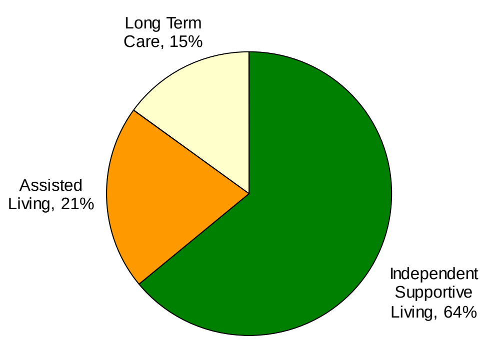
The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at March 31, 2014:

	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 (2)	111	12,969	24	3,136	37	5,582	172	21,687
50% Owned – operating (3)	46	8,483	-	-	-	-	46	8,483
Total Owned	157	21,452	24	3,136	37	5,582	218	30,170
Properties under Operating Lease								
100% Interest	-	-	-	-	2	233	2	233
Total Owned and Leased	157	21,452	24	3,136	39	5,815	220	30,403
Managed Properties	4	555	4	608	-	-	8	1,163
Total	161	22,007	28	3,744	39	5,815	228	31,566

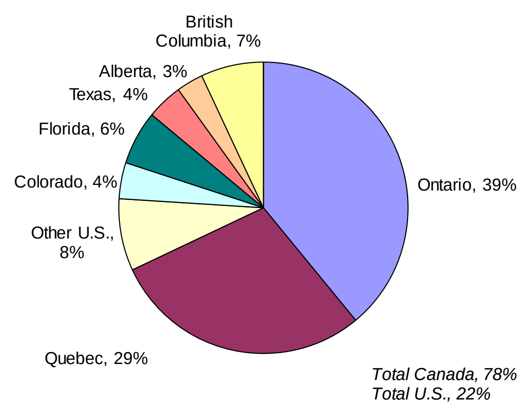
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.
(2) Includes 14 properties (945 suites) classified as held for sale.
(3) Includes one property (196 suites) classified as held for sale.

Composition of Portfolio of Owned and Leased Suites
at Chartwell's Share of Ownership or Leased Interest, at March 31, 2014 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 to date:

Grow core property portfolio contribution	• Re-branding of our Canadian communities is ongoing. • Same property NOI [(1)] grew \$1.3 million or 2.4% in Q1 2014. • Same property occupancy declined slightly by 0.2 percentage points to 89.5% in Q1 2014.
Maintain a strong financial position	• At March 31, 2014, we had cash on hand [(2)] of \$4.7 million and \$29.8 million of available borrowing capacity under our Credit Facilities. • Interest Coverage Ratio [(1)] was 2.07 in Q1 2014 compared to 2.08 in Q1 2013. • Net Debt to Adjusted EBITDA Ratio [(1)] was 9.0 at March 31, 2014 up from 8.6 at March 31, 2013. • Indebtedness Ratio [(1)] was 57.8% at March 31, 2014, compared to 56.6% at December 31, 2013.
Improve quality and efficiency of our corporate support services	• Completed the implementation of a procurement and payment system. • Completed the implementation of a fixed asset management and reporting system. • Website update and the implementation of other online presence strategies are in progress. • Commenced the implementation of a telephone system to route off-hour sales calls from the properties to Chartwell's call centre.
Build value of our real estate portfolio	• Acquired the remaining 66.7% interest in one property (113 suites) for \$21.3 million in January 2014. • Completed development of one retirement residence (119 suites) in Ontario. • Two development projects (54 suites) are in progress for completion in 2014 and 2015. • Entered into an agreement to sell interests in one non-core, co-owned Ontario property (196 suites) for \$24.5 million. • On May 1, 2014, we closed the sale of 14 non-core Ontario properties (945 suites) for \$66.0 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 \$0.5 million. Refer to the "IFRS 11 – Joint Arrangements" section of this MD&A.

2014 Outlook

Our 2013 MD&A contains a detailed discussion of our 2014 Outlook. There were no significant changes in Q1 2014.

Significant Events

Significant events that have affected or may be expected to affect our results in the future are described in our 2013 MD&A. There were no significant changes in Q1 2014, except as follows:

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 in cash.

During Q1 2014, we entered into an 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.

During Q1 2014, we entered into an agreement to sell 14 non-core properties in Ontario for $66.0 million. This transaction closed on May 1, 2014, and was settled by the purchaser's assumption of $19.3 million of debt, vendor take-back mortgages ("VTBs") of $6.0 million, with the balance, net of working capital adjustments, received in cash. The VTBs bear interest at 8.0% per annum and have a three-year term to maturity and are secured by charges against certain properties in the portfolio, the corporate guarantee of the purchaser and certain cross-collateralization and cross-default provisions.

IFRS 11 – Joint Arrangements

IFRS 11 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. 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
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.

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 Q1 2014 Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

($000s)	Q1 2014 [(1)]	IFRS 11 adjustments [(2)]	Q1 2014 using line-by-line [(3)]
Revenue			
Resident	207,675	25,601	233,276
Management and other fees	1,848	-	1,848
Lease revenue from joint ventures	8,030	(8,030)	-
Mezzanine loan interest	60	-	60
	217,613	17,571	235,184
Expenses			
Direct operating	155,277	16,244	171,521
G&A	9,935	-	9,935
	165,212	16,244	181,456
Income before the undernoted	52,401	1,327	53,728
Finance costs	28,467	393	28,860
Property lease expense	672	-	672
Other expense/(income)	(2,171)	7	(2,164)
Depreciation of property, plant and equipment ("PP&E")	41,585	895	42,480
Amortization of intangible assets	461	-	461
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	2,424	-	2,424
Share of joint venture loss/(income)	(27)	27	-
Loss before income taxes	(19,010)	5	(19,005)
Income tax expense/(benefit):			
Current	(2,140)	5	(2,135)
Deferred	-	-	-
	(2,140)	5	(2,135)
Loss for the period	(16,870)	-	(16,870)
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	2,754	-	2,754
Total comprehensive loss	(14,116)	-	(14,116)

(1) Per our Financial Statements.
(2) Represents adjustments for equity-accounted joint ventures and the removal of the investment in joint ventures.
(3) Non-IFRS measure.

