CHARTWELL retirement residences | making people's lives BETTER®

TWO

Management's Discussion & Analysis

Second Quarter Report • June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three and Six Months Ended June 30, 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 and six months ended June 30, 2014. This MD&A should be read in conjunction with Chartwell's unaudited, interim condensed consolidated financial statements for the three and six months ended June 30, 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 August 7, 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 Q2 2014 and 2014 YTD are in comparison to results from Q2 2013 and 2013 YTD, respectively.

In this document we use a number of performance measures that are not generally accepted accounting principles ("GAAP") 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," "Chartwell's Interests" and any related per unit amounts to measure, compare and explain the operating results and financial performance of the Trust (collectively, the "Non-GAAP Measures"). These Non-GAAP Measures do not have a 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 "Non-GAAP Measures" section of this MD&A for details.

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; all of which are located in Canada and the United States ("U.S.").

Our Continuum of Care:

- Independent living ("IL")
- Independent supported living ("ISL")
- Assisted living ("AL")
- Memory care ("MC")
- Long term care ("LTC")

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

In 2013, we became one of the founding members of an Ontario Retirement Communities Association ("ORCA") initiative - the ORCA Data Collaborative ("CORE"). The purpose of CORE is to provide owners and operators of retirement housing in Canada the opportunity to share data anonymously and confidentially, to learn from aggregate data and to provide transparency of the industry in Canada to stimulate investment. One of the goals of CORE was to establish common definitions of terminology to improve accuracy and to enable consistent reporting and benchmarking. As a result of this initiative, starting in Q2 2014, we have implemented the CORE definitions for classifying our retirement communities according to level of care:

- IL - Age-qualified units/ townhouses/ bungalows with availability of providing meals and general services without personal care services available;
- ISL - Age-qualified units/ townhouses/ bungalows with households general services and with personal care services available;
- AL - Age-qualified units with personal care services included in fee in a separate wing, floor or building; and
- MC - Age-qualified units with personal care services included in fee for persons with Alzheimer's disease or some other form of dementia, in a separate/secure wing, floor or building.

At June 30, 2014, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 30,577 suites in 213 communities. At June 30, 2014, our portfolio of owned and leased communities consisted of interests in 29,453 suites in 206 communities.

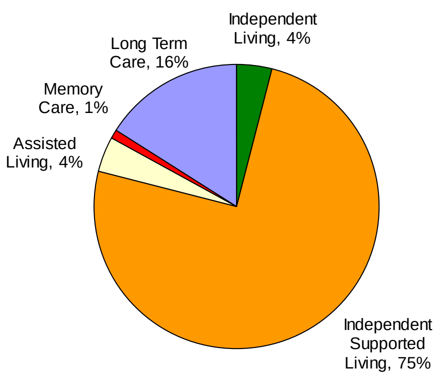
The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at June 30, 2014:

	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)	97	12,023	24	3,136	37	5,582	158	20,741
50% Owned – operating (3)	46	8,479	-	-	-	-	46	8,479
Total Owned	143	20,502	24	3,136	37	5,582	204	29,220
Properties under Operating Lease								
100% Interest	-	-	-	-	2	233	2	233
Total Owned and Leased	143	20,502	24	3,136	39	5,815	206	29,453
Managed Properties	3	516	4	608	-	-	7	1,124
Total	146	21,018	28	3,744	39	5,815	213	30,577

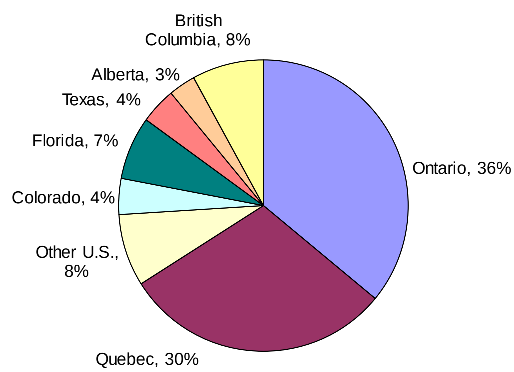
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.
(2) Includes four properties (827 suites) classified as held for sale.
(3) Includes one 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 June 30, 2014 by:

Level of Care



Geographic Location



Total Canada – 77%
Total U.S. – 23%

Business Strategy

Our business strategy is principally focused on providing quality care and services to our residents, which we believe will help us to achieve sustainable growth in our AFFO per unit and long-term value creation for our unitholders. The following summarizes our key strategic objectives:

Grow core property portfolio contribution by:

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

Maintain a strong financial position by:

- Maintaining sufficient liquidity to execute on our strategic priorities.
- Staggering debt maturities over time to reduce financing and interest rate risks.
- Financing our properties with long-term debt, while managing interest costs.
- Gradually reducing our debt levels to our targeted range.

Improve quality and efficiency of our corporate support services by:

- Implementing information technology solutions to better understand our customers, communicate with our employees, and reduce administrative time commitment in the field.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to our operating teams.

Build value of our real estate portfolio by:

- Maintaining our asset management program to ensure each asset is used to its highest potential.
- Maintaining a moderate development program.
- Sourcing accretive acquisitions of newer properties in our existing markets.
- Divesting non-core assets.

The following summarizes the progress we made in executing our strategy in 2014 to date:

Grow core property portfolio contribution	• Re-branding of our Canadian communities is substantially complete. • Same property NOI [(1)] increased $0.6 million or 0.5% in 2014 YTD. • Same property occupancy declined slightly by 0.3 percentage points to 89.3% in 2014 YTD.
Maintain a strong financial position	• At June 30, 2014, we had cash on hand [(2)] of $20.6 million and $39.0 million of available borrowing capacity under our Credit Facilities. • Interest Coverage Ratio [(1)] was 2.21 in Q2 2014 compared to 2.26 in Q2 2013. • Net Debt to Adjusted EBITDA Ratio [(1)] was 8.6 at June 30, 2014 compared to 8.5 at June 30, 2013. • Indebtedness Ratio [(1)] improved to 56.2% at June 30, 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. • Completed the implementation of a telephone system to route customer calls from the properties to Chartwell's call centre whenever a sales consultant is not available. • Completed an update to our website.
Build value of our real estate portfolio	• Completed acquisitions of interests in four retirement residences and one medical office building for $87.4 million. • Completed development of one retirement residence in Ontario with two other projects in progress for completion in 2014 and 2015. • Completed sales of interests in 19 non-core properties for $225.2 million.

(1) Non-GAAP; refer to the "Non-GAAP Measures" section of this MD&A.
(2) Non-GAAP; includes Chartwell's Interests in equity accounted investments of $1.0 million.

2014 Outlook

Our 2013 MD&A contains a detailed discussion of our 2014 Outlook. There were no significant changes to our 2014 Outlook, except as discussed elsewhere in this MD&A.

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 2014 YTD, except as follows:

Acquisitions

On January 2, 2014, we completed the acquisition of the remaining 66.7% interest in Robert Speck, a 113-unit ISL 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.

On July 3, 2014, we acquired a 100% interest in a 151-unit ISL residence located in Gatineau, Quebec. The purchase price before closing costs was $21.8 million and was settled in cash utilizing our Credit Facility.

On July 18, 2014 we acquired an 85% interest in two retirement residences ("L'Unique" a 169-unit ISL residence, and "Les Monarques" a 98-unit AL residence) and a medical office building ("Polyclinique") (collectively, the "Campus") for $44.3 million, before closing costs, from entities affiliated with Batimo Inc (“Batimo”). Batimo has retained a 15% interest in the Campus. The purchase price was satisfied by the assumption of mortgages totalling $27.9 million, with the remainder paid in cash. Batimo provided Chartwell with a five year net operating income guarantee on L'Unique and Les Monarques up to an aggregate maximum amount of $1.3 million. In addition, Batimo provided Chartwell with a five year net operating income guarantee on Polyclinique (the "Polyclinique NOI guarantee"). Under the Polyclinique NOI guarantee Chartwell's share of net operating income will be at least $0.8 million per annum.

Chartwell also agreed to advance a mezzanine loan to Batimo for the development of a 90-unit addition to L'Unique ("L'Unique Phase II"). A $1.4 million mezzanine loan will be for a five-year term, bear interest at the rate equal to the higher of 10% and the yield on a 10-year Government of Canada bond plus 7%, to be fixed at the time of the advance. Chartwell plans to acquire an 85% interest in L'Unique Phase II upon occupancy reaching 90% and satisfaction of certain other conditions, at a purchase price determined by an appraisal. The mezzanine loan term may be extended for another two years under certain conditions.

Dispositions

On May 1, 2014, we completed the sale of 14 non-core properties in Ontario for $66.0 million. This transaction 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, have a three-year term to maturity, are secured by charges against certain properties in the portfolio, the corporate guarantees of the purchaser and its affiliated entity and certain cross-collateralization and certain cross-default provisions.

