Q2

Management's Discussion and Analysis

Second Quarter Report
June 30, 2011

CHARTWELL
SENIORS HOUSING REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three and Six Months Ended June 30, 2011

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Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its current and prospective investors' understanding of the financial results for the three and six months ended June 30, 2011. This MD&A should be read in conjunction with Chartwell's unaudited, interim consolidated financial statements for the three and six months ended June 30, 2011 and the notes thereto (the "Financial Statements"), audited financial statements for the year ended December 31, 2010 and the notes thereto (the "2010 Financial Statements") and annual Management's Discussion and Analysis for the year ended December 31, 2010 (the "2010 MD&A"). This material is available on Chartwell's website at www.chartwellreit.ca. Additional information about Chartwell, including its Annual Information Form ("AIF") for the year ended December 31, 2010, 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 12, 2011.

As of January 1, 2011, Chartwell adopted International Financial Reporting Standards ("IFRS"), and the following disclosures, as well as associated interim consolidated financial statements, have been prepared in accordance with IFRS. Chartwell's effective transition date was January 1, 2010 to accommodate 2010 IFRS comparative figures. The Trust has provided information throughout this document and other publically filed documents to assist a reader in understanding Chartwell's transition from the previous Canadian Generally Accepted Accounting Principles ("CGAAP") to IFRS. A comprehensive summary of all the significant changes and accounting policy choices, including the various reconciliations of the CGAAP financial statements to those prepared under IFRS is included in notes 2 and 3 to Chartwell's Financial Statements for the three months ended March 31, 2011 and the three and six months ended June 30, 2011.

All references to "Chartwell", "we", "our", "us" or "Trust", unless the context indicates otherwise, refer to Chartwell Seniors Housing Real Estate Investment Trust and its subsidiaries. For ease of reference "Chartwell" and the "Trust" are used in reference to ownership of seniors housing communities and the operation of the seniors housing communities and the third-party management business. 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; "2011" refers to the calendar year 2011; "2010" refers to the calendar year 2010 and "YTD" means year-to-date.

Unless otherwise indicated, all comparisons of results for Q2 2011 and 2011 YTD are in comparison to results from Q2 2010 and 2010 YTD, respectively.

In this document we use a number of key performance indicators for monitoring and analyzing our financial results such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI") and others. These key performance indicators are not defined by IFRS and may not be comparable to similar measures presented by other trusts or other companies. Please refer to the "Key Performance Indicators" section of this MD&A for details of each of these performance indicators.

All dollar references, unless otherwise stated, are in Canadian dollars. Amounts in United States dollars are identified as U.S.$.

Business Overview

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. We indirectly own and manage a portfolio of seniors housing communities across the complete continuum of care, from independent supportive living (“ISL”) communities, through assisted living (“AL”) communities, to long term care (“LTC”) communities, all of which are located in Canada and the United States (“U.S.”).

Our Vision is… to create and operate seniors housing communities where our residents enjoy a lifestyle and quality of life exceeding their expectations.

Our Mission is…

- to be the most trusted name in seniors housing;
- to provide accommodation, care and services in every home, reflective of our residents’ needs, preferences and interests, and adapt as they evolve;
- to ease the transition through the various stages of aging by providing a full continuum of care in the markets we serve;
- to provide comfort and assurance to the families of our residents that their loved ones are treated with the highest level of care, compassion and respect;
- to attract and retain the best employees by providing a rewarding and fulfilling work environment; and
- to generate reliable, sustainable and growing distributions for our Unitholders.

Our Values are…

Respect – We honour and celebrate seniors

Empathy – We believe compassion is contagious

Service Excellence – We believe in providing excellence in customer service

Performance – We believe in delivering and rewarding results

Education – We believe in lifelong learning

Commitment – We value commitment to the Chartwell family

Trust – We believe in keeping our promises and doing the right thing

At June 30, 2011, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 25,389 suites in 196 communities. At June 30, 2011, our portfolio of owned and leased communities consisted of interests in 23,905 suites in 185 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, 2011:

	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	103	12,206	24	3,116	29	3,391	156	18,713
Development suites in lease-up	-	359	-	-	-	-	-	359
Total 100% Owned	103	12,565	24	3,116	29	3,391	156	19,072
Partially Owned [2]								
Operating	7	873	-	-	20	3,623	27	4,496
Development suites in lease-up	-	-	-	-	-	93	-	93
Total Partially Owned	7	873	-	-	20	3,716	27	4,589
Total Owned	110	13,438	24	3,116	49	7,107	183	23,661
Properties under Operating Lease:								
100% Interest	-	-	-	-	2	244	2	244
Total Leased	-	-	-	-	2	244	2	244
Total Owned and Leased	110	13,438	24	3,116	51	7,351	185	23,905
Managed Properties [3]	6	716	5	768			11	1,484
Total	116	14,154	29	3,884	51	7,351	196	25,389

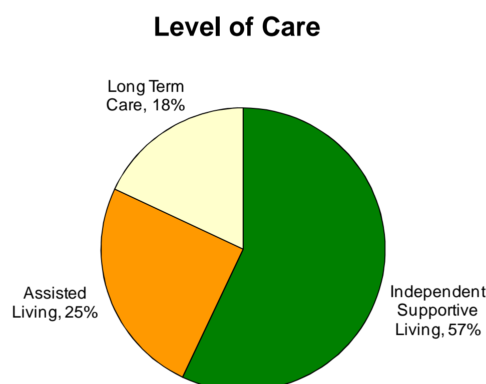
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.

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

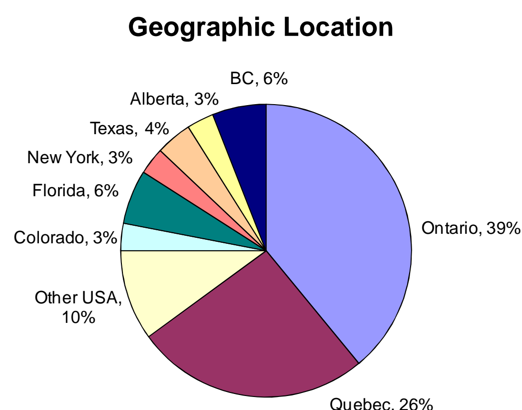
(3) We hold purchase options on four of these communities.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Leased Interest, at June 30, 2011 by:

Level of Care



Geographic Location



Business Strategy

Our business strategy is principally focused on providing quality care and services to our residents, which we believe will help us to grow AFFO from our core property portfolio over time. The following summarizes our key strategic objectives:

Enhance the quality of our cash flows and grow core property AFFO by:

- Providing high quality and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Investing in innovative marketing and sales programs to increase customer traffic and sales closing ratios.
- Managing rental rates to ensure our properties are competitively positioned in the marketplace and realize rental-rate growth on suite turnover.
- Mitigating inflationary pressures on our operating costs through specific vendor management and cost-control initiatives.
- Maintaining our asset management program to ensure each asset is used to its highest potential.

Streamline operating processes; improve research and information management by:

- Investing in market and customer research in order to better tailor service offerings to our residents and our investments in new properties.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to our operating teams.
- Implementing information technology ("IT") solutions to improve operating efficiencies and better communicate with our employees.

Build value through development program by:

- Commencing up to five new development projects per year.

Reduce existing mezzanine loan exposure by:

- Converting our mezzanine loan investments into equity in the properties, wherever possible, or collecting the remaining mezzanine loans in cash.

Acquire newer, state-of-the-art properties by:

- Sourcing acquisitions of newer, state-of-the-art properties in our existing markets, which are accretive, with a preference for properties currently under management.

Maintain a strong financial position by:

- Staggering debt maturities over time.
- Financing our properties with long-term debt, while managing interest costs.
- Gradually reducing our debt levels over time.

The following summarizes the progress we made in executing our strategy in Q2 2011:

Enhance the quality of our cash flows and grow core property AFFO	• AFFO from core property operations (excluding contribution from mezzanine loans and fee revenue) was 94% of the total AFFO in 2011 YTD compared to 88% in 2010 and 79% in 2009. • Same property NOI improved by $0.3 million in Q2 2011. • Same property occupancy remained stable at 89.8% despite competitive pressures and challenging economic conditions in some of our markets. • Expense control initiatives mitigate impact of the HST in Ontario and British Columbia.
Streamline operating processes; improve research and information management	• The second phase of the budgeting and forecasting system implementation has been successfully completed in July 2011. The implementation of the Human Resource Information System ("HRIS") is on schedule for completion in 2012.
Build value through development program	• Construction of two retirement homes in Kitchener and Oshawa, Ontario and the redevelopment of one LTC community in Burnaby, British Columbia are progressing on schedule and within budget. • Redevelopment of one LTC community in Ontario commenced in July 2011. Two other LTC redevelopments to start in Q3 2011.
Reduce existing mezzanine loan exposure	• In Q2 2011, mezzanine loan exposure was further reduced to $9.6 million from $12.6 million at March 31, 2011. • In 2011 YTD, we collected $8.2 million of mezzanine loans in cash and converted $2.1 million of loans to equity in two properties.
Acquire newer, state-of-the-art properties	• We acquired interests in two communities for $21.8 million. • We announced an agreement to acquire the remaining 50% interest in 15 communities in the U.S. for U.S.$169.0 million.
Maintain a strong financial position	• Interest Coverage Ratio improved to 1.92x in Q2 2011 from 1.88x in Q2 2010. • Indebtedness Ratio remained stable at 57.5% at June 30, 2011 compared to 57.4% at March 31, 2011.