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

($000s)	Q1 2013 (1)	IFRS 11 Adjustments (2)	Q1 2013 using line-by-line (3)
Revenue			
Resident	199,374	27,905	227,279
Management and other fees	2,042	-	2,042
Lease revenue from joint ventures	7,475	(7,475)	-
Mezzanine loan interest	62	-	62
	208,953	20,430	229,383
Expenses			
Direct operating	148,591	17,982	166,573
G&A	7,876	-	7,876
	156,467	17,982	174,449
Income before the undernoted	52,486	2,448	54,934
Finance costs	27,820	1,287	29,107
Property lease expense	656	-	656
Other expense/(income)	414	(48,256)	(47,842)
Depreciation of PP&E	38,875	875	39,750
Amortization of intangible assets	434	-	434
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	564	-	564
Share of joint venture loss/(income)	(48,542)	48,542	-
Income before income taxes	32,265	-	32,265
Income tax expense/(benefit):			
Current	63	-	63
Deferred	-	-	-
	63	-	63
Income for the period	32,202	-	32,202
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	1,436		1,436
Total comprehensive income	33,638	-	33,638

(1) Per our Financial Statements.
(2) Represents adjustments for equity-accounted joint ventures and the removal of the investment in joint ventures.
(3) Non-IFRS measure.

The following is the Balance Sheet at March 31, 2014 adjusted to remove the impact of IFRS 11:

($000s)	March 31, 2014 (1)	IFRS 11 Adjustments (2)	March 31, 2014 using line-by-line (3)
Assets			
Current assets:			
Cash and cash equivalents	4,185	532	4,717
Trade and other receivables	22,910	1	22,911
Capital funding receivable	4,764	-	4,764
Other assets	23,178	3,440	26,618
Assets held for sale	72,487	148	72,635
Total current assets	127,524	4,121	131,645
Non-current assets:			
Other assets	8,764	-	8,764
Capital funding receivable	65,265	-	65,265
Investment in joint ventures	23,018	(23,018)	-
Intangible assets	49,937	4	49,941
PP&E	2,580,136	46,472	2,626,608
Total non-current assets	2,727,120	23,458	2,750,578
Total assets	2,854,644	27,579	2,882,223
Liabilities and Unitholders' Equity			
Current liabilities:			
Credit Facilities	85,617	-	85,617
Accounts payable and other liabilities	120,651	(1,468)	119,183
Distributions payable	7,912	-	7,912
Mortgages payable	199,617	12,872	212,489
Liabilities held for sale	21,411	193	21,604
Total current liabilities	435,208	11,597	446,805
Non-current liabilities:			
Mortgages payable	1,778,176	15,982	1,794,158
Convertible debentures	146,637	-	146,637
Class B Units of Chartwell Master Care LP	17,280	-	17,280
Total non-current liabilities	1,942,093	15,982	1,958,075
Total liabilities	2,377,301	27,579	2,404,880
Unitholders' equity	477,343	-	477,343
Total liabilities and unitholders' equity	2,854,644	27,579	2,882,223

(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
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 Facilities	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.

Consolidated Results of Operations

Highlights

The following table summarizes selected financial and operating performance measures:

($000s, except occupancy rates, per unit amounts and number of units)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Resident revenue [1]	233,276	227,279	5,997
Weighted average occupancy rate - same property portfolio [2]	89.5%	89.7%	(0.2pp)
Same property NOI [3]	57,162	55,835	1,327
AFFO [4][5]	30,019	27,625	2,394
AFFO per unit diluted [6][7]	0.17	0.16	0.01
FFO [8]	33,688	31,147	2,541
FFO per unit diluted [6][7]	0.19	0.18	0.01
Distributions declared [9]	23,666	23,433	233
Distributions declared per unit [7]	0.14	0.14	-
Distributions declared as a percentage of AFFO	78.8%	84.8%	(6.0pp)
Net income/(loss) for the period	(16,870)	32,202	(49,072)

(1) Non-IFRS; includes our share of revenue from joint ventures. Refer to the "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 $0.6 million in negative AFFO incurred on properties in lease-up in Q1 2014 ($0.5 million Q1 2013).
(6) Includes dilutive impact of conversion of convertible debentures into Trust Units.
(7) Refer to the "Key Performance Indicators – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.
(8) Refer to the "Non-IFRS Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net income/(loss) and calculations of FFO per unit diluted.
(9) Includes distributions declared on Trust Units and distributions on Class B Units of Chartwell Master Care LP ("Class B Units").

In Q1 2014, AFFO was $30.0 million or $0.17 per unit diluted. This represents an increase of $2.4 million or 8.7% compared to AFFO in Q1 2013 of $27.6 million or $0.16 per unit diluted. The changes in AFFO include the following:

- Incremental AFFO from our same property portfolio of $1.2 million, excluding the effects of foreign exchange on the U.S. dollar, primarily due to NOI growth and interest cost savings;
- Incremental AFFO of $2.2 million resulting from a recovery of SIFT tax related to the 2007 taxation year;
- Incremental AFFO of $1.2 million resulting from the reversal of previously-recorded provision for impairment of mezzanine loans;
- Incremental AFFO of $0.6 million resulting from fluctuations in foreign exchange rates from our U.S. property portfolio;

partially offset by:

- Higher G&A expenses of $2.1 million, primarily due to $1.1 million of severance costs related to corporate reorganization to improve support services provided to our operating platforms, timing of certain expenses and investments in information technology and online presence; and

- Lower AFFO of $0.7 million, excluding the effects of foreign exchange on the U.S. dollar, due to sales of non-core U.S. properties net of the increased contribution from acquisitions and developments completed in 2013 and Q1 2014.

In Q1 2014, FFO was $33.7 million or $0.19 per unit diluted. This represents an increase of $2.5 million or 8.2% compared to Q1 2013 FFO of $31.1 million or $0.18 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 Q1 2014, net loss was $16.9 million compared to a net income in Q1 2013 of $32.2 million. 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, transaction costs arising on business acquisitions and dispositions, changes in fair value of financial instruments and unrealized foreign exchange translation gains. Furthermore, net income in Q1 2013 was higher primarily due to a $48.9 million gain on the sale of non-core U.S. properties.