On July 2, 2014, we completed the sale of a non-core property in Ontario for $24.5 million. We owned a 50% interest in this property.

Dispositions of these properties resulted in capital gains for tax purposes. As a result, we recorded a provision for SIFT tax of approximately $0.4 million in Q2 2014 and expect to record an additional $0.6 million provision in Q3 2014.

On July 30, 2014, we completed the sale of four non-core U.S. properties comprised of 827 suites located in Alabama, Michigan, Oklahoma and Tennessee for U.S.$136.1 million. Mortgages of U.S.$86.2 million, related to these properties, were discharged at closing. The balance of the purchase price, net of closing costs, was received in cash and utilized to reduce our indebtedness in the U.S. and Canada.

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 limited 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.

Throughout this document, amounts reported ‘per our Financial Statements’ are prepared in accordance with IFRS, and amounts reported as ‘Chartwell’s Interests,’ a non-GAAP measure, include amounts as reported in our Financial Statements plus equity-accounted investments.

We believe that presenting our operating and financial results of our joint arrangements using line-by-line, a non-GAAP basis, provides more useful information to current and prospective investors to assist them with their understanding of our financial performance by providing transparency of revenue earned, expenses incurred, as well as assets and liabilities held through joint ventures. Management uses this measure as the assets are managed at the property level, not based on our interest in the property.

The following tables provide a complete reconciliation of our Financial Statements to the financial information used in this MD&A.

($000s)	Q2 2014 per Financial Statements [1]	Equity Accounted Investments [2]	Q2 2014 Chartwell's Interests [3]
Revenue			
Resident	204,535	25,462	229,997
Management and other fees	1,860	-	1,860
Lease revenue from joint ventures	8,306	(8,306)	-
Interest on loans receivable	83	-	83
	214,784	17,156	231,940
Expenses			
Direct operating	144,092	16,252	160,344
General, administrative and Trust ("G&A")	8,255	-	8,255
	152,347	16,252	168,599
Income before the undernoted	62,437	904	63,341
Finance costs	29,804	393	30,197
Property lease expense	683	-	683
Other expense/(income)	(5,408)	(21)	(5,429)
Depreciation of property, plant and equipment ("PP&E")	41,131	461	41,592
Amortization of intangible assets	1,043	6	1,049
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	3,811	-	3,811
Share of joint venture loss/(income)	(65)	65	-
Loss before income taxes	(8,562)	-	(8,562)
Income tax expense/(benefit):			
Current	470	-	470
Deferred	(2,057)	-	(2,057)
	(1,587)	-	(1,587)
Loss for the period	(6,975)	-	(6,975)
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	(1,971)	-	(1,971)
Total comprehensive loss	(8,946)	-	(8,946)

(1) Prepared in accordance with IFRS.
(2) Represents Chartwell's proportionate share of adjustments for equity-accounted joint ventures.
(3) Non-GAAP; represents Chartwell's proportionate share of interests in all of our portfolio investments.

($000s)	Q2 2013 per Financial Statements [1]	Equity Accounted Investments [2]	Q2 2013 Chartwell's Interests [3]
Revenue			
Resident	202,949	24,938	227,887
Management and other fees	1,818	-	1,818
Lease revenue from joint ventures	7,916	(7,916)	-
Interest on loans receivable	33	-	33
	212,716	17,022	229,738
Expenses			
Direct operating	141,173	15,420	156,593
G&A	7,793	-	7,793
	148,966	15,420	164,386
Income before the undernoted	63,750	1,602	65,352
Finance costs	27,800	411	28,211
Property lease expense	681	-	681
Other expense/(income)	(527)	(15)	(542)
Depreciation of PP&E	37,009	954	37,963
Amortization of intangible assets	627	-	627
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	(7,437)	-	(7,437)
Share of joint venture loss/(income)	(252)	252	-
Income before income taxes	5,849	-	5,849
Income tax expense/(benefit):			
Current	66	-	66
Deferred	-	-	-
	66	-	66
Income for the period	5,783	-	5,783
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	1,283	-	1,283
Total comprehensive income	7,066	-	7,066

(1) Prepared in accordance with IFRS.
(2) Represents Chartwell's proportionate share of adjustments for equity-accounted joint ventures.
(3) Non-GAAP; represents Chartwell's proportionate share of interests in all of our portfolio investments.

($000s)	2014 YTD per Financial Statements [(1)]	Equity Accounted Investments [(2)]	2014 YTD Chartwell's Interests [(3)]
Revenue			
Resident	412,210	51,063	463,273
Management and other fees	3,708	-	3,708
Lease revenue from joint ventures	16,336	(16,336)	-
Interest on loans receivable	143	-	143
	432,397	34,727	467,124
Expenses			
Direct operating	299,369	32,496	331,865
G&A	18,190	-	18,190
	317,559	32,496	350,055
Income before the undernoted	114,838	2,231	117,069
Finance costs	58,271	786	59,057
Property lease expense	1,355	-	1,355
Other expense/(income)	(7,579)	(14)	(7,593)
Depreciation of PP&E	82,716	1,356	84,072
Amortization of intangible assets	1,504	6	1,510
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	6,235	-	6,235
Share of joint venture loss/(income)	(92)	92	-
Loss before income taxes	(27,572)	5	(27,567)
Income tax expense/(benefit):			
Current	(1,670)	5	(1,665)
Deferred	(2,057)	-	(2,057)
	(3,727)	5	(3,722)
Income/(loss) for the period	(23,845)	-	(23,845)
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	783	-	783
Total comprehensive loss	(23,062)	-	(23,062)

(1) Prepared in accordance with IFRS.
(2) Represents Chartwell's proportionate share of adjustments for equity-accounted joint ventures.
(3) Non-GAAP; represents Chartwell's proportionate share of interests in all of our portfolio investments.

($000s)	2013 YTD per Financial Statements (1)	Equity Accounted Investments (2)	2013 YTD Chartwell's Interests (3)
Revenue			
Resident	402,322	52,844	455,166
Management and other fees	3,860	-	3,860
Lease revenue from joint ventures	15,391	(15,391)	-
Interest on loans receivable	96	-	96
	421,669	37,453	459,122
Expenses			
Direct operating	289,764	33,402	323,166
G&A	15,669	-	15,669
	305,433	33,402	338,835
Income before the undernoted	116,236	4,051	120,287
Finance costs	55,620	1,698	57,318
Property lease expense	1,337	-	1,337
Other expense/(income)	(113)	(48,270)	(48,383)
Depreciation of PP&E	75,884	1,829	77,713
Amortization of intangible assets	1,061	-	1,061
Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains)	(6,873)	-	(6,873)
Share of joint venture loss/(income)	(48,794)	48,794	-
Income before income taxes	38,114	-	38,114
Income tax expense/(benefit):			
Current	129	-	129
Deferred	-	-	-
	129	-	129
Income/(loss) for the period	37,985	-	37,985
Other comprehensive income/(loss):			
Unrealized foreign currency income/(loss) on translation of foreign operations	2,719	-	2,719
Total comprehensive income	40,704	-	40,704

(1) Prepared in accordance with IFRS.
(2) Represents Chartwell's proportionate share of adjustments for equity-accounted joint ventures.
(3) Non-GAAP; represents Chartwell's proportionate share of interests in all of our portfolio investments.

($000s)	June 30, 2014 per Financial Statements (1)	Equity Accounted Investments (2)	June 30, 2014 Chartwell's Interests (3)
Assets			
Current assets:			
Cash and cash equivalents	19,551	1,031	20,582
Trade and other receivables	24,007	(2,405)	21,602
Capital funding receivable	4,829	-	4,829
Other assets	22,433	3,290	25,723
Assets held for sale	119,982	148	120,130
Total current assets	190,802	2,064	192,866
Non-current assets:			
Other assets	8,519	-	8,519
Deferred tax assets	2,026	-	2,026
Loans receivable	6,000	-	6,000
Capital funding receivable	64,033	-	64,033
Investment in joint ventures	22,892	(22,892)	-
Intangible assets	49,447	55	49,502
PP&E	2,413,130	46,158	2,459,288
Total non-current assets	2,566,047	23,321	2,589,368
Total assets	2,756,849	25,385	2,782,234
Liabilities and Unitholders' Equity			
Current liabilities:			
Credit Facilities	59,940	-	59,940
Accounts payable and other liabilities	117,167	(3,417)	113,750
Distributions payable	7,933	-	7,933
Mortgages payable	156,183	12,878	169,061
Liabilities held for sale	95,160	58	95,218
Total current liabilities	436,383	9,519	445,902
Non-current liabilities:			
Mortgages payable	1,704,231	15,866	1,720,097
Convertible debentures	148,352	-	148,352
Class B Units of Chartwell Master Care LP ("Class B Units")	17,792	-	17,792
Total non-current liabilities	1,870,375	15,866	1,886,241
Total liabilities	2,306,758	25,385	2,332,143
Unitholders' equity	450,091	-	450,091
Total liabilities and unitholders' equity	2,756,849	25,385	2,782,234

(1) Prepared in accordance with IFRS.
(2) Represents Chartwell's proportionate share of adjustments for equity-accounted joint ventures.
(3) Non-GAAP; represents Chartwell's proportionate share of interests in all of our portfolio investments.