2011 Outlook and Significant Events ♦

Our 2010 MD&A contains a detailed discussion of our 2011 Outlook and Significant Events. The following are additional significant events that are expected to have an impact on our financial results in 2011 and in the future.

On April 1, 2011, we acquired a 33.3% percent interest in Chartwell Classic Robert Speck ("Robert Speck") from Spectrum. The purchase price before closing costs was $11.1 million and was settled through the assumption of debt of $7.6 million, settlement of an outstanding mezzanine loan of $1.0 million, settlement of outstanding accounts receivable of $0.8 million, with the remaining balance, net of working capital adjustments paid in cash.

In line with our strategy to increase our ownership in properties we operate, on May 10, 2011, we also acquired a 50% interest in Chatsworth Retirement Suites and Bungalows ("Chatsworth") from our joint venture partner to bring our total ownership in Chatsworth to 100%. The purchase price before closing costs was $10.4 million and was settled through the assumption of debt of $5.8 million, settlement of an outstanding mezzanine loan of $1.1 million, settlement of $0.3 million in other amounts due to Chartwell from the vendor, with the remaining balance, net of working capital adjustments paid in cash. As a result of this step acquisition, we recognized a gain of $2.1 million related to remeasurement of our previously held interest in this asset.

The following tables summarize acquisitions completed in 2011 YTD:

($millions, except communities and suites/beds)	2011 YTD
Number of communities	2
Number of suites/beds	216
Purchase price (including acquisition costs)	21.8
Financed as follows:	
Mortgage debt assumed	13.4
Discharge of mezzanine loans receivable	2.1
Settlement of accounts receivable	1.1
Cash	4.7
Acquisition costs	0.5
Total	21.8

In July 2011, we announced an agreement to acquire a 50% interest in a 15-property portfolio (2,947 suites) in the U.S. from ING Real Estate Community Living Group ("ING") to bring our total ownership in such properties to 100%. The purchase price will be U.S.$169.0 million and is expected to be partially settled by the assumption of debt with an outstanding balance of U.S.$135.8 million as of June 30, 2011, bearing a weighted average interest rate of 6.27% with a weighted average term to maturity of 4.5 years. The balance of the purchase price of approximately U.S.$33.2 million, subject to working capital adjustments, is expected to be settled in cash. As the purchase price of ING's 50% interest in these properties exceeds the carrying value of our existing interest, we recorded an impairment of $8.5 million in Q2 2011. Closing of this transaction, subject to regulatory and lender approvals, is expected in October 2011. Upon completion of this transaction, we will continue to be joint venture partners with ING on a five-property portfolio located in New York.

Also in July 2011, we divested of one non-core, 810-suite property located in Quebec. The sale price was $70.0 million, of which $1.5 million was held back in escrow to provide the purchaser with income protection until the expiration of current resident incentives and the achievement of 97% occupancy or higher for a consecutive three-month period. The purchaser assumed the existing CMHC-insured mortgages of approximately $47.0 million, bearing a weighted average interest rate of 4.80% with a

♦ *This section contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section in this MD&A.*

weighted average term to maturity of 12.5 years. We used the net cash proceeds of approximately $21.5 million to repay amounts outstanding under our Credit Facility. In Q3 2011, we expect to record a gain on this sale estimated at approximately $6.7 million.

We estimate that the above transactions will not have a material impact on our 2011 AFFO and will be slightly accretive to our 2012 AFFO. We also estimate that these transactions will increase our proforma indebtedness ratio by approximately two percentage points from current levels.

Our U.S. strategy is to consolidate our U.S. holdings in four states (Florida, Texas, Colorado and New York) and to divest properties located in other U.S. states over time. Disposition of these properties and regular mortgage principal repayments would reduce our proforma indebtedness ratio over time.

In June 2011, we announced that management of 45 of our communities in the U.S. is being transferred to Brookdale Senior Living Inc. ("Brookdale") as a result of Brookdale's acquisition of Horizon Bay Realty LLC. We are working with Brookdale to simplify and restructure the management relationships that existed with Horizon Bay to, among other things, improve alignment with the manager.

Although recent U.S. data indicates a slower pace of recovery and more market volatility than previously expected, our industry demographic trends are positive and new construction starts are at the lowest levels in years. We have seen improved occupancy trends in our U.S. properties in June and July and our mid-term outlook for our U.S. portfolio is positive. We do, however, remain cautious in our short-term outlook.

Highlights of Consolidated Results of Operations

The following table summarizes selected financial and operating performance measures:

($000s, except occupancy rates, per unit amounts and number of units)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Property revenue	183,795	172,958	10,837	365,851	335,541	30,310
Weighted average occupancy rate - same property portfolio	89.8%	89.7%	0.1pp	90.0%	89.8%	0.2pp
Same property NOI [(1)]	42,902	42,607	295	84,777	84,570	207
AFFO [(2)]	21,876	21,216	660	42,126	41,004	1,122
AFFO per unit diluted [(3)]	0.15	0.16	(0.01)	0.29	0.31	(0.02)
FFO [(4)]	24,047	23,587	460	46,697	45,500	1,197
FFO per unit diluted [(3)]	0.17	0.18	(0.01)	0.32	0.34	(0.02)
Distributions declared	19,571	17,558	2,013	39,083	35,095	3,988
Distributions declared per unit [(3)]	0.14	0.14	-	0.27	0.27	-
Distributions declared as a percentage of AFFO	89.5%	82.8%	6.7pp	92.8%	85.6%	7.2pp
Net loss	(18,848)	(2,121)	(16,727)	(37,312)	(20,898)	(16,414)
Weighted average number of units outstanding, diluted [(5)] (000s)	145,577	130,553	15,024	145,283	130,464	14,819

(1) Excludes the effects of foreign exchange on U.S. dollar revenue.
(2) Refer to the "Non-IFRS Measures – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.
(3) Refer to the "Key Performance Indicators – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.
(4) Refer to the "Non-IFRS Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net loss.
(5) Includes Class B Units of Chartwell Master Care LP ("Class B Units") and units issued under the Long-Term Incentive Plan ("LTIP") and Deferred Trust Unit Plan ("DTU").
(6) pp = percentage points.

AFFO in Q2 2011 was $21.9 million, an increase of $0.7 million compared to Q2 2010 AFFO of $21.2 million. On a per unit basis, AFFO in Q2 2011 was $0.15 per unit diluted compared to $0.16 per unit diluted in Q2 2010. The following items contributed to the changes in AFFO:

- Incremental contribution from the property portfolio increased AFFO by $0.6 million.
- Lower interest expense, due to redemption of convertible debentures in Q4 2010, resulted in an increase in AFFO of $1.9 million.
- Lower management fee revenue reduced AFFO by $0.6 million, primarily due to lower asset management fees from ING, as a result of our acquisition of ING's interests in the Regency and Meridian portfolios in 2010, and lower fees from Spectrum due to fewer assets under management.
- Lower mezzanine loan interest income reduced AFFO by $0.8 million.
- Higher G&A expenses, primarily due to IT related investments and the added costs of Harmonized Sales Taxes ("HST"), reduced AFFO by $0.4 million.
- Per unit amounts were also affected by an 11.5% increase in the weighted average number of units outstanding primarily due to the issuance of Trust Units in Q4 2010.

For 2011 YTD, AFFO was $42.1 million, an increase of $1.1 million compared to 2010 YTD of $41.0 million. 2011 YTD AFFO was $0.29 per unit diluted compared to 2010 YTD AFFO of $0.31 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from the property portfolio, primarily due to acquisitions and same property NOI growth, increased AFFO by $1.3 million.
- Lower interest expense, due to redemption of convertible debentures in Q4 2010, resulted in an increase in AFFO of $3.7 million.
- Higher G&A expenses, primarily due to IT related investments, cost of process efficiency reviews and HST, reduced AFFO by $1.0 million.
- Lower mezzanine loan interest income reduced AFFO by $1.7 million.
- Lower management fee income reduced AFFO by $1.2 million.
- Per unit amounts were also affected by an 11.4% increase in the weighted average number of units outstanding.

In Q2 2011, FFO was $24.0 million or $0.17 per unit diluted compared to Q2 2010 FFO of $23.6 million or $0.18 per unit diluted. In addition to the items described above in the discussion of AFFO, FFO was also impacted by changes in amortization of financing costs and debt mark-to-market adjustments.