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

Same Property Portfolio Highlights

($000s, except occupancy rates)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Canadian retirement:			
NOI [1]	38,837	37,181	1,656
Occupancy	88.2%	88.7%	(0.5pp)
Canadian LTC:			
NOI [1]	6,550	6,375	175
Occupancy	98.4%	97.7%	0.7pp
U.S.:			
NOI (U.S.$) [1]	11,775	12,279	(504)
Occupancy	88.0%	88.0%	-
Combined:			
NOI [1][2]	57,162	55,835	1,327
Occupancy	89.5%	89.7%	(0.2pp)

(1) Non-IFRS; includes our share of NOI from joint ventures. Refer to the “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 Q1 2014, combined same property occupancy decreased to 89.5%, with same property NOI increasing $1.3 million or 2.4% as follows:

- In our Canadian retirement portfolio, same property NOI increased 4.5%. The growth in revenues, primarily due to regular annual rental rate increases in line with competitive market conditions, lower short-term move-in incentives, higher ancillary revenues from enhanced services provided to our residents and lower bad debt expense was partially offset by higher staffing, utilities, marketing and food expenses. Occupancy decreased to 88.2% from 88.7% in Q1 2013.
- In our Canadian LTC portfolio, same property NOI increased 2.7%, primarily due to higher government funding, increased retirement and other revenues and higher preferred accommodation rates. Occupancy remained high at 98.4% compared to 97.7% in Q1 2013.
- In our U.S. portfolio, same property NOI decreased 4.1%. The impact of stable occupancy and regular annual rental rate increases in line with competitive market conditions, lower office and general and management costs were more than offset by higher short-term move-in incentives and higher staffing and utilities expenses.

Summary of Net Operating Income

($000s, except occupancy rates)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Resident Revenue			
Same property [1][2]	212,426	206,802	5,624
Acquisitions and other [1][2]	15,621	19,995	(4,374)
Foreign exchange on U.S. dollar revenue [1]	5,229	482	4,747
	233,276	227,279	5,997
Less: Share of resident revenue from joint ventures	25,601	27,905	(2,304)
Total resident revenue	207,675	199,374	8,301
Direct Operating Expenses			
Same property [1][2]	155,264	150,967	4,297
Acquisitions and other [1][2]	12,229	15,174	(2,945)
Foreign exchange on U.S. dollar expenses [1]	4,028	432	3,596
	171,521	166,573	4,948
Less: Share of direct operating expenses from joint ventures	16,244	17,982	(1,738)
Total direct operating expenses	155,277	148,591	6,686
Net Operating Income			
Same property [1][2]	57,162	55,835	1,327
Acquisitions and other [1][2]	3,392	4,821	(1,429)
Foreign exchange on U.S. dollar expenses [1]	1,201	50	1,151
	61,755	60,706	1,049
Less: Share of NOI from joint ventures	9,357	9,923	(566)
Total NOI	52,398	50,783	1,615
Weighted average occupancy rate - same property portfolio	89.5%	89.7%	(0.2pp)
Weighted average occupancy rate - total portfolio	88.1%	89.1%	(1.0pp)

(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "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 4.2% in Q1 2014 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 $5.6 million or 2.7% for Q1 2014, primarily as a result of regular annual rental rate increases in line with competitive market conditions and higher ancillary revenues from enhanced services provided to our residents.

Total direct operating expenses grew 4.5% in Q1 2014, 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 $4.3 million or 2.8% in Q1 2014, primarily due to higher staffing costs incurred to deliver enhanced services to our residents and increases in food, marketing and utilities expenses. This was partially offset by lower bad debt expense and management fees.

Total NOI increased in Q1 2014 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)	**Q1 2014**	Q1 2013	Increase / (Decrease)
G&A expenses	9,935	7,876	2,059
G&A as a percentage of revenue [(1)]	4.2%	3.4%	0.8pp

(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 $2.1 million or 26.1% in Q1 2014 primarily due to $1.1 million of severance costs related to corporate reorganization to improve support services provided to our operating platforms, timing of certain expenses and investments in information technology and online presence.

G&A expenses, as a percentage of revenue, including our share of revenue from joint ventures, were 4.2% in Q1 2014 compared to 3.4% in Q1 2013.

Management Fee Revenue

($000s)	**Q1 2014**	Q1 2013	Increase / (Decrease)
HCN	1,411	1,576	(165)
Other	437	466	(29)
Total management fee revenue	1,848	2,042	(194)

Management fee revenue decreased $0.2 million or 9.5% in Q1 2014 primarily due to lower 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.

Finance Costs

($000s)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Mortgages and loans payable [1]			
Same property [2]	23,180	23,709	(529)
Acquisitions and other [2][3]	1,877	2,854	(977)
Foreign exchange on U.S. dollar expenses	840	79	761
	25,897	26,642	(745)
Convertible debentures	1,897	1,897	-
Credit Facilities and other interest expense	562	514	48
	28,356	29,053	(697)
Amortization of financing costs and debt mark-to-market adjustments [1]	385	79	306
	28,741	29,132	(391)
Interest capitalized to properties under development	(105)	(284)	179
Distributions on Class B Units recorded as interest expense	224	259	(35)
	28,860	29,107	(247)
Less: Share of joint-venture finance costs	393	1,287	(894)
Total finance costs	28,467	27,820	647

(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "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 related to properties in lease-up in Q1 2014 and in Q1 2013.

Interest expense on the same property portfolio decreased $0.5 million in Q1 2014 primarily due to lower interest rates achieved on mortgage renewals and lower outstanding loan balances.

Interest expense in our acquisitions and other portfolio decreased $1.0 million in Q1 2014 primarily due to the sales of non-core U.S. properties in 2013, partially offset by 2013 and Q1 2014 property acquisitions.

Amortization of financing costs and debt mark-to-market adjustments increased $0.3 million in Q1 2014 primarily as a result of acceleration of amortization of mark-to-market adjustments upon refinancing of mortgages in 2013.

We capitalized interest of $0.1 million in Q1 2014 related to our development projects under construction. Once a development project becomes available for use, we no longer capitalize interest.

Other (Expense)/Income

($000s)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Transaction costs arising on business acquisitions and dispositions [1]	(899)	(2,088)	1,189
Interest income on capital funding receivable and bank balances [1]	1,015	983	32
Reversal of previously-recorded impairment provision	1,245	-	1,245
Gain on remeasurement to fair value of existing interest	435	-	435
Gain on sale of assets [1]	368	48,947	(48,579)
	2,164	47,842	(45,678)
Less: Share of joint ventures	(7)	48,256	(48,263)
Total other (expense)/income	2,171	(414)	2,585

(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "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. Q1 2014 amounts relate primarily to the Robert Speck acquisition and the disposition of non-core U.S. and Ontario properties. Q1 2013 amounts relate primarily to the disposition of non-core U.S. properties.