($000s)	December 31, 2013 per Financial Statements (1)	Equity Accounted Investments (2)	December 31, 2013 Chartwell's Interests (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	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) Prepared in accordance with IFRS.
(2) Represents Chartwell's proportionate share of adjustments for equity-accounted joint ventures.
(3) Non-GAAP; represents Chartwell's proportionate share of interests in all of our portfolio investments.

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)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Resident revenue (1)	229,997	227,887	2,110	463,273	455,166	8,107
Weighted average occupancy rate - same property portfolio (2)	89.3%	89.6%	(0.3pp)	89.3%	89.6%	(0.3pp)
Same property NOI (1)(3)	62,449	63,296	(847)	117,745	117,161	584
AFFO (4)(5)	31,899	32,254	(355)	61,918	59,879	2,039
AFFO per unit diluted (6)(7)	0.18	0.18	-	0.35	0.34	0.01
FFO (8)	35,818	35,302	516	69,506	66,449	3,057
FFO per unit diluted (6)(7)	0.20	0.20	-	0.39	0.38	0.01
Distributions declared (9)	23,893	23,429	464	47,559	46,862	697
Distributions declared per unit (7)	0.14	0.14	-	0.27	0.27	-
Distributions declared as a percentage of AFFO	74.9%	72.6%	2.3pp	76.8%	78.3%	(1.5pp)
Net income/(loss) for the period	(6,975)	5,783	(12,758)	(23,845)	37,985	(61,830)

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.
(2) pp = percentage points.
(3) Non-GAAP; excludes the effects of foreign exchange on the U.S. dollar. Refer to the "Non-GAAP Measures – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.
(4) Non-GAAP; refer to the "FFO and AFFO Reconciliation – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO and AFFO per unit diluted calculations.
(5) Includes $0.3 million and $0.9 million in negative AFFO related to properties in lease-up in Q2 2014 and 2014 YTD, respectively ($0.4 million and $0.9 million in Q2 2013 and 2013 YTD, respectively).
(6) Includes dilutive impact of conversion of convertible debentures into Trust Units.
(7) Non-GAAP; refer to the "Non-GAAP Measures – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.
(8) Non-GAAP; refer to the "FFO and AFFO Reconciliation – 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, Class B Units and Deferred Trust Units ("DTUs").

In Q2 2014, AFFO was $31.9 million or $0.18 per unit diluted. This represents a decrease of $0.4 million or 1.1% compared to AFFO of $32.3 million or $0.18 per unit diluted in Q2 2013. The changes in AFFO include the following:

- Incremental AFFO of $3.4 million from the proceeds of the settlement of litigation in the U.S.;
- Incremental AFFO of $0.8 million from the proceeds of the settlement of certain commodity tax matters;
- Incremental AFFO of $0.7 million related to foreign exchange on our U.S. source income;
- Other items combined of $0.2 million;

offset by:

- Defeasance costs of $2.4 million incurred as a result of early debt repayments;
- Higher other G&A expenses of $0.5 million primarily due to legal costs related to the settled litigation in the U.S.;
- Lower AFFO of $1.5 million, excluding the effects of foreign exchange on the U.S. dollar, due to sales of non-core U.S. and Ontario properties net of the increased contribution from new acquisitions and developments; and

- Lower AFFO from our same property portfolio of $1.1 million, excluding the effects of foreign exchange on the U.S. dollar, primarily due to decreased NOI and NOI guarantees, partially offset by interest cost savings.

For 2014 YTD, AFFO was $61.9 million or $0.35 per unit diluted. This represents an increase of $2.0 million or 3.4% compared to AFFO of $59.9 million or $0.34 per unit diluted in 2013 YTD. The changes in AFFO include the following:

- Incremental AFFO of $3.4 million from the proceeds of the settlement of litigation in the U.S.;
- Incremental AFFO of $3.2 million from the proceeds of the settlement of prior years' SIFT and commodity tax matters;
- Incremental AFFO of $1.2 million resulting from the reversal of previously-recorded provision for impairment of mezzanine loans;
- Incremental AFFO of $1.3 million related to foreign exchange rates on our U.S. source income;
- Incremental AFFO from our same property portfolio of $0.2 million, excluding the effects of foreign exchange on the U.S. dollar, primarily due to interest cost savings partially offset by decreased NOI and NOI guarantees;

offset by:

- Defeasance costs of $2.4 million incurred as a result of early debt repayments;
- Higher other G&A expenses of $2.5 million, primarily due to severance costs related to corporate reorganization to improve support services provided to our operating platforms of $1.2 million and, higher legal costs related to the settled litigation in the U.S. of $0.8 million;
- Lower AFFO of $2.3 million, excluding the effects of foreign exchange on the U.S. dollar, due to sales of non-core U.S. and Ontario properties net of the increased contribution from assets held for sale and new acquisitions and developments; and
- Other items combined of $0.1 million.

In Q2 2014, FFO increased by $0.5 million or 1.5% to $35.8 million or $0.20 per unit diluted compared to Q2 2013 FFO of $35.3 million or $0.20 per unit diluted. For 2014 YTD, FFO increased $3.1 million or 4.6% to $69.5 million or $0.39 per unit diluted compared to 2013 YTD FFO of $66.4 million or $0.38 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 Q2 2014, net loss was $7.0 million compared to net income of $5.8 million in Q2 2013. For 2014 YTD net loss was $23.8 million compared to net income of $38.0 million in 2013 YTD. 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, gains on sale of assets, changes in fair value of financial instruments, unrealized foreign exchange translation gains, deferred income taxes and current income tax due primarily due to capital gains tax resulting from the sale of the 14 non-core Ontario properties.

Refer to the "Non-GAAP Measures" section of this MD&A for a discussion of the calculation of AFFO, FFO and per unit amounts.

Same Property Portfolio Highlights

($000s, except occupancy rates)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Canadian retirement:						
NOI (1)	39,779	40,538	(759)	78,616	77,719	897
Occupancy	87.7%	88.1%	(0.4pp)	88.0%	88.4%	(0.4pp)
Canadian LTC:						
NOI	7,348	7,252	96	13,898	13,627	271
Occupancy	98.5%	98.5%	-	98.4%	98.1%	0.3pp
U.S.:						
NOI (U.S.$)	15,322	15,506	(184)	25,231	25,815	(584)
Occupancy	88.1%	88.6%	(0.5pp)	87.7%	88.1%	(0.4pp)
Combined:						
NOI (1)(2)	62,449	63,296	(847)	117,745	117,161	584
Occupancy	89.3%	89.6%	(0.3pp)	89.3%	89.6%	(0.3pp)

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.
(2) Non-GAAP; excludes the effect of foreign exchange. Refer to the "Non-GAAP Measures – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.

In Q2 2014, combined same property occupancy decreased to 89.3%, with same property NOI decreasing $0.8 million or 1.3% as follows:

- In our Canadian retirement portfolio, same property NOI decreased 1.9%. 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 were more than offset by higher staffing, utilities, food and property tax expenses. Occupancy decreased to 87.7% from 88.1% in Q2 2013.
- In our Canadian LTC portfolio, same property NOI increased 1.3% primarily due to higher government funding, increased retirement and other revenues and higher preferred accommodation rates partially offset by higher utilities expenses. Occupancy remained high at 98.5% consistent with Q2 2013.
- In our U.S. portfolio, same property NOI decreased 1.2% primarily due to lower occupancies, higher short-term move-in incentives and higher staffing and food expenses. Occupancy decreased to 88.1% from 88.6% in Q2 2013.

For 2014 YTD, combined same property occupancy decreased to 89.3%, with same property NOI increasing $0.6 million or 0.5% as follows:

- In our Canadian retirement portfolio, same property NOI increased 1.2%. 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, property taxes and food expenses. Occupancy decreased to 88.0% from 88.4% in 2013 YTD.
- In our Canadian LTC portfolio, same property NOI increased 2.0% primarily due to higher government funding, increased retirement and other revenues and higher preferred accommodation rates partially offset by higher utilities expenses. Occupancy remained high at 98.4% compared to 98.1% in 2013 YTD.
- In our U.S. portfolio, same property NOI decreased 2.3% primarily due to lower occupancies, higher short-term move-in incentives, and higher staffing, food and utilities expenses partially offset by lower management costs. Occupancy decreased to 87.7% from 88.1% in 2013 YTD.