For 2011 YTD, FFO was $46.7 million or $0.32 per unit diluted compared to 2010 YTD of $45.5 million or $0.34 per unit diluted.

Net loss in Q2 2011 and 2011 YTD was $18.8 million and $37.3 million, respectively, compared to a net loss in Q2 2010 and 2010 YTD of $2.1 million and $20.9 million, respectively. In addition to items which impacted AFFO and FFO as discussed above, net loss amounts were also impacted by depreciation of properties, amortization of limited life intangibles, an impairment on properties of $8.5 million recorded in Q2 2011, changes in future income tax expense/recovery and changes in fair values of convertible debentures, Class B Units and LTIP liability.

Same Property Portfolio Highlights

($000s, except occupancy rates)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Canadian retirement:						
NOI	29,468	28,701	767	57,906	56,803	1,103
Occupancy	88.9%	89.0%	(0.1pp)	89.1%	89.1%	-
Canadian LTC:						
NOI	3,178	3,280	(102)	5,918	5,830	88
Occupancy	98.5%	98.2%	0.3pp	98.1%	98.3%	(0.2pp)
U.S.:						
NOI (U.S.$)	10,256	10,626	(370)	20,953	21,937	(984)
Occupancy	89.1%	88.1%	1.0pp	89.4%	88.5%	0.9pp
Combined:						
NOI [1]	42,902	42,607	295	84,777	84,570	207
Occupancy	89.8%	89.7%	0.1pp	90.0%	89.8%	0.2pp

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

Combined same property occupancy improved slightly to 89.8% with same property NOI improving $0.3 million in Q2 2011 as positive contributions from our Canadian retirement portfolio were partially offset by NOI declines in our Canadian LTC and U.S. portfolios.

For 2011 YTD, combined same property occupancy improved to 90.0% with same property NOI increasing $0.2 million as positive contributions from our Canadian retirement and LTC portfolios were partially offset by a decline in our U.S. portfolio. Further analysis is as follows:

- In our Canadian retirement portfolio, same property NOI increased 2.7% in Q2 2011 and 1.9% for 2011 YTD primarily as a result of regular annual rental rate increases, increased ancillary revenues and strong expense controls. Occupancies remained stable at 88.9% in Q2 2011 and 89.1% for 2011 YTD.
- In our Canadian LTC portfolio, same property NOI decreased 3.1% in Q2 2011 primarily due to timing of certain expenses and higher facility costs. Occupancies increased to 98.5% in Q2 2011 compared to 98.2% in Q2 2010. For 2011 YTD, all of our Ontario LTC communities achieved the occupancy criteria to receive government funding as though fully occupied. For 2011 YTD, same property NOI increased 1.5% primarily due to savings in administrative costs. Occupancies declined slightly to 98.1% from 98.3% in 2010 YTD.
- In our U.S. portfolio, same property NOI decreased 3.5% in Q2 2011 and 4.5% for 2011 YTD primarily due to higher operating costs in certain jurisdictions due to regulatory requirements, an increase in assisted living services, higher marketing and advertising costs. Occupancies increased to 89.1% in Q2 2011 from 88.1% in Q2 2010 and to 89.4% for 2011 YTD from 88.5% for 2010 YTD.

Consolidated Results of Operations

Summary of Property Revenue

($000s, except occupancy rates)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Same property[1]	139,490	135,292	4,198	277,601	269,734	7,867
Acquisitions and other[1]	47,148	37,338	9,810	93,130	65,502	27,628
Eliminations	(1,364)	(903)	(461)	(2,723)	(2,546)	(177)
Foreign exchange on U.S. dollar revenue	(1,479)	1,231	(2,710)	(2,157)	2,851	(5,008)
Total property revenue	183,795	172,958	10,837	365,851	335,541	30,310
Weighted average occupancy rate - same property portfolio	89.8%	89.7%	0.1pp	90.0%	89.8%	0.2pp

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

Total property revenue grew 6.3% in Q2 2011 and 9.0% for 2011 YTD, as increased revenue from our same property and acquisitions portfolios was partially offset by lower foreign exchange translation on U.S. dollar revenues.

Same property revenue increased $4.2 million or 3.1% in Q2 2011 and $7.9 million or 2.9% for 2011 YTD. We continue to drive revenue growth by adding new services for our residents and implementing regular annual rental rate increases that are competitive to local market conditions.

Summary of Direct Operating Expenses

($000s)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Same property [1]	96,588	92,685	3,903	192,824	185,164	7,660
Acquisitions and other [1]	35,168	27,164	8,004	70,201	48,135	22,066
Eliminations	(1,364)	(903)	(461)	(2,723)	(2,546)	(177)
Foreign exchange on U.S. dollar expenses	(986)	879	(1,865)	(1,433)	1,983	(3,416)
Total direct operating expenses	129,406	119,825	9,581	258,869	232,736	26,133

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

Total direct operating expenses increased 8.0% in Q2 2011 and 11.2% for 2011 YTD, primarily due to additional expenses for acquisitions and modest growth in same property direct operating expenses, partially offset by the impact of foreign exchange translation.

Same property direct operating expenses increased $3.9 million or 4.2% in Q2 2011 and $7.7 million or 4.1% for 2011 YTD, primarily due to additional staffing costs to provide new services to our residents and respond to new regulatory requirements in certain jurisdictions, combined with investments in targeted sales and marketing initiatives designed to drive occupancy, and incremental HST costs.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	Q2 2011	Q2 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
G&A expenses	6,381	5,966	415	12,542	11,544	998
As % of revenue (excluding finance income)	3.4%	3.4%	-	3.4%	3.4%	-

G&A expenses increased $0.4 million or 7.0% in Q2 2011 and $1.0 million or 8.6% for 2011 YTD, primarily due to higher investments in IT and the implementation of the HST in Ontario and British Columbia. We estimate that HST costs added an incremental $0.5 million to our G&A and direct operation expenses in Q2 2011 and approximately $1.0 million YTD.

G&A expenses, as a percentage of revenue, remained stable in Q2 2011 and 2011 YTD.

Management Fee Revenue

($000s)	Q2 2011	Q2 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Spectrum:						
Operations management	160	359	(199)	399	661	(262)
Other	-	5	(5)	-	20	(20)
Total Spectrum	160	364	(204)	399	681	(282)
ING	78	350	(272)	142	860	(718)
Other	555	699	(144)	1,101	1,318	(217)
Total management fee revenue	793	1,413	(620)	1,642	2,859	(1,217)

Management fee revenue declined $0.6 million in Q2 2011 and $1.2 million for 2011 YTD. Fees from Spectrum declined $0.2 million in Q2 2011 and $0.3 million for 2011 YTD as a result of sales of operating properties by Spectrum in 2010 and in the first six months of 2011. Asset management fees from ING declined $0.3 million in Q2 2011 and $0.7 million for 2011 YTD due to our acquisition of ING's interests in the Meridian and Regency portfolios in 2010.

Mezzanine Loans and Mezzanine Loan Interest Income

The following table summarizes the changes in our investments in mezzanine loans for the first six months of 2011 and 2010:

($millions)	2011 YTD	2010 YTD
Gross mezzanine loans outstanding (beginning of period)	44.2	89.8
Discharge of mezzanine loans on acquisition of properties	(2.1)	(22.6)
Repayments of mezzanine loans in cash	(8.2)	(2.8)
Offset against impairment	(10.7)	-
Gross mezzanine loans outstanding (end of period)	23.2	64.4

In Q2 2011, we updated our assessment of the underlying value of the security for each mezzanine loan as well as the value of the corporate guarantees securing mezzanine loans where applicable. The process of determining fair value requires us to exercise judgement in making valuation assumptions including revenue and expense projections, lease-up expectations, capitalization and discount rates. Based on our updated assessment, we believe no changes are required to the overall cumulative impairment provisions at this time.

Our Settlement Agreement with Spectrum expired on June 30, 2011. We are currently discussing with Spectrum a reinstatement and extension of the term of the settlement. In the interim, we preserve all our rights under the original development agreement with Spectrum.

The following table summarizes changes in the impairment provision in 2011 YTD:

($millions)	Mezzanine Loans	Accounts Receivable	Total
Balance December 31, 2010	21.5	2.6	24.1
Reallocated on collection of certain accounts receivable	0.9	(0.9)	-
Offset against principal amount of the loan and costs recorded as a reduction of mezzanine loan balances	(9.3)	-	(9.3)
Balance June 30, 2011	13.1	1.7	14.8

During the first six months of 2011, we collected certain accounts receivable against which an impairment provision was previously recorded. Accordingly, we reallocated $0.9 million of the impairment provision from accounts receivable to mezzanine loans.