In Q1 2014, we reversed a $1.2 million previously-recorded provision for impairment of mezzanine loans receivable on collection of the related mezzanine loan.

Gain on remeasurement to fair value of existing interest of $0.4 million relates to the remeasurement of the original 33.3% interest in Robert Speck. Since this was a step acquisition, a fair value remeasurement of the original 33.3% was required upon acquisition of the additional 66.7% interest.

Gain on sale of assets of $48.9 million in Q1 2013 is primarily due to the disposition of non-core U.S. properties.

Other Items

($000s)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Property lease expense	672	656	16
Depreciation of PP&E [1]	42,480	39,750	2,730
Amortization of limited life intangible assets	461	434	27
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	2,424	564	1,860
Current income tax expense/(benefit)	(2,135)	63	(2,198)

(1) Non-IFRS; includes our share of joint-venture depreciation of $0.9 million in Q1 2014 ($0.9 million in Q1 2013). Refer to the "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 increased primarily due to a net increase in our asset base.

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.

In Q1 2014, we were notified that our objection of the assessment of SIFT taxes for the 2007 tax year was accepted and as a result we recorded a SIFT tax recovery of $2.2 million.

Non-IFRS Measures

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

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

Funds from Operations ("FFO")

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

($000s, except per unit amounts)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Net income/(loss) for the period	(16,870)	32,202	(49,072)
Add (Subtract):			
Depreciation of PP&E	42,480	39,750	2,730
Amortization of limited life intangible assets	461	434	27
Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above	(216)	(146)	(70)
Gain on sale of assets	(368)	(48,947)	48,579
Gain on remeasurement to fair value of existing interest	(435)	-	(435)
Transaction costs arising on business acquisitions and dispositions	899	2,088	(1,189)
Distributions on Class B Units recorded as interest expense	224	259	(35)
Adjustment for property tax accounted for under IFRIC 21	5,089	4,943	146
Changes in fair value of financial instruments and unrealized foreign exchange gains/losses	2,424	564	1,860
FFO (1)(2)	33,688	31,147	2,541
Interest expense on 5.7% convertible debentures	1,897	1,897	-
Diluted FFO (3)	35,585	33,044	2,541
FFO per unit			
Basic	0.19	0.18	0.01
Diluted (4)	0.19	0.18	0.01

(1) Non-IFRS; includes our share of amounts from joint-ventures. Refer to the "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.

On January 1, 2014, International Financial Reporting Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21") became effective. We determined that, under IFRIC 21, the full assessed amount of property taxes on our U.S. properties is required to be expensed at the time when such taxes are levied. Previously, we accounted for such taxes pro-rata over the assessment period. In April 2014, Real Property Association of Canada ("REALpac") revised its definition of FFO such that it reflects a pro-rata expense over the period of ownership. Consequently, in our FFO calculation, we added back $5.1 million in Q1 2014 and $4.9 million in Q1 2013, related to property taxes in our U.S. operations.

Adjusted Funds from Operations ("AFFO")

The following table provides the calculation of AFFO:

($000s, except per unit amounts)	**Q1 2014**	Q1 2013	Increase / (Decrease)
FFO [1]	33,688	31,147	2,541
Add (Subtract):			
Principal portion of capital subsidy receivable from Health Authorities	1,150	1,043	107
Amounts received under income guarantees	-	430	(430)
Amortization of financing costs and debt mark-to-market adjustments [2]	304	29	275
Financing cost reserve [3]	(457)	(478)	21
AFFO before capex reserve	34,685	32,171	2,514
Maintenance capex reserve - 2% of property revenue [4]	(4,666)	(4,546)	(120)
AFFO [5]	30,019	27,625	2,394
Interest expense on 5.7% convertible debentures	1,897	1,897	-
Diluted AFFO [6]	31,916	29,522	2,394
AFFO per unit			
Basic	0.17	0.16	0.01
Diluted [7]	0.17	0.16	0.01

(1) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.
(2) 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 "Key Performance Indicators – Adjusted Funds from Operations" 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)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Weighted average number of units [1]	176,193	174,071	2,122
Dilutive impact of 5.7% convertible debentures	12,273	12,273	-
Weighted average number of units, diluted	188,466	186,344	2,122

(1) Includes Class B Units, units issued under the Long-Term Incentive Plan ("LTIP") and Deferred Trust Units ("DTUs").

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

	2014	2013 (Restated)				**2012** [1]		
($000s)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	217,613	218,310	218,600	212,716	208,953	210,850	205,059	200,564
Direct operating expenses	(155,277)	(148,741)	(147,483)	(141,173)	(148,591)	(144,044)	(137,937)	(137,809)
G&A expenses	(9,935)	(8,547)	(6,800)	(7,793)	(7,876)	(7,190)	(5,847)	(6,766)
Income before the understated [2]	52,401	61,022	64,317	63,750	52,486	59,616	61,275	55,989
Finance costs	(28,467)	(29,920)	(28,176)	(27,800)	(27,820)	(28,511)	(28,378)	(31,200)
Property lease expense	(672)	(654)	(682)	(681)	(656)	(625)	(619)	(632)
Other income/(expense)	2,171	8,863	286	527	(414)	(11,117)	(714)	(6,300)
Depreciation and amortization	(42,046)	(51,397)	(40,611)	(37,636)	(39,309)	(58,856)	(47,316)	(48,869)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(2,424)	(367)	3,074	7,437	(564)	(1,605)	(9,262)	(10,512)
Share of earnings (loss)/gain	27	(58)	333	252	48,542	1,199	1,058	36
Current income tax (expense)/recovery	2,140	(66)	(65)	(66)	(63)	(78)	(77)	(82)
Deferred income tax (expense)/recovery	-	-	-	-	-	1,423	5,495	7,683
Net income/(loss) for the period	(16,870)	(12,577)	(1,524)	5,783	32,202	(38,554)	(18,538)	(33,887)
FFO [3]	33,688	30,459	36,577	35,302	31,147	42,820	35,432	29,793
Diluted FFO [3]	35,585	32,399	38,516	37,220	33,044	44,780	37,366	31,711
FFO per unit diluted [3]	0.19	0.17	0.21	0.20	0.18	0.24	0.20	0.17
AFFO [3]	30,019	26,635	32,569	32,254	27,625	39,503	31,409	27,825
Diluted AFFO [3]	31,916	28,575	34,508	34,172	29,522	41,463	33,343	29,743
AFFO per unit diluted [3]	0.17	0.15	0.18	0.18	0.16	0.22	0.18	0.16

(1) 2012 amounts have not been restated to include the effect of property tax adjustment requirements of IFRIC 21.
(2) Refers to income before finance costs, property lease expense, other income/(expense), depreciation and amortization, changes in fair value of financial instruments and unrealized foreign exchange gains/(losses), share of earnings (loss)/gain, and income tax.
(3) Includes the reversal of provision for impairment associated with the mezzanine loan portfolio of $1.2 million and $9.4 million, in Q1 2014 and Q4 2012, respectively.