Summary of Net Operating Income

($000s, except occupancy rates)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Resident Revenue						
Same property [(1)(2)]	207,896	203,400	4,496	414,214	404,346	9,868
Acquisitions and other [(1)(2)]	17,530	23,199	(5,669)	39,259	49,051	(9,792)
Foreign exchange on U.S. dollar revenue [(1)]	4,571	1,288	3,283	9,800	1,769	8,031
	229,997	227,887	2,110	463,273	455,166	8,107
Less: Share of resident revenue from joint ventures	25,462	24,938	524	51,063	52,844	(1,781)
Total resident revenue	204,535	202,949	1,586	412,210	402,322	9,888
Direct Operating Expenses						
Same property [(1)(2)]	145,447	140,104	5,343	296,469	287,185	9,284
Acquisitions and other [(1)(2)]	11,989	15,694	(3,705)	28,460	34,754	(6,294)
Foreign exchange on U.S. dollar expenses [(1)]	2,908	795	2,113	6,936	1,227	5,709
	160,344	156,593	3,751	331,865	323,166	8,699
Less: Share of direct operating expenses from joint ventures	16,252	15,420	832	32,496	33,402	(906)
Total direct operating expenses	144,092	141,173	2,919	299,369	289,764	9,605
Net Operating Income						
Same property [(1)(2)]	62,449	63,296	(847)	117,745	117,161	584
Acquisitions and other [(1)(2)]	5,541	7,505	(1,964)	10,799	14,297	(3,498)
Foreign exchange on U.S. dollar expenses [(1)]	1,663	493	1,170	2,864	542	2,322
	69,653	71,294	(1,641)	131,408	132,000	(592)
Less: Share of NOI from joint ventures	9,210	9,518	(308)	18,567	19,442	(875)
Total NOI	60,443	61,776	(1,333)	112,841	112,558	283
Weighted average occupancy rate - same property portfolio	89.3%	89.6%	(0.3pp)	89.3%	89.6%	(0.3pp)
Weighted average occupancy rate - total portfolio	88.1%	88.9%	(0.8pp)	88.1%	89.0%	(0.9pp)

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.
(2) Non-GAAP; excludes the effect of foreign exchange. Refer to the "Non-GAAP Measures – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.

Total resident revenue grew 0.8% in Q2 2014 and 2.5% in 2014 YTD through increased revenue in our same property and acquisitions and development portfolios, partially offset by the sale of non-core U.S. and Ontario properties.

Same property resident revenue increased $4.5 million or 2.2% in Q2 2014 and $9.9 million or 2.4% in 2014 YTD 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 partially offset by the impact of lower occupancies.

Total direct operating expenses grew 2.1% in Q2 2014 and 3.3% in 2014 YTD due to growth in our same property and acquisition and development portfolios, partially offset by the sale of non-core U.S. and Ontario properties.

Same property direct operating expenses increased $5.3 million or 3.8% in Q2 2014 and $9.3 million or 3.2% in 2014 YTD primarily due to higher staffing costs incurred to deliver enhanced services to our residents and increases in food, utilities and property tax expenses. This was partially offset by lower bad debt expense and management costs.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
G&A expenses	8,255	7,793	462	18,190	15,669	2,521
G&A expenses as a percentage of revenue (1)	3.5%	3.4%	0.1pp	3.8%	3.4%	0.4pp

(1) Non-GAAP; refer to the "Non-GAAP Measures – 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 $0.5 million or 5.9% in Q2 2014 primarily due to legal costs of $0.4 million related to the settled litigation in the U.S.

G&A expenses increased $2.5 million or 16.1% in 2014 YTD primarily due to legal costs of $0.8 million related to the settled litigation in the U.S. and severance costs of $1.2 million related to corporate reorganization to improve support services provided to our operating platforms.

G&A expenses, as a percentage of revenue, including our share of revenue from joint ventures, were 3.5% in Q2 2014 and 3.8% in 2014 YTD compared to 3.4% in Q2 2013 and in 2013 YTD.

Management Fee Revenue

($000s)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
HCN	1,417	1,352	65	2,828	2,928	(100)
Other	443	466	(23)	880	932	(52)
Total management fee revenue	1,860	1,818	42	3,708	3,860	(152)

Management fee revenue decreased $0.2 million or 3.9% in 2014 YTD primarily due to lower operations management 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)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Mortgages and loans payable (1)						
Same property (2)	21,227	22,233	(1,006)	43,043	44,561	(1,518)
Acquisitions and other (2)	3,065	3,375	(310)	6,306	7,620	(1,314)
Foreign exchange on U.S. dollar expenses	721	216	505	1,561	295	1,266
	25,013	25,824	(811)	50,910	52,476	(1,566)
Convertible debentures	1,919	1,929	(10)	3,816	3,816	-
Credit Facilities and other interest expense	2,987	392	2,595	3,549	906	2,643
	29,919	28,145	1,774	58,275	57,198	1,077
Amortization of financing costs and debt mark-to-market adjustments (1)	82	74	8	467	153	314
	30,001	28,219	1,782	58,742	57,351	1,391
Interest capitalized to properties under development	(26)	(197)	171	(131)	(481)	350
Distributions on Class B Units recorded as interest expense	222	189	33	446	448	(2)
	30,197	28,211	1,986	59,057	57,318	1,739
Less: Share of joint-venture finance costs	393	411	(18)	786	1,698	(912)
Total finance costs	29,804	27,800	2,004	58,271	55,620	2,651

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.
(2) Non-GAAP; excludes the effect of foreign exchange. Refer to the "Non-GAAP Measures – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.

Interest expense on the same property portfolio decreased $1.0 million in Q2 2014 and $1.5 million in 2014 YTD primarily due to lower interest rates achieved on mortgage renewals and lower outstanding loan balances.

Interest expense in our acquisitions and other portfolio decreased $0.3 million in Q2 2014 and $1.3 million in 2014 YTD primarily due to the timing of property sales and acquisitions.

Credit facility and other interest expense increased in Q2 2014 and 2014 YTD primarily due to defeasance costs of $2.4 million as a result of early debt repayments.

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

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

Other (Expense)/Income

($000s)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Transaction costs arising on business acquisitions and dispositions (1)	(830)	(510)	(320)	(1,729)	(2,598)	869
Interest income on capital funding receivable, bank balances and other income (1)	5,274	1,052	4,222	6,289	2,034	4,255
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)	985	-	985	1,353	48,947	(47,594)
	5,429	542	4,887	7,593	48,383	(40,790)
Less: Share of joint ventures	21	15	6	14	48,270	(48,256)
Total other (expense)/income	5,408	527	4,881	7,579	113	7,466

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.

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. Q2 2014 and 2014 YTD amounts primarily relate to the disposition of non-core U.S. and Ontario properties and acquisitions completed in 2014 YTD. Q2 2013 and 2013 YTD amounts primarily relate to the disposition of non-core U.S. properties.

In Q2 2014, we received $3.4 million (U.S.$3.1 million) in settlement of litigation in the U.S. and $0.8 million in settlement of certain commodity tax matters which were recorded as other income.

Interest income on capital funding receivable amounted to $0.9 million and $1.8 million in Q2 2014 and 2014 YTD, respectively, compared to $1.0 million and $1.9 million in Q2 3013 and 2013 YTD, respectively.

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.

Included in gain on sale of assets in Q2 2014 is a $0.4 million gain from the disposition of non-core Ontario properties.

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

Other Items

($000s)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Property lease expense	683	681	2	1,355	1,337	18
Depreciation of PP&E (1)	41,592	37,963	3,629	84,072	77,713	6,359
Amortization of limited life intangible assets (1)	1,049	627	422	1,510	1,061	449
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	3,811	(7,437)	11,248	6,235	(6,873)	13,108
Current income tax expense/(benefit) (1)	470	66	404	(1,665)	129	(1,794)
Deferred income tax expense/(benefit)	(2,057)	-	(2,057)	(2,057)	-	(2,057)

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.

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. In Q2 2014, we recorded a current income tax provision of $0.4 million related to the sale of non-core Ontario properties.

FFO and AFFO Reconciliation

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 "Non-GAAP Measures" section of this MD&A for a detailed discussion of the nature of various adjustments made in the calculation of FFO and AFFO, along with Management's discussion of the usefulness of these measures in evaluating our performance.