The following table provides further details on mezzanine loans outstanding and related impairment provisions:

($millions, except number of projects)	Number of Projects	Mezzanine Loans Outstanding	Fees, net of costs recorded as a reduction of mezzanine loan balances	Impairment Provision	Net Balance Outstanding
Spectrum and Partners outside Quebec	7	11.7	(0.1)	(4.6)	7.0
Melior, Spectrum and Partners	2	8.9	(0.4)	(8.5)	-
Seasons and Partners	1	2.6	-	-	2.6
Total gross mezzanine loans outstanding	10	23.2	(0.5)	(13.1)	9.6

The following table summarizes interest income on our mezzanine loans:

($000s)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Mezzanine loan interest before effective yield adjustments	459	1,125	(666)	1,056	2,355	(1,299)
Effective yield adjustments for:						
Placement fees integral to lending activities	-	177	(177)	-	498	(498)
Legal costs integral to lending activities	-	-	-	-	(52)	52
Total mezzanine loan interest income	459	1,302	(843)	1,056	2,801	(1,745)

Mezzanine loan interest income decreased $0.8 million in Q2 2011 and $1.7 million for 2011 YTD due to lower balances of loans outstanding. Mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method. Under this method, we update our expectations for repayment dates of the loans and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate. When the collectability of the amounts due is uncertain, we recognize interest income only when the payments are received.

Finance Costs

($000s)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Mortgages and loans payable						
Same property (1)	17,164	17,688	(524)	34,522	35,675	(1,153)
Acquisitions (1)	6,294	4,902	1,392	12,320	8,488	3,832
Foreign exchange on U.S. dollar expenses	(287)	265	(552)	(419)	622	(1,041)
	23,171	22,855	316	46,423	44,785	1,638
Convertible debentures	1,106	2,980	(1,874)	2,212	5,960	(3,748)
Credit Facility and other interest	502	-	502	918	-	918
	24,779	25,835	(1,056)	49,553	50,745	(1,192)
Amortization of deferred financing costs and debt mark-to-market adjustments	884	698	186	1,589	1,517	72
	25,663	26,533	(870)	51,142	52,262	(1,120)
Interest Capitalized to properties under development	(330)	-	(330)	(573)	-	(573)
Distributions on Class B Units recorded as interest expense	228	253	(25)	455	506	(51)
Total interest expense	25,561	26,786	(1,225)	51,024	52,768	(1,744)
Property lease expense						
Contractual lease payments for the period	507	480	27	1,166	1,020	146
Adjustment to record lease expense on a straight-line basis over term	-	-	-	-	-	-
Foreign exchange on U.S. dollar expenses	(15)	10	(25)	(23)	29	(52)
Total property lease expense	492	490	2	1,143	1,049	94
Total finance costs	26,053	27,276	(1,223)	52,167	53,817	(1,650)

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

Interest expense in the same property portfolio decreased in Q2 2011 and 2011 YTD due to lower interest rates achieved on mortgage renewals as well as repayment of certain mortgages in 2010. Acquisitions added incremental interest expense of $1.4 million in Q2 2011 and $3.8 million for 2011 YTD.

Interest expense on convertible debentures decreased $1.9 million in Q2 2011 and $3.7 million for 2011 YTD as we redeemed $125 million of convertible debentures in Q4 2010.

At June 30, 2011, we had $49.0 million outstanding on our Credit Facility and as a result, in Q2 2011 and 2011 YTD, we incurred interest expense of $0.5 million and $0.9 million, respectively. There were no balances outstanding on our Credit Facility in the first six months of 2010.

During Q2 2011 and 2011 YTD, we capitalized interest of $0.3 million and $0.6 million, respectively, which relate to our investment in development projects under construction. Under IFRS, interest capitalization stops once a development project becomes available for use.

Other Expenses /(Income)

($000s)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Gain on remeasurement of previously held equity interest on acquisition	(2,090)	(9,639)	7,549	(2,090)	(9,639)	7,549
Bargain purchase on acquisition	-	(750)	750	-	(750)	750
Gain on disposal of properties	-	(250)	250	-	(250)	250
Interest income on loans and receivables	(849)	(956)	107	(1,789)	(2,336)	547
Total other income	(2,939)	(11,595)	8,656	(3,879)	(12,975)	9,096
Impairment on non-current assets	8,500	-	8,500	8,500	-	8,500
Transaction costs arising on business combinations	335	1,912	(1,577)	335	1,912	(1,577)
Total other expenses	8,835	1,912	6,923	8,835	1,912	6,923
Total other expenses /(income)	5,896	(9,683)	15,579	4,956	(11,063)	16,019

Under IFRS, when step acquisitions are completed, we are required to remeasure the previously held interest to the acquisition date fair value with any resulting gain or loss recorded in the income statement. The acquisition of Chatsworth in Q2 2010 resulted in a gain of $2.1 million.

During Q2 2010, we purchased the remaining 50% interest in the Regency and Meridian portfolios from ING which resulted in a gain on remeasurement of the previously held interest, and a bargain purchase gain of $10.4 million. The gain on disposal of properties was due to the disposition of one retirement property in British Columbia.

Interest income on loans and receivables decreased in Q2 2011 and 2011 YTD primarily due to lower interest earned on cash on hand. In addition, in Q1 2010, we received a one-time fee of $0.3 million for waiving our option to acquire an LTC property adjacent to our retirement residence in Western Canada. There was no comparable amount in 2011.

Asset impairment relates to our 50% interest in the 15-property portfolio in the U.S. We entered into an agreement to acquire the remaining 50% interest in this portfolio from ING at a purchase price that is lower than the carrying value of our 50% interest. As a result, we recognized an impairment provision of $8.5 million in Q2 2011.

Under IFRS, transaction costs arising on business combinations are expensed as incurred. Under CGAAP, these costs were capitalized as part of acquisition. These expenses will fluctuate from period to period based on volume of business combinations.

Other Items

($000s)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Depreciation on property, plant and equipment	40,849	39,657	1,192	81,026	76,562	4,464
Amortization of limited life intangible assets	395	271	124	991	789	202
Changes in fair value of financial instruments and unrealized foreign exchange loss/ (gain)	(1,755)	(2,722)	967	2,609	157	2,452
Current income tax expense/ (benefit)	95	82	13	171	162	9
Deferred income tax expense/ (benefit)	(3,425)	(2,878)	(547)	(7,470)	(2,605)	(4,865)

Depreciation on Property, Plant and Equipment: Depreciation increased in Q2 2011 and 2011 YTD due to acquisitions completed from April through December of 2010.

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.

Current and Deferred Income Tax Expense/ (Benefit): The provision for deferred tax expense relates to temporary differences between the carrying amounts and tax-basis of assets and liabilities. These temporary differences are tax-effected using the estimated tax rate applicable to undistributed income at the time that these differences are expected to reverse.

Non-IFRS Measures

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

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

Funds from Operations (FFO)

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

($000s, except per unit amounts)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Net income/(loss)	(18,848)	(2,121)	(16,727)	(37,312)	(20,898)	(16,414)
Add (Subtract):						
Depreciation of properties	40,849	39,657	1,192	81,026	76,562	4,464
Amortization of limited life intangible assets	395	271	124	991	789	202
Depreciation of leasehold improvements and software costs included in depreciation and amortization above	(142)	(146)	4	(347)	(284)	(63)
Loss/(gain) on disposal of property	-	(250)	250	-	(250)	250
Bargain purchase on acquisition	-	(750)	750	-	(750)	750
Impairment on non-current assets	8,500	-	8,500	8,500	-	8,500
Gain recorded on remeasurement of previously held equity interest on acquisition	(2,090)	(9,639)	7,549	(2,090)	(9,639)	7,549
Transaction costs arising on business acquisitions	335	1,912	(1,577)	335	1,912	(1,577)
Deferred income taxes	(3,425)	(2,878)	(547)	(7,470)	(2,605)	(4,865)
Changes in fair value of interest rate swap contract	(288)	143	(431)	(139)	51	(190)
Distributions on Class B Units recorded as interest expense	228	253	(25)	455	506	(51)
Changes in fair value of Class B Units	(1,446)	(150)	(1,296)	370	321	49
Changes in fair value of convertible debentures	(112)	(375)	263	(1,050)	(125)	(925)
Changes in fair value of LTIP option	(588)	349	(937)	1,412	704	708
Changes in fair value of Deferred Trust Units	388	-	388	388	-	388
Unrealized foreign exchange loss/ (gain)	291	(2,689)	2,980	1,628	(794)	2,422
FFO [(1)]	24,047	23,587	460	46,697	45,500	1,197
FFO per unit diluted	0.17	0.18	(0.01)	0.32	0.34	(0.02)

(1) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

FFO increased $0.5 million in Q2 2011 primarily due to increased contributions from the property portfolio and lower interest expense due to redemption of convertible debentures in Q4 2010. This was offset by lower mezzanine loan interest and management fee income, as well as higher G&A expenses.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

($000s, except per unit amounts)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
FFO [1]	24,047	23,587	460	46,697	45,500	1,197
Add (Subtract):						
Principal portion of capital subsidy receivable from Health Authorities	961	682	279	1,851	1,244	607
Amounts received under income guarantees	-	64	(64)	-	133	(133)
Amortization of financing costs and fair value adjustments on mortgages payable	884	698	186	1,589	1,517	72
Financing cost reserve [2]	(340)	(356)	16	(694)	(679)	(15)
AFFO before capex reserve	25,552	24,675	877	49,443	47,715	1,728
Maintenance capex reserve - 2% of property revenue	(3,676)	(3,459)	(217)	(7,317)	(6,711)	(606)
AFFO [3]	21,876	21,216	660	42,126	41,004	1,122
AFFO per unit diluted	0.15	0.16	(0.01)	0.29	0.31	(0.02)

(1) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.
(2) Financing cost reserve is calculated quarterly as 60 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.
(3) Refer to the "Key Performance Indicators – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.