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, reversals of previously-recorded provisions for mezzanine loans in Q4 2012 and Q1 2014, a recovery of

SIFT tax in Q1 2014, the impact of IFRIC 21 in direct operating expenses starting in Q1 2014, changes in foreign exchange rates resulting in foreign exchange gains and losses on cross-border intercompany loans, and the issuance of Trust Units.

Summary of Results of Operations by Segment

The following section provides an analysis of the operating performance of each of our operating segments in Q1 2014.

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	87	8,038	2,189	675	10,902
50% owned	45	7,790	439	58	8,287
Total same property owned	132	15,828	2,628	733	19,189
Acquisitions, Development & Other					
100% owned – operating (1)	24	1,320	565	182	2,067
50% owned – operating (2)	1	164	32	-	196
Total acquisitions, development & other	25	1,484	597	182	2,263
Total	157	17,312	3,225	915	21,452

(1) Includes 14 properties (945 suites) classified as held for sale.
(2) This property is classified as held for sale.

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

($000s)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Revenue			
Same property	109,619	106,677	2,942
Acquisitions and development	15,621	11,379	4,242
Total revenue	125,240	118,056	7,184
Direct Operating Expenses			
Same property	70,782	69,496	1,286
Acquisitions and development	12,276	9,117	3,159
Total direct operating expenses	83,058	78,613	4,445
Net Operating Income			
Same property	38,837	37,181	1,656
Acquisitions and development	3,345	2,262	1,083
Total net operating income	42,182	39,443	2,739
Weighted average occupancy rate - same property	88.2%	88.7%	(0.5pp)
Weighted average occupancy rate – total portfolio	86.3%	87.6%	(1.3pp)

Same property revenues increased 2.8% in Q1 2014 primarily due to regular annual rental rate increases in line with competitive market conditions, lower short-term move-in incentives and higher ancillary revenues from enhanced services provided to our residents.

Same property direct operating expenses increased 1.9% in Q1 2014 primarily due to higher staffing costs incurred to deliver enhanced services to our residents as well as higher utilities, marketing and food expenses, partially offset by lower bad debt expenses.

Same property NOI increased $1.7 million or 4.5% in Q1 2014 as follows:

- Our Ontario retirement platform same property NOI was consistent with Q1 2013 as the impact of lower occupancies and higher staffing and utilities expenses were offset by lower short-term move-in incentives, regular annual rental rate increases in line with competitive market conditions and higher ancillary revenue from enhanced services provided to our residents.
- Our Western Canada platform same property NOI increased $0.3 million or 3.7% primarily due to regular annual rental rate increases in line with competitive market conditions and lower short-term move-in incentives partially offset by an increase in property taxes.
- Our Quebec platform same property NOI increased $1.3 million or 11.8% primarily due to regular annual rental rate increases in line with competitive market conditions, lower short-term move-in incentives, improved occupancies, lower bad debt and property taxes.

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

	Q1 2014	Q1 2013	Increase / (Decrease)	Q4 2013	Increase / (Decrease)
Ontario	87.7%	89.8%	(2.1pp)	88.3%	(0.6pp)
Western Canada	91.2%	91.5%	(0.3pp)	92.3%	(1.1pp)
Quebec	87.6%	87.1%	0.5pp	88.1%	(0.5pp)
Total	88.2%	88.7%	(0.5pp)	88.8%	(0.6pp)

In Q1 2014, occupancies in our Canadian retirement same property portfolio decreased to 88.2%, a 0.5 percentage point decrease from Q1 2013 and a 0.6 percentage point decrease from Q4 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	24	-	136	3,000	3,136
Total	24	-	136	3,000	3,136

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

($000s, except occupancy rates)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Same property revenue	52,457	50,626	1,831
Same property direct operating expenses	45,907	44,251	1,656
Same property NOI	6,550	6,375	175
Weighted average occupancy rate - same property	98.4%	97.7%	0.7pp
Weighted average occupancy rate – total portfolio	98.4%	97.7%	0.7pp

Same property NOI increased $0.2 million or 2.7% in Q1 2014 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 98.4% in Q1 2014 compared to 97.7% in Q1 2013.

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	3,270	2,122	190	5,582
Properties under operating lease – 100% interest	2	42	191	-	233
Total	39	3,312	2,313	190	5,815

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

(U.S.$000s, except as noted otherwise)	**Q1 2014**	Q1 2013	Increase / (Decrease)
Revenue			
Same property	50,350	49,499	851
Acquisitions and other (1)	-	8,616	(8,616)
Total revenue	50,350	58,115	(7,765)
Direct Operating Expenses			
Same property	38,575	37,220	1,355
Acquisitions and other (1)	(47)	6,057	(6,104)
Total direct operating expenses	38,528	43,277	(4,749)
Net Operating Income			
Same property	11,775	12,279	(504)
Acquisitions and other (1)	47	2,559	(2,512)
Total net operating income	11,822	14,838	(3,016)
Foreign exchange in CDN	1,201	50	1,151
Total net operating income in CDN	13,023	14,888	(1,865)
Weighted average occupancy rate – same property	88.0%	88.0%	-
Weighted average occupancy rate – total portfolio	88.0%	88.9%	(0.9pp)

(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.$0.9 million or 1.7% in Q1 2014 primarily due to regular annual rental rate increases in line with competitive market conditions partially offset by higher short-term move-in incentives.

Same property direct operating expenses increased U.S.$1.4 million or 3.6% in Q1 2014, primarily due to higher staffing and utilities expenses; partially offset by lower office and general expenses and management costs.

As a result of the above, same property NOI decreased U.S.$0.5 million or 4.1% in Q1 2014.