Funds from Operations ("FFO")

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

($000s, except per unit amounts)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Net income/(loss) for the period	(6,975)	5,783	(12,758)	(23,845)	37,985	(61,830)
Add (Subtract):						
Depreciation of PP&E [1]	41,592	37,963	3,629	84,072	77,713	6,359
Amortization of limited life intangible assets [1]	1,049	627	422	1,510	1,061	449
Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above [1]	(83)	(327)	244	(299)	(473)	174
Gain on sale of assets	(985)	-	(985)	(1,353)	(48,947)	47,594
Gain on remeasurement to fair value of existing interest	-	-	-	(435)	-	(435)
Transaction costs arising on business acquisitions and dispositions [1]	830	510	320	1,729	2,598	(869)
Tax on gains/losses on disposal of properties	400	-	400	400	-	400
Deferred income taxes	(2,057)	-	(2,057)	(2,057)	-	(2,057)
Distributions on Class B Units recorded as interest expense	222	189	33	446	448	(2)
Adjustment for property tax accounted for under IFRIC 21	(1,986)	(2,006)	20	3,103	2,937	166
Changes in fair value of financial instruments and unrealized foreign exchange gains/losses	3,811	(7,437)	11,248	6,235	(6,873)	13,108
FFO [1][2]	35,818	35,302	516	69,506	66,449	3,057
Interest expense on 5.7% convertible debentures	1,919	1,918	1	3,816	3,816	-
Diluted FFO [3]	37,737	37,220	517	73,322	70,265	3,057
FFO per unit [4]						
Basic	0.20	0.20	-	0.39	0.38	0.01
Diluted	0.20	0.20	-	0.39	0.38	0.01

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.
(2) Refer to the "Non-GAAP Measures – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.
(3) Non-GAAP; diluted FFO is solely utilized for the purposes of calculating FFO per unit diluted.
(4) Non-GAAP; refer to the "Non-GAAP Measures – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts; FFO per unit diluted 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 subtracted $2.0 million in Q2 2014 and added back $3.1 million in 2014 YTD, 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)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
FFO [1]	35,818	35,302	516	69,506	66,449	3,057
Add (Subtract):						
Principal portion of capital subsidy receivable from Health Authorities	1,167	1,042	125	2,317	2,085	232
Amounts received under income guarantees	-	931	(931)	-	1,361	(1,361)
Amortization of financing costs and debt mark-to-market adjustments [2]	(29)	26	(55)	275	55	220
Financing cost reserve [3]	(458)	(490)	32	(915)	(968)	53
AFFO before capex reserve	36,498	36,811	(313)	71,183	68,982	2,201
Maintenance capex reserve - 2% of property revenue [4]	(4,599)	(4,557)	(42)	(9,265)	(9,103)	(162)
AFFO [5]	31,899	32,254	(355)	61,918	59,879	2,039
Interest expense on 5.7% convertible debentures	1,919	1,918	1	3,816	3,816	-
Diluted AFFO [6]	33,818	34,172	(354)	65,734	63,695	2,039
AFFO per unit [7]						
Basic	0.18	0.18	-	0.35	0.34	0.01
Diluted	0.18	0.18	-	0.35	0.34	0.01

(1) Non-GAAP; refer to the “Non-GAAP Measures – 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 “Non-GAAP Measures – Adjusted Funds from Operations” section of this MD&A for a discussion of the nature of this reserve.
(5) Non-GAAP; refer to the “Non-GAAP Measures – Adjusted Funds from Operations” section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.
(6) Non-GAAP; diluted AFFO is solely utilized for the purposes of calculating AFFO per unit diluted.
(7) Non-GAAP; refer to the “Non-GAAP Measures – Per Unit Amounts” section of this MD&A for a discussion of the calculation of the per unit amounts; AFFO per unit diluted 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)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Weighted average number of units [1]	176,685	174,642	2,043	176,512	174,358	2,154
Dilutive impact of 5.7% convertible debentures	12,273	12,273	-	12,273	12,273	-
Weighted average number of units, diluted	188,958	186,915	2,043	188,785	186,631	2,154

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

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

	2014		2013 (Restated)				**2012** (1)	
($000s)	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	214,784	217,613	218,310	218,600	212,716	208,953	210,850	205,059
Direct operating expenses	(144,092)	(155,277)	(148,741)	(147,483)	(141,173)	(148,591)	(144,044)	(137,937)
G&A expenses	(8,255)	(9,935)	(8,547)	(6,800)	(7,793)	(7,876)	(7,190)	(5,847)
Income before the understated (2)	62,437	52,401	61,022	64,317	63,750	52,486	59,616	61,275
Finance costs	(29,804)	(28,467)	(29,920)	(28,176)	(27,800)	(27,820)	(28,511)	(28,378)
Property lease expense	(683)	(672)	(654)	(682)	(681)	(656)	(625)	(619)
Other income/(expense)	5,408	2,171	8,863	286	527	(414)	(11,117)	(714)
Depreciation and amortization	(42,174)	(42,046)	(51,397)	(40,611)	(37,636)	(39,309)	(58,856)	(47,316)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(3,811)	(2,424)	(367)	3,074	7,437	(564)	(1,605)	(9,262)
Share of earnings (loss)/gain	65	27	(58)	333	252	48,542	1,199	1,058
Current income tax (expense)/recovery	(470)	2,140	(66)	(65)	(66)	(63)	(78)	(77)
Deferred income tax (expense)/recovery	2,057	-	-	-	-	-	1,423	5,495
Net income/(loss) for the period	(6,975)	(16,870)	(12,577)	(1,524)	5,783	32,202	(38,554)	(18,538)
FFO (3)	35,818	33,688	30,459	36,577	35,302	31,147	42,820	35,432
Diluted FFO (3)	37,737	35,585	32,399	38,516	37,220	33,044	44,780	37,366
FFO per unit diluted (3)	0.20	0.19	0.17	0.21	0.20	0.18	0.24	0.20
AFFO (3)	31,899	30,019	26,635	32,569	32,254	27,625	39,503	31,409
Diluted AFFO (3)	33,818	31,916	28,575	34,508	34,172	29,522	41,463	33,343
AFFO per unit diluted (3)	0.18	0.17	0.15	0.18	0.18	0.16	0.22	0.18

(1) Non-GAAP; 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, the sale of 14 non-core Ontario properties in Q2 2014, the litigation settlement in Q2 2014, a capital gains tax in Q2 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 Q2 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	**IL**	**ISL**	**AL**	**MC**	**LTC**	**Total**
Same Property							
100% owned	87	524	9,101	548	74	657	10,904
50% owned	45	542	7,111	511	61	58	8,283
Total same property owned	132	1,066	16,212	1,059	135	715	19,187
Acquisitions, Development & Other							
100% owned – operating	10	247	598	118	28	128	1,119
50% owned – operating (1)	1	-	173	9	14	-	196
Total acquisitions, development & other	11	247	771	127	42	128	1,315
Total	143	1,313	16,983	1,186	177	843	20,502

(1) This property is classified as held for sale.

The following table presents the results of operations of Chartwell's Interests in our Canadian Retirement Operations segment:

($000s)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Revenue						
Same property	110,269	108,414	1,855	219,888	215,091	4,797
Acquisitions, development and other	11,351	11,965	(614)	26,972	23,345	3,627
Total revenue	121,620	120,379	1,241	246,860	238,436	8,424
Direct Operating Expenses						
Same property	70,490	67,876	2,614	141,272	137,372	3,900
Acquisitions, development and other	8,936	9,098	(162)	21,212	18,215	2,997
Total direct operating expenses	79,426	76,974	2,452	162,484	155,587	6,897
Net Operating Income						
Same property	39,779	40,538	(759)	78,616	77,719	897
Acquisitions, development and other	2,415	2,867	(452)	5,760	5,130	630
Total net operating income	42,194	43,405	(1,211)	84,376	82,849	1,527
Weighted average occupancy rate - same property	87.7%	88.1%	(0.4pp)	88.0%	88.4%	(0.4pp)
Weighted average occupancy rate – total portfolio	85.9%	86.9%	(1.0pp)	86.1%	87.2%	(1.1pp)

Total revenue increased 1.0% in Q2 2014 and 3.5% in 2014 YTD primarily due to growth in our same property and acquisitions portfolios, partially offset by the sale of non-core Ontario properties.

Same property revenues increased 1.7% in Q2 2014 as 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 were partially offset by lower occupancies.

Total direct operating expenses grew by 3.2% in Q2 2014 and 4.4% in 2014 YTD primarily due to the growth in our same property and acquisitions and development portfolios partially offset by the sale of non-core Ontario properties.

Same property direct operating expenses increased 3.9% in Q2 2014 primarily due to higher staffing costs incurred to deliver enhanced services to our residents as well as higher utilities, food and property tax expenses.