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

IFRS Impact on FFO and AFFO

The adoption of IFRS has had a material impact on the presentation of our financial results. However, our actual operating and financial performance has not been affected by this accounting change.

The following table provides reconciliations of Q2 2010 and 2010 YTD FFO and AFFO as previously reported under CGAAP to FFO and AFFO reported under IFRS.

	Q2 2010		2010 YTD	
($000s)	FFO	AFFO	FFO	AFFO
As previously reported under CGAAP	25,712	21,596	45,198	41,832
Amortization of financing costs and accretion adjustments on convertible debentures	1,164	-	2,336	-
Unrealized foreign exchange loss	(2,689)	-	(794)	-
Amortization of below-market leases	(184)	-	(368)	-
Capitalized interest and operating costs on development projects in lease-up	(385)	(385)	(841)	(841)
Other	(31)	5	(31)	13
Reported under IFRS	23,587	21,216	45,500	41,004

Amortization of financing costs and accretion on convertible debentures have been eliminated on conversion to IFRS as convertible debentures are now carried at fair value.

Unrealized foreign exchange loss on cross-border intercompany loans is added back in our FFO calculations upon conversion to IFRS.

Amortization of below-market leases, under CGAAP, has been included in our FFO calculations and adjusted for in our AFFO calculations. We elected to exclude this item in our FFO calculations upon conversion to IFRS.

Under IFRS, capitalization of borrowing costs must cease upon a development property becoming available for use. Under CGAAP, borrowing costs and lease-up losses were capitalized during the lease-up of a property until it achieved a break-even level of cash flows. As a result, in 2010, our FFO and AFFO were reduced by approximately $0.9 million due to the reversal of previously capitalized interest and operating costs.

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

	IFRS						CGAAP	
	2011	2010					2009	
($000s)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	185,047	183,502	189,270	186,789	175,673	165,528	166,084	164,083
Direct operating expenses	(129,406)	(129,463)	(133,793)	(129,996)	(119,825)	(112,911)	(116,529)	(111,812)
General, administrative and trust expenses	(6,381)	(6,161)	(6,971)	(6,248)	(5,966)	(5,578)	(4,941)	(4,425)
	49,260	47,878	48,506	50,545	49,882	47,039	44,614	47,846
Finance costs	(26,053)	(26,114)	(28,460)	(28,997)	(27,276)	(26,541)	(27,036)	(27,314)
Other income (expense)	(5,896)	940	(143)	3,284	9,683	1,380	-	-
Depreciation and amortization	(41,244)	(40,773)	(45,400)	(40,367)	(39,928)	(37,423)	(26,374)	(26,406)
Changes in fair value of financial instruments and unrealized foreign exchange gain/(loss)	1,755	(4,364)	1,694	(7,131)	2,722	(2,879)	-	-
Foreign exchange gain/(loss)	-	-	-	-	-	-	(820)	(3,848)
Non-controlling interest	-	-	-	-	-	-	68	133
Current income tax (expense)/recovery	(95)	(76)	(35)	(84)	(82)	(80)	(80)	(92)
Deferred income tax (expense)/recovery	3,425	4,045	(745)	4,815	2,878	(273)	2,578	4,234
Income/(loss) from continuing operations	(18,848)	(18,464)	(24,583)	(17,935)	(2,121)	(18,777)	(7,050)	(5,447)
Income/(loss) from discontinued operations	-	-	-	-	-	-	(186)	(3,503)
Net income/(loss) for the period	(18,848)	(18,464)	(24,583)	(17,935)	(2,121)	(18,777)	(7,236)	(8,950)

Our results for the past eight quarters have been affected by the contribution of acquisitions, the impact of the slow North American economy on occupancies, our decision in 2008 to reduce our exposure to third-party developers and related mezzanine loans, which resulted in declining mezzanine loan interest and management fee income, changes in foreign exchange rates resulting in foreign exchange gains and losses on cross-border intercompany loans, and the issuance of Trust Units.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for Q2 2011 and 2011 YTD.

Canadian Retirement Operations

The following table summarizes the composition of our Canadian Retirement Operations segment:

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property - Owned					
100%	93	8,171	2,406	492	11,069
50%	3	376	-	-	376
Total same property owned	96	8,547	2,406	492	11,445
Acquisitions & Development					
100% owned:					
Operating	10	924	33	180	1,137
Development suites in lease-up	-	202	157	-	359
	10	1,126	190	180	1,496
Partially owned (1)	4	460	37	-	497
Total acquisitions & development	14	1,586	227	180	1,993
Total	110	10,133	2,633	672	13,438

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

The following table presents the results of operations of our Canadian Retirement Operations segment:

($000s)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Revenue						
Same property	78,905	76,732	2,173	157,376	153,025	4,351
Acquisitions and development	10,018	10,484	(466)	19,288	18,483	805
Total revenue	88,923	87,216	1,707	176,664	171,508	5,156
Direct Operating Expenses						
Same property	49,437	48,031	1,406	99,470	96,222	3,248
Acquisitions and development	6,903	7,515	(612)	13,585	13,395	190
Total direct operating expenses	56,340	55,546	794	113,055	109,617	3,438
Net Operating Income						
Same property	29,468	28,701	767	57,906	56,803	1,103
Acquisitions and development	3,115	2,969	146	5,703	5,088	615
Total net operating income	32,583	31,670	913	63,609	61,891	1,718
Same property statistics:						
Weighted average occupancy rate	88.9%	89.0%	(0.1pp)	89.1%	89.1%	-

Same property revenues increased 2.8% in Q2 2011 primarily due to regular annual rental rate increases and higher ancillary services revenue.

Same property direct operating expenses increased 2.9% in Q2 2011 primarily due to annual wage increases, higher employee benefits and utility costs as well as incremental HST costs.

Same property NOI increased $0.8 million or 2.7% in Q2 2011. Same property NOI in our Ontario retirement properties increased $0.2 million or 0.9% in Q2 2011 primarily due to higher ancillary revenues and successful expense control initiatives offset by lower occupancies. Our Western Canadian platform same property NOI increased $0.3 million or 5.9% in Q2 2011 primarily due to improved occupancies in our British Columbia markets. Our Quebec platform same property NOI increased $0.3 million or 4.1% in Q2 2011 also due to continued occupancy improvements.

For 2011 YTD, same property NOI increased $1.1 million or 1.9% as a result of regular annual rental rate increases, higher ancillary revenues and successful expense control initiatives.

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

	Q2 2011	Q2 2010	Increase / (Decrease)	Q1 2011	Increase / (Decrease)
Canadian retirement same property portfolio:					
Ontario retirement	89.7%	91.3%	(1.6pp)	90.7%	(1.0pp)
Western Canada	90.2%	88.7%	1.5pp	90.5%	(0.3pp)
Quebec	87.4%	86.6%	0.8pp	87.2%	0.2pp
Total	88.9%	89.0%	(0.1pp)	89.2%	(0.3pp)

On a sequential-quarter basis, our Q2 2011 occupancies declined by 0.3 percentage points from Q1 2011. While occupancy continued to gradually improve in Quebec, we experienced occupancy declines in certain competitive Ontario and British Columbia markets. We have seen a partial reversal of these trends at the end of Q2 and in July and expect occupancies in Ontario and Western Canada to improve in the second half of 2011.*

Canadian Long Term Care Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same property - 100% owned	15	64	51	1,516	1,631
Acquisitions - 100% owned	8	-	-	1,385	1,385
Development - 100% owned (1)	1	-	-	100	100
Total	24	64	51	3,001	3,116

(1) Represents one Ontario LTC community where we vacated certain retirement suites in preparation for re-development.