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

	Q1 2014	Q1 2013	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	1.10	1.00	0.10

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 2014.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and unitholders' equity for March 31, 2014 compared to December 31, 2013.

	Increase / (Decrease) ($millions)	Explanation
Total assets	**16.7**	The increase in total assets is primarily due to the following:
Cash	(4.4)	Cash decreased primarily due to the timing of cash provided by operating activities, mostly created by changes in working capital balances.
Investment in joint ventures	(5.3)	Investment in joint ventures decreased primarily due to the distributions received in the period.
Assets held for sale	72.5	Assets held for sale relates to 15 non-core properties in Ontario.
PP&E	(48.0)	PP&E decreased primarily due to depreciation of $41.5 million and net assets transferred to assets held for sale of $71.8 million. These were partially offset by net capital additions of $18.9 million, acquisition of interest in one property of $21.8 million and foreign exchange translation of $26.5 million.
Total liabilities	**48.6**	The change in total liabilities is primarily due to the following:
Credit Facilities	58.6	Credit Facilities increased primarily due to entering into a new U.S. Credit Facility for $26.1 million and higher utilization of the Canadian Credit Facility as a result of timing of operating activities and working capital balances.
Accounts payable and other liabilities	(8.4)	Accounts payable and other liabilities decreased primarily due to the settlement of various liabilities and the effects of foreign exchange translation.
Liabilities related to assets held for sale	21.4	These liabilities relate to 15 non-core properties in Ontario held for sale as of March 31, 2014.
Mortgages payable	(26.4)	Mortgages payable decreased primarily due to use of the U.S. Credit Facility to refinance mortgages on three U.S. properties.
Unitholders' equity	**(31.9)**	The decrease in unitholders' equity is primarily due to cash distributions and the allocation of net loss to the Trust's unitholders.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during Q1 2014:

	Trust Units	Trust Units issued under LTIP	Class B Units	Deferred Trust Units	Total
Balance December 31, 2013	171,643,982	1,893,074	1,658,312	607,986	175,803,354
Trust Units issued pursuant to the Distribution Reinvestment Plan ("DRIP")	499,425	-	-	-	499,425
Trust Units issued under LTIP	-	114,027	-	-	114,027
Trust Units surrendered for cancellation under LTIP	-	-	-	-	-
Trust Units released on settlement of LTIP receivable	4,410	(4,410)	-	-	-
Deferred Trust Units ("DTUs") issued	-	-	-	23,107	23,107
DTU distributions	-	-	-	2,529	2,529
Exchange of Class B Units	-	-	-	-	-
DTUs exchanged for Trust Units on vesting	40,942	-	-	(40,942)	-
Balance March 31, 2014	172,188,759	2,002,691	1,658,312	592,680	176,442,442

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 March 31, 2014, we had cash on hand in the amount of $4.7 million, including our share of joint-venture cash of $0.5 million. In order to provide for our operating and capital requirements, from time to time, we may also raise funds through the capital markets, arrange mortgage debt financing and have put in place secured revolving operating credit facilities in both Canadian and U.S. dollar denominations (collectively, the "Credit Facilities").

Our Canadian credit facility ("Canadian Credit Facility") has a maximum committed capacity of $95.0 million and matures on June 22, 2015. The amounts outstanding bear interest at the bank's prime rate plus 0.95%, or the applicable borrower's acceptance rate plus 1.95%. It is secured by charges on certain of our properties and includes minimum equity requirements and covenants requiring limitations on the amounts of distributions that can be paid to unitholders. At March 31, 2014, based on security provided, the maximum available borrowing capacity under the Canadian Credit Facility was $92.0 million, of which $2.7 million was utilized to support outstanding letters of credit and $59.5 million was drawn, leaving available borrowing capacity at $29.8 million.

Our U.S. credit facility ("U.S. Credit Facility") has a maximum committed capacity of U.S.$25.0 million and matures on December 31, 2015. The amounts outstanding bear interest at the rate equal to one month London Interbank Offered Rate ("LIBOR") plus 3.25%. It is secured by three of our U.S. properties and contains covenants requiring maintenance of certain debt service, fixed-charge coverage and liquidity ratios and minimum capital spend on these properties. At March 31, 2014, based on security provided, the maximum available borrowing capacity under the U.S. Credit Facility was U.S.$23.6 million and was fully-drawn.

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)	**March 31, 2014**	December 31, 2013
Mortgages payable (contractual amount)	2,008,744	2,034,301
Credit Facilities	85,617	27,000
Total Indebtedness excluding convertible debentures	2,094,361	2,061,301
Convertible debentures (at face value)	135,000	135,000
Total Indebtedness	2,229,361	2,196,301
Total assets	2,809,588	2,863,222
Accumulated depreciation and amortization	655,178	637,842
Cumulative transaction costs on business combinations	18,136	17,848
Change in GBV on transition to IFRS	371,635	361,994
GBV of assets	3,854,537	3,880,906
Less: Assets financed by deferred purchase consideration on acquisition properties	-	-
GBV of assets (net of deferred consideration)	3,854,537	3,880,906
Indebtedness Ratio before convertible debentures (1)(2)	54.3%	53.1%
Indebtedness Ratio including convertible debentures (1)(2)	57.8%	56.6%

(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 Q1 2014 Indebtedness Ratio would be 53.7% excluding, and 57.1% 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)	**Q1 2014**	Q1 2013
Interest expense including capitalized interest	28,741	29,132
Property lease expense	672	656
	29,413	29,788
Adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) (1)	60,982	61,903
Interest Coverage Ratio (2)	2.07	2.08
Target Interest Coverage Ratio	>1.65	

(1) In Q1 2014, 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)	**Q1 2014**	Q1 2013
Net income/(loss) for the period	(16,870)	32,202
Add (Subtract):		
Current income tax	(2,135)	63
Reversal of previously-recorded impairment provision	(1,245)	-
Gain on remeasurement to fair value of existing interest	(435)	-
Transaction costs arising on business acquisitions and dispositions	899	2,088
Finance costs	28,860	29,107
Property lease expense	672	656
Depreciation of PP&E	42,480	39,750
Amortization of intangible assets	461	434
Gain on sale of assets	(368)	(48,947)
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	2,424	564
Adjustment for property tax accounted for under IFRIC 21	5,089	4,943
Principal portion of capital funding receivable from Health Authorities (1)	1,150	1,043
Adjusted EBITDA	60,982	61,903

(1) In Q1 2014, we changed our definition of Adjusted EBITDA to exclude the effect of property tax adjustment requirements of IFRIC 21; refer to the "Key Performance Indicators – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.