Same property NOI decreased $0.8 million or 1.9% in Q2 2014 as follows:

- Our Ontario retirement platform same property NOI decreased $1.0 million or 5.1% as the impact of lower occupancies and higher staffing, utilities, property tax and food expenses were partially offset by 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 $0.4 million or 4.3% primarily due to regular annual rental rate increases in line with competitive market conditions, higher ancillary revenue from enhanced services provided to our residents and higher occupancies. These were partially offset by higher staffing and food expenses.
- Our Quebec platform same property NOI decreased $0.2 million or 1.4% primarily due to higher utilities, property taxes and food expenses partially offset by regular annual rental rate increases in line with competitive market conditions, higher ancillary revenue from enhanced services provided to our residents and lower short-term move-in incentives.

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

	Q2 2014	Q2 2013	Increase / (Decrease)	Q1 2014	Increase / (Decrease)
Ontario	86.4%	88.0%	(1.6pp)	87.7%	(1.3pp)
Western Canada	92.4%	91.4%	1.0pp	91.2%	1.2pp
Quebec	87.2%	87.1%	0.1pp	87.6%	(0.4pp)
Total	87.7%	88.1%	(0.4pp)	88.2%	(0.5pp)

In Q2 2014, occupancies in our Canadian retirement same property portfolio decreased to 87.7%, a 0.4 percentage point decrease from Q2 2013 and a 0.5 percentage point decrease from Q1 2014 primarily due to the decline in Ontario occupancy as a result of continuing competitive pressures in certain markets.

Despite challenging operating conditions in some of our markets, we expect that our Canadian retirement same property portfolio will produce improvements in occupancy and operating results in the second half of 2014 driven by stronger leasing activity as a result of our new sales, marketing and online presence strategies, improving fundamentals in many of our markets and realization of the benefits of our centralized procurement initiatives and lower utility costs.

Canadian Long Term Care Operations

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

	Properties	Composition of Suites					
		IL	**ISL**	**AL**	**MC**	**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:

($000s, except occupancy rates)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Same property revenue	53,103	51,068	2,035	105,560	101,694	3,866
Same property direct operating expenses	45,755	43,816	1,939	91,662	88,067	3,595
Same property NOI	7,348	7,252	96	13,898	13,627	271
Weighted average occupancy rate – same property	98.5%	98.5%	-	98.4%	98.1%	0.3pp

Same property NOI increased $0.1 million or 1.3% in Q2 2014 primarily due to higher government funding, higher retirement and other revenues, higher preferred accommodation rates and strong expense controls partially offset by higher utilities expenses.

Weighted average occupancies in the same property portfolio remained consistent at 98.5% in Q2 2014 compared to Q2 2013.

U.S. Operations

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

	Properties	Composition of Suites					
		IL	**ISL**	**AL**	**MC**	**LTC**	**Total**
Same property - 100% owned	33	-	4,370	-	206	190	4,766
Acquisitions and other – 100% owned [(1)]	4	-	816	-	-	-	816
Properties under operating lease – 100% interest	2	-	194	-	39	-	233
Total	39	-	5,380	-	245	190	5,815

(1) Includes four properties classified as held for sale.

The following table presents the results of operations of Chartwell's Interests in our U.S. Operations segment:

(U.S.$000s, except as noted otherwise)	**Q2 2014**	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Revenue						
Same property [1]	44,524	43,918	606	88,766	87,561	1,205
Acquisitions and other [1][2]	6,179	11,234	(5,055)	12,287	25,706	(13,419)
Total revenue	50,703	55,152	(4,449)	101,053	113,267	(12,214)
Direct Operating Expenses						
Same property [1]	29,202	28,412	790	63,535	61,746	1,789
Acquisitions and other [1][2]	3,053	6,596	(3,543)	7,248	16,539	(9,291)
Total direct operating expenses	32,255	35,008	(2,753)	70,783	78,285	(7,502)
Net Operating Income						
Same property	15,322	15,506	(184)	25,231	25,815	(584)
Acquisitions and other [1]	3,126	4,638	(1,512)	5,039	9,167	(4,128)
Total net operating income	18,448	20,144	(1,696)	30,270	34,982	(4,712)
Foreign exchange in CDN	1,663	493	1,170	2,864	542	2,322
Total net operating income in CDN	20,111	20,637	(526)	33,134	35,524	(2,390)
Weighted average occupancy rate – same property	88.1%	88.6%	(0.5pp)	87.7%	88.1%	(0.4pp)
Weighted average occupancy rate – total portfolio	88.7%	89.3%	(0.6pp)	88.4%	89.4%	(1.0pp)

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.
(2) Represents results of the Bristal Portfolio sold in Q1 2013, seven other non-core U.S. properties sold in Q4 2013 and four non-core U.S. properties classified as held for sale in Q2 2014.

Same property revenue increased U.S.$0.6 million or 1.4% in Q2 2014 primarily due to regular annual rental rate increases in line with competitive market conditions partially offset by higher short-term move-in incentives and lower occupancies.

Same property direct operating expenses increased U.S.$0.8 million or 2.8% in Q2 2014 primarily due to higher staffing, food and utilities expenses partially offset by lower management costs.

As a result of the above, same property NOI decreased U.S.$0.2 million or 1.2% in Q2 2014.

We expect that our U.S. same property portfolio will deliver improving results in the second half of 2014 primarily driven by gradual improvements in both rates and occupancy.

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

	Q2 2014	Q2 2013	Increase / (Decrease)	**2014 YTD**	2013 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	1.09	1.02	0.07	1.09	1.02	0.07

A $0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar would impact annual 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 June 30, 2014 compared to December 31, 2013.

	Increase / (Decrease) ($millions)	Explanation
Total assets	**(81.1)**	The decrease in total assets is primarily due to the following:
Cash	11.0	Cash increased primarily due to the timing of cash provided by operating activities.
Assets held for sale	120.0	Assets held for sale relates to one non-core property in Ontario and four non-core properties in the U.S.
PP&E	(215.0)	PP&E decreased primarily due to depreciation of $82.7 million, net assets disposed of $68.2 million and net assets transferred to assets held for sale of $118.1 million. These were partially offset by additions of $30.8 million, net additions due to step acquisitions of $21.3 million and foreign exchange translation of $2.2 million.
Total liabilities	**(22.0)**	The change in total liabilities is primarily due to the following:
Credit Facilities	32.9	Credit Facilities increased primarily due to entering into a new U.S. Credit Facility with $20.9 million outstanding and higher utilization of the Canadian Credit Facility as a result of timing of operating activities and working capital requirements.
Accounts payable and other liabilities	(11.9)	Accounts payable and other liabilities decreased primarily due to the settlement of various liabilities and the timing of capital expenditures.
Liabilities related to assets held for sale	95.2	These liabilities relate to one non-core property in Ontario and four non-core properties in the U.S. held for sale as of June 30, 2014.
Mortgages payable	(143.8)	Mortgages payable decreased primarily due to use of the U.S. Credit Facility to refinance mortgages on three U.S. properties and the transfer of mortgages on the four non-core U.S. properties to liabilities related to assets held for sale and regular mortgage principal repayments.
Unitholders' equity	**(59.1)**	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 2014 YTD:

	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”)	934,125	-	-	-	934,125
Trust Units issued under LTIP	-	114,027	-	-	114,027
Trust Units surrendered for cancellation under LTIP	-	(24,815)	-	-	(24,815)
Trust Units released on settlement of LTIP receivable	62,789	(62,789)	-	-	-
DTUs issued	-	-	-	51,294	51,294
DTU distributions	-	-	-	15,302	15,302
Exchange of Class B Units	16,989	-	(16,989)	-	-
DTUs exchanged for Trust Units on vesting	40,942	-	-	(40,942)	-
Balance June 30, 2014	172,698,827	1,919,497	1,641,323	633,640	176,893,287

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 June 30, 2014, we had cash on hand in the amount of $20.6 million, including Chartwell’s Interests in equity-accounted investments of $1.0 million. In order to provide for our operating and capital requirements from time to time, we have put in place secured revolving operating credit facilities in both Canadian and U.S. dollar denominations (collectively, the “Credit Facilities”), we arrange mortgage debt financing and we may also raise funds through the capital markets.

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 banker’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 June 30, 2014, based on security provided, the maximum available borrowing capacity under the Canadian Credit Facility was $76.3 million, of which $2.6 million was utilized to support outstanding letters of credit and $39.0 million was drawn, leaving available borrowing capacity at $34.7 million. Subsequent to June 30, 2014, we received the Syndicate Lenders’ approval to increase the size of our Canadian Credit Facility to $105.0 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 June 30, 2014, based on security provided, the maximum available borrowing capacity under the U.S. Credit Facility was $25.2 million (U.S.$23.6 million) of which $20.9 million (U.S.$19.6 million) was drawn, leaving available borrowing capacity at

$4.3 million (U.S.$4.0 million). Subsequent to June 30, 2014, the amounts outstanding on the U.S. Credit Facility were fully repaid from the proceeds of the sale of the four non-core U.S. properties.