* *This paragraph contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section of this MD&A.*

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

($000s, except occupancy rates)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Revenue						
Same property	24,976	24,223	753	49,203	47,876	1,327
Acquisitions	24,359	16,462	7,897	48,201	28,966	19,235
Total revenue	49,335	40,685	8,650	97,404	76,842	20,562
Direct Operating Expenses						
Same property	21,798	20,943	855	43,285	42,046	1,239
Acquisitions	20,829	13,857	6,972	41,562	24,580	16,982
Total direct operating expenses	42,627	34,800	7,827	84,847	66,626	18,221
Net Operating Income						
Same property	3,178	3,280	(102)	5,918	5,830	88
Acquisitions	3,530	2,605	925	6,639	4,386	2,253
Total net operating income	6,708	5,885	823	12,557	10,216	2,341
Same property statistics:						
Weighted average occupancy rate	98.5%	98.2%	0.3pp	98.1%	98.3%	(0.2pp)

Same property revenues increased 3.1% in Q2 2011 primarily due to higher government funding provided for direct resident care and services which are mainly staffing related. Direct operating expenses increased 4.1% in Q2 2011 primarily due to HST and additional staffing costs offset by lower administration costs. As a result, same property NOI decreased $0.1 million or 3.1% in Q2 2011.

For 2011 YTD, same property NOI increased $0.1 million or 1.5% primarily due to higher funding and lower administration expenses.

Weighted average occupancies in the same property portfolio were at 98.5% in Q2 2011, an increase of 0.3 percentage points from Q2 2010. All of our Ontario LTC communities achieved the occupancy criteria to receive government funding as though fully occupied for 2011 YTD.

In Q2 2010, we completed the acquisition of ING's 50% interest in the Regency portfolio of eight Class A LTC communities in Ontario to bring our ownership of this portfolio to 100%. The operating results of these properties are reported under "Acquisitions" in the previous table.

U.S. Operations

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

	Properties	Composition of Suites			
		ISL	AL	LTC	Total
Same Property - Owned					
100%	23	721	1,613	-	2,334
50%	19	1,893	1,617	-	3,510
Total same property owned	42	2,614	3,230	-	5,844
Properties under Operating Lease					
100% Interest	2	61	183	-	244
Total same property owned and leased	44	2,675	3,413	-	6,088
Acquisitions & Development Suites in Lease-up					
100% owned - operating	6	868	-	189	1,057
50% owned:					
Operating	1	-	113	-	113
Development suites in lease-up		93	-	-	93
Total acquisitions & development suites in lease-up	7	961	113	189	1,263
Total	51	3,636	3,526	189	7,351

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

(U.S.$000s, except as noted otherwise)	**Q2 2011**	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Revenue						
Same property	35,609	34,337	1,272	71,022	68,833	2,189
Acquisitions, development and other [(1)]	12,778	10,393	2,385	25,647	18,052	7,595
Intercompany eliminations	(1,364)	(903)	(461)	(2,723)	(2,546)	(177)
Total revenue	47,023	43,827	3,196	93,946	84,339	9,607
Direct Operating Expenses						
Same property	25,353	23,711	1,642	50,069	46,896	3,173
Acquisitions, development and other [(1)]	7,440	5,864	1,576	15,061	10,295	4,766
Intercompany eliminations	(1,364)	(903)	(461)	(2,723)	(2,546)	(177)
Total direct operating expenses	31,429	28,672	2,757	62,407	54,645	7,762
Net Operating Income						
Same property	10,256	10,626	(370)	20,953	21,937	(984)
Acquisitions, development and other [(1)]	5,338	4,529	809	10,586	7,757	2,829
Total net operating income	15,594	15,155	439	31,539	29,694	1,845
Foreign exchange in CDN	(496)	423	(919)	(723)	1,004	(1,727)
Total net operating income in CDN	15,098	15,578	(480)	30,816	30,698	118
Same property statistics:						
Weighted average occupancy rate	89.1%	88.1%	1.0pp	89.4%	88.5%	0.9pp

(1) Includes the results of the Meridian portfolio, of which we acquired the remaining 50% interest in Q2 2010, one property on which we completed an addition, as well as the results of our U.S. management operations.

Same property revenue increased 3.7% in Q2 2011 primarily due to improved occupancies and regular annual rental rate increases and an increased number of residents purchasing assisted living and care services. In order to successfully compete in these challenging market conditions, in select markets we continued our rental incentive programs which reduced revenue growth.

Same property direct operating expenses increased $1.6 million or 6.9% in Q2 2011 primarily due to the expiry of the 18-month compensation freeze program in the U.S. properties in June 2010, higher operating costs in certain jurisdictions due to regulatory requirements, increased costs required to provide

additional care and services to our residents, higher sales and marketing costs targeted to improve occupancies and higher administration costs.

As a result, same property NOI decreased U.S.$0.4 million or 3.5% in Q2 2011.

For 2011 YTD, same property NOI declined $1.0 million or 4.5% due to higher staffing, sales and marketing and administration costs.

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 2011	Q2 2010	Increase / (Decrease)	**2011 YTD**	2010 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	0.97	1.03	(0.06)	0.98	1.03	(0.05)

A $0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar impacts AFFO from continuing operations by approximately $0.2 million.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity for June 30, 2011 compared to December 31, 2010:

	Increase / (Decrease) ($millions)	**Explanation**
Property, plant and equipment	(126.3)	Property, plant and equipment decreased due to depreciation of $81.0 million, reclassification to held for sale of $61.7 million, impairment of $8.5 million and foreign exchange translation of $22.5 million. These decreases were offset by acquisitions of $23.6 million, investments in development projects, building improvements and other capital expenditures of $23.8 million.
Mezzanine loans	(11.2)	Mezzanine loans outstanding decreased primarily due to the collection of three mezzanine loans in the amount of $8.1 million and the discharge of $2.1 million on acquisition of properties.
Intangible assets	(1.1)	Intangible assets decreased due to amortization of $1.0 million and foreign exchange translation of $0.1 million.
Capital funding receivable	(1.9)	During the first six months of 2011, we received capital funding of $3.5 million, of which $1.6 million was recorded as interest income and $1.9 million was recorded as a reduction of the receivable.
Total assets	(86.0)	The decrease in total assets is primarily due to decreases in properties and in mezzanine loans.
Mortgages payable	(50.6)	Mortgages payable decreased as a result of regular amortizing principal repayments of $19.7 million, reclassification to held for sale of $47.0 million, net financing costs of $1.2 million and foreign exchange translation of $18.3 million. This was offset by new mortgage financings of $22.2 million and assumed mortgages on acquired properties of $13.4 million.
Total liabilities	(15.6)	The decrease in total liabilities is primarily due to decreases in mortgages payable and deferred tax liabilities.
Unitholders' equity	(70.4)	The decrease in Unitholders' equity is primarily due to cash distributions, the allocation of net loss to the Trust's Unitholders and foreign exchange translation in other comprehensive income.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2011 YTD:

	Trust Units	**Trust Units issued under LTIP**	**Class B Units**	**Deferred Trust Units**	**Total**
Balance December 31, 2010	140,598,132	2,244,858	1,714,652	208,834	144,766,476
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	961,347				961,347
Trust Units issued under LTIP		138,483			138,483
Trust Units transferred to Treasury		(78,993)			(78,993)
DTUs issued				67,928	67,928
DTU distributions				7,222	7,222
Exchange of Class B Units	33,127		(33,127)		-
Balance June 30, 2011	141,592,606	2,304,348	1,681,525	283,984	145,862,463

Liquidity and Capital Commitments

Liquidity

Our cash commitments include interest and other payments related to long-term debt and convertible debentures, contractual deferred purchase obligations, obligations under operating leases as well as cash distributions to Unitholders.

Our principal source of liquidity is cash flow from operations. At June 30, 2011 we had cash on hand in the amount of $11.7 million. In order to provide for our operating and capital requirements, we also raise funds through the capital markets, arrange mortgage debt financing and have a Credit Facility in place. In Q2 2011, we renewed our Credit Facility until June 24, 2012. Under the renewed terms, maximum borrowing capacity was increased from $75.0 million to $85.0 million with amounts outstanding under the Credit Facility bearing interest at the bank's prime rate plus 1.65% or at the applicable banker's acceptance rate plus 2.65%. All other terms remained substantially unchanged. At June 30, 2011, the maximum available borrowing capacity under the Credit Facility was $72.6 million, of which $2.4 million was utilized to support outstanding letters of credit and $49.0 million was drawn, leaving available borrowing capacity at $21.2 million. In Q3 2011, we expect to add several new properties to the general asset pool to increase the available borrowing capacity to full $85.0 million.*

Subsequent to June 30, 2011, we arranged a new mortgage on one of our previously unencumbered properties. The new $23.9 million mortgage bears interest at 5.15% and matures in August 2021. Net proceeds from this financing were used to repay amounts outstanding on our Credit Facility.

Subsequent to June 30, 2011, we completed the sale of one of our non-core properties in Quebec and used net proceeds from this sale, in the amount of $21.5 million, to further repay amounts outstanding on our Credit Facility.