Net Debt to Adjusted EBITDA Ratio:

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

The following table summarizes our Net Debt to Adjusted EBITDA Ratio at March 31, 2014 and 2013, including our share of amounts from joint ventures:

($000s, except Net Debt to Adjusted EBITDA Ratio)	**March 31, 2014**	March 31, 2013
Trailing 12-month Adjusted EBITDA	255,993	257,448
Add (Subtract):		
Adjustment for part-year acquisitions	1,729	2,793
Adjustment for part-year dispositions and assets held for sale	(11,255)	(8,740)
Trailing12-month Adjusted EBITDA (net of part-year acquisitions and dispositions)	246,467	251,501
Indebtedness(1)	2,229,361	2,185,165
Less: Cash and cash equivalents	4,717	17,312
Net debt	2,224,644	2,167,853
Net Debt to Adjusted EBITDA Ratio (2)	9.0	8.6

(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.

In line with our strategy, in Q2 2014, we expect to complete early refinancing of mortgages on six of our properties totalling $71.4 million, maturing in 2014 and 2015 and bearing interest at a weighted average rate of 4.29%. New mortgages on these properties are expected to total $75.9 million, bear interest at a weighted average rate of 3.62% and have a weighted average term to maturity of 13 years. We expect to incur an early-mortgage defeasance cost of $2.3 million.

Mortgage Debt

At March 31, 2014, we had $2,008.7 million of mortgages payable of which $1,416.7 million related to our Canadian properties and $592.0 million (U.S.$535.5 million) related to our U.S. properties. Our Canadian property net balance includes $29.2 million representing our share of joint-venture balances. We monitor our mortgage portfolio on a line-by-line consolidation basis and, as such, this section includes our share of mortgages from joint ventures.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at March 31, 2014, excluding the related mortgages on properties held for sale.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Debt	Weighted Average Interest Rate on Maturing Debt
Remainder of 2014	49,383	117,559	166,942	8%	4.88%
2015	52,259	342,027	394,286	20%	4.95%
2016	45,417	327,086	372,503	19%	6.20%
2017	38,838	218,340	257,178	13%	5.65%
2018	37,095	80,168	117,263	6%	4.65%
2019	36,255	10,591	46,846	2%	4.60%
2020	36,683	50,988	87,671	4%	4.37%
2021	34,917	50,150	85,067	4%	4.62%
2022	31,572	62,200	93,772	5%	3.56%
2023	26,531	58,992	85,523	4%	4.28%
2024	19,014	58,509	77,523	4%	4.75%
2025	16,513	3,947	20,460	1%	5.40%
Thereafter	161,976	41,734	203,710	10%	4.47%
Total	586,453	1,422,291	2,008,744	100%	
Mark-to-market adjustments arising on acquisition			16,228		
Less: Financing costs			(18,326)		
Total Mortgage Debt			2,006,646		

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

	At March 31, 2014					At December 31, 2013
	Canadian Debt		U.S. Debt		**Combined**	Combined
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Amount ($millions)	1,253.4	163.3	592.0	-	2,008.7	2,034.3
Weighted average interest rate	4.71%	4.50%	5.91%	-	5.05%	5.02%
Average term to maturity (years)	9.3	0.9	2.2	-	6.5	6.7

In Canada, we generally have access to low-cost mortgage financing insured by Canada Mortgage and Housing Corporation ("CMHC"). All of our Canadian properties are eligible for CMHC financing and as of March 31, 2014, 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.

Our variable-rate mortgages primarily relate to communities that have not yet achieved stabilized occupancy levels, including our development projects in Canada. Variable-rate mortgages are expected to be refinanced with fixed-rate, CMHC-insured debt upon stabilization of the properties.

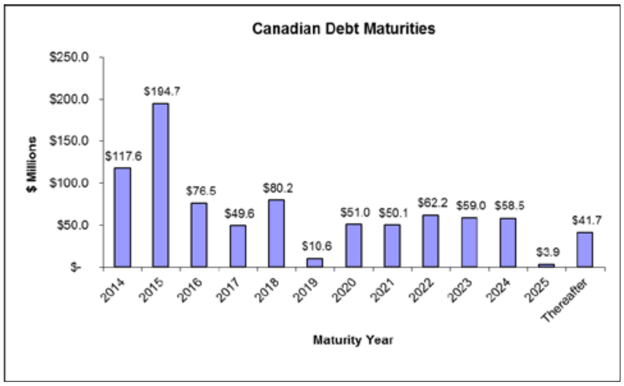
The following table summarizes our variable-rate mortgages as at March 31, 2014:

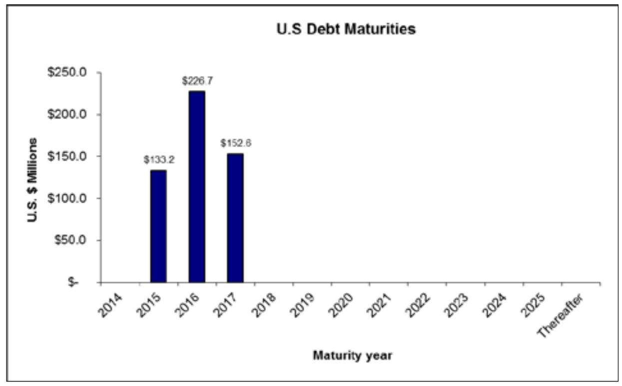
($000s, except number of projects)	Number of Projects	**March 31, 2014**	Number of Projects	**December 31, 2013**
Mortgages on properties under construction	-	-	1	12,886
Mortgages on non-stabilized properties (1)	10	121,846	11	117,389
Mortgages on stabilized properties (2)	6	41,440	5	35,745
Total	16	163,286	17	166,020

(1) Includes our share of one joint-venture variable-rate mortgage of $12.4 million.
(2) Includes a $0.4 million mortgage on one property which was subsequently repaid on May 1, 2014.

The increase in mortgages on non-stabilized properties is primarily due to the assumption of debt on acquisition of the remaining 66.7% interest in Robert Speck in Q1 2014, the transfer of one newly-constructed property into operations, partially offset by the repayment of U.S.$22.9 million of variable-rate mortgages on two of our U.S. properties.