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)	**June 30, 2014**	December 31, 2013
Mortgages payable (contractual amount)	1,892,643	2,034,301
Credit Facilities	59,940	27,000
Total Indebtedness excluding convertible debentures	1,952,583	2,061,301
Convertible debentures (at face value)	135,000	135,000
Total Indebtedness	2,087,583	2,196,301
Total assets	2,660,078	2,863,222
Accumulated depreciation and amortization	659,549	637,842
Cumulative transaction costs on business combinations	18,523	17,848
Change in GBV on transition to IFRS	378,155	361,994
GBV of assets	3,716,305	3,880,906
Less: Assets financed by deferred purchase consideration on acquisition properties	-	-
GBV of assets (net of deferred consideration)	3,716,305	3,880,906
Indebtedness Ratio before convertible debentures (1)(2)	52.5%	53.1%
Indebtedness Ratio including convertible debentures (1)(2)	56.2%	56.6%

(1) Non-GAAP; refer to the "Non-GAAP Measures – 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 Q2 2014 Indebtedness Ratio would be 53.1% excluding, and 56.6% 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 "Non-GAAP Measures – 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)	**Q2 2014**	Q2 2013	**2014 YTD**	2013 YTD
Interest expense including capitalized interest	30,001	28,219	58,742	57,351
Property lease expense	683	681	1,355	1,337
	30,684	28,900	60,097	58,688
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") (1)	67,796	65,440	128,778	127,343
Interest Coverage Ratio (2)	2.21	2.26	2.14	2.17
Target Interest Coverage Ratio	>1.65			

(1) In Q1 2014, we changed our definition of Adjusted EBITDA; refer to the "Non-GAAP Measures – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.

(2) Non-GAAP; refer to the "Non-GAAP Measures – Interest Coverage Ratio" section of this MD&A for a discussion of Interest Coverage Ratio.

In Q2 2014 and 2014 YTD, our Adjusted EBITDA included a number of non-recurring items such as the settlement of litigation in the U.S. and related legal costs, the settlement of certain commodity tax matters, the reversal of a previously-recorded provision for impairment of mezzanine loans and severance costs related to corporate reorganization. In addition, our Q2 2014 and 2014 YTD interest expense included $2.4 million of defeasance costs related to early mortgage refinancings. Excluding these non-recurring items, our Interest Coverage Ratio in Q2 2014 and 2014 YTD would have been 2.27 and 2.17, respectively.

The following table presents the calculation of Adjusted EBITDA, including our share of amounts from joint ventures and assets held for sale:

($000s)	**Q2 2014**	Q2 2013	**2014 YTD**	2013 YTD
Net income/(loss) for the period	(6,975)	5,783	(23,845)	37,985
Add (Subtract):				
Current income tax	470	66	(1,665)	129
Reversal of previously-recorded impairment provision	-	-	(1,245)	-
Gain on remeasurement to fair value of existing interest	-	-	(435)	-
Deferred income tax expense	(2,057)	-	(2,057)	-
Transaction costs arising on business acquisitions and dispositions [(1)]	830	510	1,729	2,598
Finance costs [(1)]	30,197	28,211	59,057	57,318
Property lease expense [(1)]	683	681	1,355	1,337
Depreciation of PP&E [(1)]	41,592	37,963	84,072	77,713
Amortization of intangible assets [(1)]	1,049	627	1,510	1,061
Gain on sale of assets [(1)]	(985)	-	(1,353)	(48,947)
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	3,811	(7,437)	6,235	(6,873)
Adjustment for property tax accounted for under IFRIC 21 [(2)]	(1,986)	(2,006)	3,103	2,937
Principal portion of capital funding receivable from Health Authorities	1,167	1,042	2,317	2,085
Adjusted EBITDA	67,796	65,440	128,778	127,343

(1) Non-GAAP; includes Chartwell's Interests in equity-accounted investments.
(2) Non-GAAP. 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 "Non-GAAP Measures – 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 June 30, 2014 and 2013, including our share of amounts from joint ventures:

($000s, except Net Debt to Adjusted EBITDA Ratio)	**June 30, 2014**	June 30, 2013
Trailing 12-month Adjusted EBITDA	258,349	260,540
Add (Subtract):		
Adjustment for part-year acquisitions	566	1,553
Adjustment for part-year dispositions and assets held for sale	(19,611)	(10,591)
Trailing12-month Adjusted EBITDA (net of part-year acquisitions and dispositions and assets held for sale)	239,304	251,502
Indebtedness[(1)]	2,087,583	2,164,113
Less: Cash and cash equivalents	20,582	21,898
Net debt	2,067,001	2,142,215
Net Debt to Adjusted EBITDA Ratio [(2)]	8.6	8.5

(1) Excludes indebtedness related to assets held for sale.
(2) Non-GAAP; refer to the "Non-GAAP Measures – Net Debt to Adjusted EBITDA Ratio" section of this MD&A for a discussion of Net Debt to Adjusted EBITDA Ratio.

The following table presents the calculation of trailing 12-month Adjusted EBITDA as of June 30, 2014:

($000s)	2013	*Subtract:* 2013 YTD	*Add:* 2014 YTD	**12 months ended June 30, 2014**
Previously reported definition of EBITDA	256,914	124,406	125,675	258,183
Add: Adjustment for property tax accounted for under IFRIC 21	-	2,937	3,103	166
Adjusted EBITDA	256,914	127,343	128,778	258,349

Debt Strategy

We currently employ the following sources of debt financing: property-specific secured mortgages; unsecured convertible subordinated debentures; and the Credit Facilities. 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 completed early refinancing of mortgages on seven of our properties totalling $79.3 million, maturing in 2014 and 2015 and bearing interest at a weighted average rate of 4.39**%.** New mortgages on these properties totalled $83.9 million, bear interest at a weighted average rate of 3.48**%** and have a weighted average term to maturity of 12.4 years. We incurred early-mortgage renewal defeasance costs of $2.4 million.

In the second half of 2014, we expect to complete early refinancing of mortgages on three of our properties totalling $12.9 million, maturing in 2014 and 2015 and bearing interest at a weighted average rate of 4.99**%.** New mortgages on these properties are expected to total $15.0 million, bear interest at a weighted average rate of approximately 3.5**%** and have a weighted average term to maturity of approximately 10 years. We expect to incur early-mortgage defeasance costs of approximately $0.5 million.

Mortgage Debt

At June 30, 2014, excluding the related mortgages on properties held for sale, we had $1,892.6 million of mortgages payable of which $1,415.7 million related to our Canadian properties and $476.9 million (U.S.$447.0 million) related to our U.S. properties including Chartwell's Interests in equity-accounted investments of $29.1 million. 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 June 30, 2014:

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Debt	Weighted Average Interest Rate on Maturing Debt
Remainder of 2014	26,621	76,253	102,874	5%	4.14%
2015	53,116	265,576	318,692	17%	5.00%
2016	47,718	252,037	299,755	16%	5.81%
2017	43,375	220,677	264,052	14%	5.54%
2018	41,278	80,168	121,446	6%	4.62%
2019	40,583	10,591	51,174	3%	4.53%
2020	41,161	50,988	92,149	5%	4.30%
2021	39,550	50,150	89,700	5%	4.59%
2022	36,366	62,200	98,566	5%	3.54%
2023	31,494	58,992	90,486	5%	4.25%
2024	22,102	105,521	127,623	7%	4.08%
2025	17,704	3,947	21,651	1%	5.29%
Thereafter	171,771	42,704	214,475	11%	4.46%
Total	612,839	1,279,804	1,892,643	100%	
Mark-to-market adjustments arising on acquisition			14,889		
Less: Financing costs			(18,374)		
Total Mortgage Debt			1,889,158		

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

	At June 30, 2014					At December 31, 2013
	Canadian Debt		U.S. Debt		Combined	Combined
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Amount ($millions)	1,265.6	150.1	476.9	-	1,892.6	2,034.3
Weighted average interest rate	4.62%	4.47%	5.85%	-	4.92%	5.02%
Average term to maturity (years)	9.8	0.8	2.0	-	7.1	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 June 30, 2014, approximately 66% of our total Canadian mortgage debt was CMHC insured. We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt upon renewal.

In the U.S., approximately 67% of our mortgages are with the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Federal National Mortgage Association (“Fannie Mae”). Both of these entities are government-sponsored enterprises which provide access to competitive financing for seniors housing properties.

In 2014 YTD, we arranged $132.8 million of new mortgage financing on 12 of our properties, excluding acquisition financing. These mortgages bear interest at a weighted average rate of 3.53% and a weighted average term to maturity of 10 years and were partially used to replace $124.7 million of maturing debt bearing a weighted average interest rate of 4.42%.