Debt Strategy

At the present time we employ the following sources of debt financing: property-specific secured mortgages; unsecured convertible debentures and the Credit Facility. Our debt management objectives are to:

- access low-cost, long-term, fixed-rate debt and short-term, variable-rate construction financing; and
- manage interest rate risk by spreading debt maturities over time with the target of having no more than 10% of our total debt maturing in any year.

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 60% of Adjusted Gross Book Value ("GBV"), excluding convertible debentures, or 65% of GBV including convertible debentures ("Indebtedness Ratio").

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.

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* *This paragraph contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section of this MD&A.*

At June 30, 2011, our Indebtedness Ratio was 55.2% and 57.5% excluding and including convertible debentures, respectively.

Effective January 1, 2011 Chartwell's Trustees approved an amendment to the GBV definition in the Declaration of Trust to add back: (a) the difference between the GBV of assets under CGAAP and IFRS on the Transition Date, and (b) related costs in respect of completed property acquisitions that were expensed in the period incurred.

Indebtedness Ratio: The following table presents the calculation of our Indebtedness Ratio as at June 30, 2011 and December 31, 2010:

($000s)	**June 30, 2011**	December 31, 2010
Mortgages payable (contractual amount)	1,733,367	1,736,057
Credit Facility	49,000	51,000
Convertible debentures (face value)	75,000	75,000
Total Indebtedness	1,857,367	1,862,057
Total assets	2,593,133	2,679,096
Accumulated depreciation and amortization	254,504	166,917
Cumulative transaction costs on business combinations	3,630	3,295
Change in GBV on transition to IFRS	388,047	388,047
GBV of assets	3,239,314	3,237,355
Less: Assets financed by deferred purchase consideration on acquisition properties	7,678	7,512
GBV of assets (net of deferred consideration)	3,231,636	3,229,843
Indebtedness Ratio before convertible debentures	55.2%	55.3%
Indebtedness Ratio including convertible debentures	57.5%	57.7%

In addition to the Indebtedness Ratio restrictions under our Declaration of Trust, we adopted a supplemental operating target for managing our debt portfolio and will be monitoring our Interest Coverage Ratio.

Interest Coverage Ratio: Effective December 31, 2010, we adopted an interest coverage guideline. The interest coverage guideline provides an indication of an entity's ability to service or pay the interest charges relating to the underlying debt and have generally been used by debt rating agencies to test an entity's ability to service its debt. Generally, the higher the ratio, the lower the risk of default on debt. We will target to maintain our Interest Coverage Ratio above 1.65 times.

The following table summarizes our Interest Coverage Ratio:

($000s, except Interest Coverage Ratio)	**Q2 2011**	Q2 2010	**2011 YTD**	2010 YTD
Interest expense including capitalized interest	25,663	26,533	51,142	52,262
Property lease expense	492	490	1,143	1,049
	26,155	27,023	52,285	53,311
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") (1)	50,109	50,838	98,927	99,257
Interest Coverage Ratio	1.92x	1.88x	1.89x	1.86x
Target Interest Coverage Ratio		>1.65x		

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

The following table presents the calculation of Adjusted EBITDA:

($000s)	**Q2 2011**	Q2 2010	**2011 YTD**	2010 YTD
Net loss for the period	(18,848)	(2,121)	(37,312)	(20,898)
Add / (subtract):				
Deferred income tax	(3,425)	(2,878)	(7,470)	(2,605)
Current income tax	95	82	171	162
Finance costs	26,053	27,276	52,167	53,817
Other expense/(income)	5,896	(9,683)	4,956	(11,063)
Interest income included in other expense/(income)	849	956	1,789	2,336
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	(1,755)	(2,722)	2,609	157
Amortization of intangible assets	395	271	991	789
Depreciation of property, plant and equipment	40,849	39,657	81,026	76,562
Adjusted EBITDA	50,109	50,838	98,927	99,257

Mortgage Debt

At June 30, 2011, we had $1,686.2 million of mortgages payable of which $1,093.3 million related to our Canadian properties and $592.9 million (U.S.$614.7 million) related to our U.S. properties.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at June 30, 2011.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Remainder of 2011	18,314	48,305	66,619	4%	4.21%
2012	36,994	146,073	183,067	12%	4.94%
2013	37,061	127,120	164,181	10%	5.07%
2014	32,483	132,203	164,686	10%	4.36%
2015	29,891	176,427	206,318	14%	5.12%
2016	26,698	156,536	183,234	12%	6.00%
2017	19,962	230,945	250,907	18%	5.69%
2018	21,110	32,625	53,735	3%	5.55%
2019	20,017	92,753	112,770	7%	6.17%
2020	19,873	34,734	54,607	3%	4.54%
2021	18,444	21,361	39,805	2%	4.33%
2022	17,715	9,161	26,876	1%	5.60%
2023	15,805	13,648	29,453	1%	6.01%
2024	11,054	17,394	28,448	1%	7.13%
Thereafter	99,991	21,485	121,476	2%	4.93%
Total	425,412	1,260,770	1,686,182	100%	
Mark-to-market adjustments arising on assumption			12,257		
Less: Financing costs			(18,994)		
Total Mortgage Debt			1,679,445		

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

	At June 30, 2011				At December 31, 2010
	Canadian Debt		U.S. Debt	Combined	Combined
	Fixed Rate	Variable Rate	Fixed Rate		
Amount ($millions)	1,019.1	74.2	592.9	1,686.2	1,736.1
Weighted average rate	5.23%	4.50%	5.88%	5.43%	5.44%
Average term to maturity (years)	8.8	1.1	5.4	7.3	7.5

Debt maturing through 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. In Canada, we have access to low-cost, CMHC-insured debt. All our Canadian properties are eligible for CMHC financing and as of June 30, 2011, 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 on renewal.*

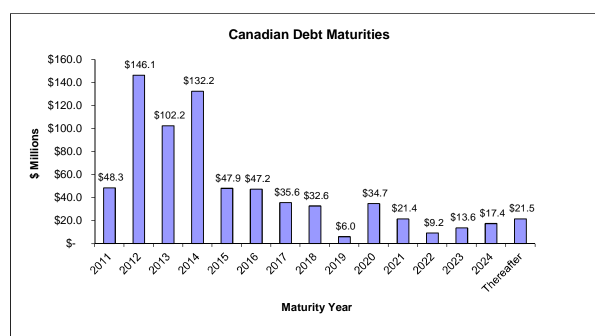
In the U.S., over 70% of our mortgages are with the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae"). Both of these entities are government-sponsored enterprises which provide access to competitive financing for seniors housing properties. We have no U.S. debt maturities until 2013, when U.S.$25.8 million of mortgages (or 4.6% of our total U.S. debt) will mature. The remaining U.S. loans mature between 2015 and 2019.

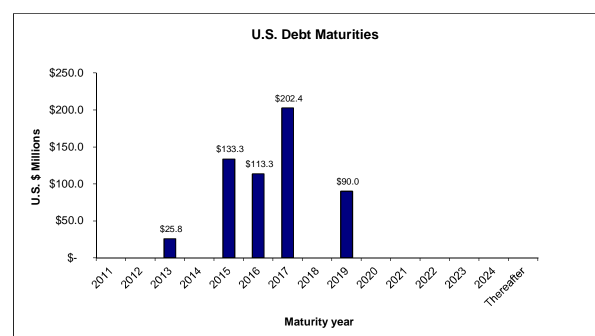
Our variable-rate mortgages primarily relate to recently acquired communities in lease-up and our development projects in Canada. Variable-rate loans are expected to be refinanced with fixed-rate, CMHC-insured debt upon completion and stabilization of the development properties and acquired properties in lease-up.*

We own a 50% interest in two properties in the U.S. which are financed through a mortgage pool in the amount of U.S.$69.4 million. At June 30, 2011 we were not meeting two of the covenant requirements for this pool. Under the terms of the loan agreement, the lenders' recourse is limited to a corporate guarantee provided by CSH-INGRE LLC ("CSH-INGRE") in the amount of U.S.$4.5 million (U.S.$2.3 million at our 50% share). Subsequent to June 30, 2011, the lenders agreed to waive these covenant requirements until March 2013.

At June 30, 2011 we were not meeting a debt service covenant requirement on a U.S.$6.8 million mortgage on one of our properties in the U.S. In Q3 2011, we expect to make a lump-sum mortgage paydown of U.S.$0.4 million and to bring the loan in compliance.*

The following charts provide the breakdown of our debt maturities in Canada and the U.S.:





* *This paragraph contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section of this MD&A.*

Convertible Debentures

At June 30, 2011, we had $75 million of 5.9% Convertible Debentures outstanding. The 5.9% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of $16.25 per unit and mature on May 1, 2012. The 5.9% Convertible Debentures may be called by us at par any time until maturity.