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





Convertible Debentures

At March 31, 2014, 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:

- Routine – capital expenditures incurred to maintain existing revenue generating potential of our properties, such as routine replacement of building components, furniture, fixtures and equipment.
- Major projects / compliance – capital expenditures incurred to comply with the requirements of various regulatory or government authorities.
- Accretive / acquisitions – capital expenditures that improve the revenue generating potential of our properties, or which were identified during acquisition due diligence for newly acquired assets.
- Development – capital expenditures in respect of our development projects.

The following table summarizes additions to properties, including our share of joint venture properties, during Q1 2014:

($000s)	**Q1 2014**	Q1 2013
Routine	5,657	3,412
Major projects / compliance	-	723
Accretive / acquisitions	-	749
Development	11,981	2,266
Total (1)(2)	17,638	7,150

(1) Excludes $0.5 million in capital additions relating to corporate office leasehold improvements and information technology assets as well as other intangibles in Q1 2014 ($1.6 million in Q1 2013).
(2) Excludes $1.4 million in capital additions in Q1 2014 funded by insurers.

Contractual Obligations and Guarantees

Details of our contractual obligations and guarantees are disclosed in our 2013 MD&A. There were no significant changes in our contractual obligations and guarantees in Q1 2014 which are outside of the ordinary course of business.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q1 2014 and Q1 2013 using the statements of cash flows prepared in accordance with IFRS 11:

Cash Provided by (Used in):	**Increase / (Decrease)** ($millions)	**Explanation**
Operating activities	(1.2)	Cash flows from operating activities decreased primarily due to the net change in working capital balances.
Financing activities	29.1	Cash flows from financing activities increased primarily due to the higher utilization of the Credit Facilities; partially offset by lower proceeds from mortgage financing, net of repayments.
Investing activities	(45.9)	Cash flows from investing activities decreased primarily due to lower distributions received from joint ventures, higher additions to PP&E, and higher acquisition activity; partially offset by changes in restricted cash, proceeds from disposals of PP&E and collections of mezzanine loans.

Distributions

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

Unitholders who are Canadian residents are eligible to participate in our Distribution Reinvestment Plan (“DRIP”), which allows unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Participating investors registered in the DRIP receive additional bonus units in an amount equal to 3% of the distributions which they have elected to reinvest. In Q1 2014, our average DRIP participation was 21.5% compared to 24.9% participation in Q1 2013. In Q1 2013, we eliminated the 1,000-unit participation threshold.

The following table summarizes distributions made in Q1 2014, 2013 and 2012:

($000s)	**Q1 2014**	**2013**	2012
Distributions declared on Trust Units [1]	23,442	93,069	89,791
Distributions on Class B Units	224	895	909
Distributions reinvested under DRIP	(4,993)	(19,058)	(15,791)
Distributions applied against LTIP receivable	(256)	(1,081)	(1,200)
Distributions paid or payable in cash	18,417	73,825	73,709

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

The following table summarizes cash distributions made in Q1 2014, 2013, and 2012 in relation to net income/(loss) and cash flows from operating activities:

($000s)	**Q1 2014** (1)	2013 (1)	2012 (1)
Cash flows from operating activities	13,590	131,852	97,099
Net income/(loss)	(16,870)	23,884	(139,342)
Distributions paid or payable in cash (2) (3)	18,417	73,825	73,709
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	(4,827)	58,027	23,390
Excess/(shortfall) of net income/(loss) over cash distributions paid	(35,287)	(49,941)	(213,051)

(1) Q1 2014 and 2013 amounts are disclosed using equity accounting in accordance with IFRS 11. Amounts for 2012 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 Q1 2014 and 2012. 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.

Cash flows from operating activities fluctuate from period to period due to seasonality of certain operating expenses and are also impacted by changes in working capital items. In Q1 2014, cash flows from operating activities have been reduced by $8.2 million by such working capital fluctuations.

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. Property taxes accrued and expensed prior to the associated period of lease term revenue, wherein certain jurisdictions require the owner of a property at the time of tax assessment to irrevocably be solely liable for property taxes regardless of subsequent changes in ownership.
M. Gain or loss on the sale of an investment in a foreign operation.
N. Changes in the fair value of financial instruments which are economically effective hedges but do not qualify for hedge accounting.
O. Bargain purchase or goodwill impairment.
P. Effects of redeemable units classified as financial liabilities.

Other items:
Q. Results of discontinued operations.
R. Adjustments for equity accounted entities.
S. 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 or that are expected to be sold in the current 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 Q1 2014:

	Properties	Suites/Beds
Canadian Retirement Operations	132	19,189
Canadian Long Term Care Operations	24	3,136
U.S. Operations (owned and leased)	39	5,815
Total same property portfolio	195	28,140

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 and includes the principal portion of the capital funding receivable from MOHLTC since this long-term cash flow stream forms part of the business value considered by lenders in financing LTC properties. In Q1 2014, we changed our definition of Adjusted EBITDA to exclude property taxes expensed under IFRIC 21 prior to the associated period of lease term revenue. Under IFRIC 21, certain expenses classified as levies must be recognized when the obliging event occurs. This results in recognition occurring at a point in time rather than on a pro-rata basis. Our assessment determined that property tax in our U.S. operating segment meets the definition of a levy under IFRIC 21. 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 exclude the portion of this expense that is not pro-rata 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

Critical Accounting Judgements, Estimates and Assumptions in Applying Accounting Policies

We monitor and assess all accounting pronouncements. In our Q1 2014 Financial Statements as well as in our 2013 MD&A, we identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. There were no significant changes in Q1 2014.

Changes in Accounting Estimates and Changes in Accounting Policies

The current accounting policy changes and future accounting policy changes are described in Note 1 of our Financial Statements.

Controls and Procedures

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

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

The President and Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision of, the design of the Trust's disclosure controls and procedures and internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at March 31, 2014. Based on this evaluation, we have concluded that we have a) designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to Chartwell is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared and (ii) information required to be disclosed by Chartwell in its various reports filed or submitted under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation; and b) designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no material changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2014, that have significantly affected or are reasonably likely to significantly affect our internal control over financial reporting.

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 15th, 2014 after which time Chartwell will consider it as superseded by the updated version.

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 realize returns on our development 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 at favourable rates, 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

Our Annual Information Form dated March 5, 2014 and our 2013 MD&A contain a detailed discussion of risk factors and uncertainties facing Chartwell.

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