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.

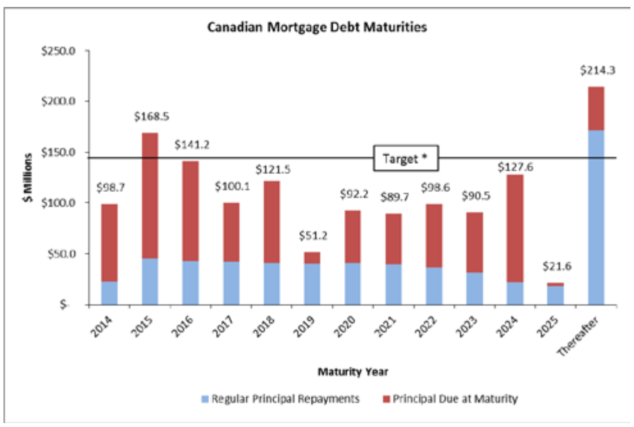
The following table summarizes our variable-rate mortgages as at June 30, 2014:

($000s, except number of projects)	Number of Projects	**June 30, 2014**	Number of Projects	**December 31, 2013**
Mortgages on properties under construction	-	-	1	12,886
Mortgages on non-stabilized properties (1)	9	109,051	11	117,389
Mortgages on stabilized properties	5	41,081	5	35,745
Total	14	150,132	17	166,020

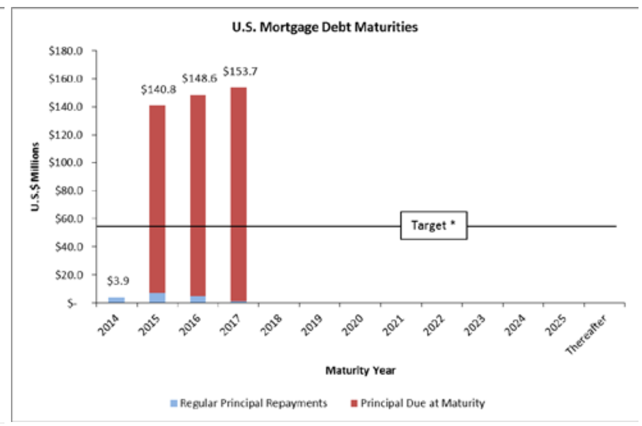
(1) Includes our share of one joint-venture variable-rate mortgage of $12.4 million.

In 2014 YTD, we repaid U.S.$22.9 million of variable-rate mortgages on two of our U.S. properties and refinanced $15.9 million of variable-rate mortgages on one property. This reduction was partially offset by the assumed variable-rate mortgage upon acquisition of the remaining 66.7% interest in Robert Speck of $13.2 million and additional draws on certain construction loans.

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



** 10% of total Canadian mortgage debt = $141.6 million*



** 10% of total U.S. mortgage debt = U.S.$44.7 million*

Convertible Debentures

At June 30, 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 Q2 2014:

($000s)	**Q2 2014**	2014 YTD
Routine	6,500	12,157
Major projects / compliance	841	841
Accretive / acquisitions	1,489	1,489
Development (1)	2,265	11,262
Total (2)(3)	11,095	25,749

(1) Q2 2014 amount excludes $3.0 million in commodity tax rebates.

(2) Excludes $1.1 million and $1.6 million in capital additions relating to corporate office leasehold improvements and information technology assets as well as other intangibles in Q2 2014 and 2014 YTD, respectively.

(3) Excludes $2.4 million and $3.8 million in Q2 2014 and 2014 YTD, respectively, the majority of which has been, or is expected to be, 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 Q2 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 Q2 2014 and Q2 2013 using the statements of cash flows prepared in accordance with IFRS 11:

Cash Provided by (Used in):	**Increase / (Decrease)** ($millions)	**Explanation**
Operating activities	(1.7)	Cash flows from operating activities decreased primarily due to changes in working capital balances.
Financing activities	(48.8)	Cash flows from financing activities decreased primarily due to the lower utilization of the Credit Facilities and lower proceeds from mortgage financing, net of repayments.
Investing activities	63.2	Cash flows from investing activities increased primarily due to proceeds from disposals of PP&E and a decrease in assets acquired under business combinations.

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 Q2 2014, our average DRIP participation was 19.1% compared to 14.8% participation in Q2 2013. In Q1 2013, we eliminated the 1,000-unit participation threshold.

The following table summarizes distributions made in Q2 2014, 2014 YTD, 2013 and 2012:

($000s)	Q2 2014	2014 YTD	2013	2012
Distributions declared on Trust Units [1]	23,513	46,955	93,069	89,791
Distributions on Class B Units	222	446	895	909
Distributions on DTUs	158	158	-	-
Distributions reinvested under DRIP	(4,446)	(9,439)	(19,058)	(15,791)
Distributions applied against LTIP receivable	(266)	(522)	(1,081)	(1,200)
Distributions on DTUs reinvested	(158)	(158)	-	-
Distributions paid or payable in cash	19,023	37,440	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 Q2 2014, 2014 YTD, 2013, and 2012 in relation to net income/(loss) and cash flows from operating activities:

($000s)	Q2 2014 [1]	2014 YTD [1]	2013 [1]	2012 [1]
Cash flows from operating activities	31,883	45,473	131,852	97,099
Net income/(loss)	(6,975)	(23,845)	23,884	(139,342)
Distributions paid or payable in cash [2] [3]	19,023	37,440	73,825	73,709
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	12,860	8,033	58,027	23,390
Excess/(shortfall) of net income/(loss) over cash distributions paid	(25,998)	(61,285)	(49,941)	(213,051)

(1) Q2 2014, 2014 YTD 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, distributions applied against the LTIP receivable or distributions on DTUs reinvested.
(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 Q2 2014, 2014 YTD 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 Q2 2014, cash flows from operating activities have been reduced by $7.3 million by such working capital fluctuations.

We believe that our current distribution level is sustainable.

Non-GAAP Measures

We use a number of Non-GAAP Measures for monitoring and analyzing our financial results as outlined in this section. These measures 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.

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 Chartwell's Interests in equity-accounted entities, FFO can help one to compare the operating performance of our 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 – FFO and AFFO Reconciliation" 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, including Chartwell's Interests in equity-accounted investments, 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 – FFO and AFFO Reconciliation" 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, including Chartwell's Interests in equity-accounted entities. We believe that the use of NOI combined with primary IFRS measures is beneficial to the users of the financial information in understanding operating performance of our operating segments and platforms.

Per Unit Amounts

In our calculations of FFO per unit and AFFO per unit, we include the Class B Units as the Class B Units are exchangeable into Trust Units at any time at the option of the unitholder. In addition, we include units issued under DTU, LTIP and subscription receipts. In our calculation of FFO per unit diluted and AFFO per unit diluted, we consider the dilutive impact of 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 Q2 2014:

	Properties	Suites/Beds
Canadian Retirement Operations	132	19,187
Canadian Long Term Care Operations	24	3,136
U.S. Operations (owned and leased)	35	4,999
Total same property portfolio	191	27,322

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, and include Chartwell's Interests in equity-accounted entities.

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.

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. GBV, for the purpose of this ratio, excludes deferred tax assets. 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. The Indebtedness Ratio includes Chartwell's Interests in equity-accounted entities.

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. The Interest Coverage Ratio calculation includes Chartwell's Interests in equity-accounted entities.

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; it includes Chartwell's Interests in equity-accounted investments. 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.

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. Net Debt to Adjusted EBITDA includes Chartwell's Interests in equity-accounted investments.

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 including Chartwell's Interests in equity-accounted investments.

Chartwell's Interests

On January 1, 2013, we changed our accounting policy for certain joint arrangements as required by IFRS 11, Joint Arrangements. As a result, effective January 1, 2013, we no longer proportionately consolidate certain joint arrangements and now account for these investments using the equity method of accounting. All references to 'Chartwell's Interests' refer to a non-GAAP financial measure representing our proportionate share of the financial position and results of operations of our entire portfolio, taking into account the difference in accounting for joint ventures using proportionate consolidation versus equity accounting. Refer to the "IFRS 11 – Joint Arrangements" section of this MD&A for a reconciliation of Chartwell's results of operations and statement of financial position.

Critical Accounting Policies and Estimates

Critical Accounting Judgements, Estimates and Assumptions in Applying Accounting Policies

We monitor and assess all accounting pronouncements. In our Q2 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 Q2 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 June 30, 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 June 30, 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;
- our expectations related to future operating performance of our properties;
- our expectations regarding achievement of certain occupancy levels at our LTC and retirement communities;
- 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 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.

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