Capital Expenditures

We classify our capital expenditures in the following main categories:

- Development – capital expenditures in respect of our development projects in progress.
- Acquisition – capital expenditures which were identified during acquisition due diligence for newly acquired assets.
- Revenue enhancing and repositioning – capital expenditures that improve the revenue generating potential of our properties.
- Maintenance – capital expenditures incurred to maintain existing revenue generating potential of our properties, such as routine replacement of building components, furniture, fixtures and equipment. We generally allocate 2% of our gross property revenue to maintenance capital expenditures annually; however, actual amounts spent may fluctuate from period to period.

The following table summarizes additions to properties during Q2 2011 and 2011 YTD:

($000s)	**Q2 2011**	**2011 YTD**
Development	8,489	12,778
Acquisition	-	-
Revenue enhancing and repositioning	1,513	2,897
Maintenance	3,791	6,340
Total	13,793	22,015

Contractual Obligations and Guarantees

Details of our contractual obligations and guarantees are disclosed in our 2010 MD&A**.** There were no significant changes in our contractual obligations and guarantees in the first six months of 2011, 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 2011 and Q2 2010:

Cash Provided by (Used in):	**Increase / (Decrease)** ($millions)	**Explanation**
Operating activities	4.8	Cash flows from operating activities increased primarily due to increased contributions from property operations and positive changes in non-cash working capital items, offset by lower fee and interest income and higher G&A expenses.
Financing activities	23.6	Cash flows from financing activities increased primarily due to new mortgage financing.
Investing activities	30.1	Cash flows from investing activities increased primarily due to a reduction in acquisition activity, offset by higher additions to property, plant and equipment.

Distributions

The declaration and payment of future distributions is subject to the discretion of the Board of 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 deemed relevant by them in setting the distribution rate. Our monthly distributions are $0.0450 per unit, or $0.54 per unit on an annualized basis.

Our Distribution Reinvestment Plan (“DRIP”) 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 their distributions which they have elected to reinvest, and this amount is paid in the form of additional units. Unitholders who are Canadian residents and beneficial holders of 1,000 units or more are eligible to participate. In Q2 2011 and 2011 YTD, our average DRIP participation was 22.0% and 20.3%, respectively compared to 6.7% participation in 2010 and 7.5% in 2009.

The following table summarizes distributions made in Q2 2011, 2011 YTD, 2010 and 2009:

($000s)	**Q2 2011**	**2011 YTD**	2010	2009
Distributions declared on Trust Units	19,343	38,628	71,144	67,711
Distributions on Class B Units	228	455	989	1,395
Distributions reinvested under DRIP	(4,253)	(7,825)	(4,795)	(5,074)
Distributions applied against LTIP receivable	(311)	(613)	(1,235)	(1,771)
Distributions paid or payable in cash	15,007	30,645	66,103	62,261

The following table summarizes cash distributions made in Q2 2011, 2011 YTD, 2010 and 2009 in relation to net loss and cash flows from operating activities:

($000s)	**Q2 2011**	**2011 YTD**	2010	2009[(2)]
Cash flows from operating activities	26,136	47,492	96,437	64,810
Net loss	(18,848)	(37,312)	(63,419)	(72,692)
Distributions paid or payable in cash [(1)]	15,007	30,645	66,103	62,261
Excess of cash flows from operating activities over cash distributions paid	11,129	16,847	30,334	2,549
(Shortfall) of net loss over cash distributions paid	(33,855)	(67,957)	(129,522)	(134,953)

(1) Cash distributions do not include distributions satisfied through issuance of units under DRIP or distributions applied against the LTIP receivable.
(2) 2009 amounts are reported under CGAAP and have not been restated to IFRS.

Cash flow from operating activities is affected by changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period. Changes in non-cash working capital increased cash flows from operating activities by $2.6 million in Q2 2011 and decreased cash flows from operating activities by $0.7 million in 2011 YTD.

Our distributions exceeded net loss in Q2 2011, 2011 YTD, 2010 and 2009. We anticipate that this will continue. We do not use net loss in accordance with IFRS as the basis to establish 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 fluctuations on fair values of certain liabilities in establishing our distribution levels as we believe that the value of our real estate investments generally does not diminish over time and as we give consideration to maintenance capital expenditures in establishing the level of annual distributions to Unitholders. We believe that our current distribution level is sustainable.[*]

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[*] *This paragraph contains forward-looking information. Please see the “Forward-Looking Information and Risks and Uncertainties” section of this MD&A.*

Key Performance Indicators

We use a number of key performance indicators ("KPIs") for monitoring and analyzing our financial results. These KPIs are not defined by IFRS and may not be comparable to similar measures presented by other income trusts or other companies. KPIs are described in our 2010 MD&A and there were no changes to our KPIs in 2011 YTD, except as follows:

Funds from Operations

FFO does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO substantially consistent with the definition adopted by the Real Property Association of Canada ("REALpac") with the exception of the adjustment for the changes in fair value of LTIP. In June 2010, REALpac issued a White Paper on FFO for IFRS, which is effective upon adoption of IFRS. According to REALpac guidance, FFO is defined as follows: Profit or loss per IFRS Statement of Comprehensive Income adjusted for:

A. Unrealized changes in the fair value of investment properties
B. Depreciation of depreciable real estate assets including depreciation for components relating to capitalized leasing costs, capitalized tenant allowances treated as capital improvements and lease-related items ascribed in a business combination
C. Amortization of tenant allowances and landlord's work spent for the fit-out of tenant improvements and amortized as a reduction to revenue in accordance with SIC-15
D. Amortization of tenant/customer relationship intangibles or other intangibles arising from a business combination
E. Gains / losses from sales of investment properties and owner-occupied properties, including the gain or loss included within discontinued operations (if applicable)
F. Tax on profits or losses on disposals of properties
G. Deferred taxes
H. Impairment losses or reversals recognized on land and depreciable real estate properties, excluding those relating to properties used exclusively for administrative purposes
I. Revaluation gains or losses recognized in profit or loss on owner-occupied properties, excluding those relating to properties used exclusively for administrative purposes
J. Transaction costs expensed as a result of the purchase of a property being accounted for as a business combination
K. Foreign exchange gains or losses on monetary items not forming part of a net investment in a foreign operation
L. Gain or loss on the sale of an investment in a foreign operation
M. Changes in the fair value of financial instruments which are economically effective hedges but do not qualify for hedge accounting
N. Negative goodwill or goodwill impairment
O. Effects of redeemable units classified as financial liabilities

Other items:

P. Results of discontinued operations
Q. Adjustments for equity accounted entities
R. Non-controlling interests in respect of the above

In our opinion, the use of FFO, combined with the required primary IFRS presentations, will be 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), FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

The tables presented under the "Consolidated Results of Operations – Non-IFRS Measures" section of this MD&A provide a reconciliation of FFO to net income, as reported in our Financial Statements.

Adjusted Funds from Operations

AFFO does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. AFFO as presented may not be comparable to similar measures presented by other issuers. We believe AFFO is useful in the assessment of our operating performance and that this measure is also useful for valuation purposes and is a relevant and meaningful measure of our ability to earn and distribute cash to Unitholders. We calculate AFFO by adding or subtracting certain items to or from FFO as defined by REALpac, as follows:

Principal portion of capital subsidy receivable: This item represents a portion of the long-term (maximum 20-year) cash flow stream provided by the Ontario Ministry of Health and Long Term Care to communities which meet certain design criteria. We include this item in AFFO calculations.

Income guarantees: This item represents amounts due from vendors of acquired communities under the applicable purchase and sale agreement. It is generally applicable to communities in lease-up.

Amortization of debt mark-to-market adjustments and amortization of financing costs: Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

Financing cost reserve: In order to account for financing costs routinely incurred on re-financing of existing debt, we included this reserve in the calculation of AFFO. We calculate this reserve based on our estimate of normalized costs of re-financing (60 basis points) applied to the debt balances outstanding at the end of the reporting period taking into account weighted average term to maturity of our mortgage portfolio.

Capital maintenance reserve: Capital maintenance reserve is estimated at 2% of property revenue.

The tables presented under the "Consolidated Results of Operations – Non-CGAAP Measures" section of this MD&A provide details of AFFO calculations.

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 and LTIP.

Same Property Performance

We evaluate our financial performance by analyzing our same property portfolio. Generally, our same property portfolio excludes properties that have not been owned or leased continuously since the beginning of the previous fiscal year. In addition, to improve comparability, we designate properties

where we have added significant capacity or expect in the current year to open new suites to be excluded from the same property portfolio.

The following table summarizes the same property portfolio at June 30, 2011:

	Properties	Suites/Beds
Canadian Retirement Operations	96	11,445
Canadian Long Term Care Operations	15	1,631
U.S. Operations (owned and leased)	44	6,088
Total Same Property Portfolio	155	19,164

Adjusted EBITDA

EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense and excludes gains/losses on disposition of properties and non-recurring items such as asset impairment provisions or unrealized gains and losses. In addition, in our calculation of the Adjusted EBITDA, we exclude transaction costs arising on business combinations. These costs were previously capitalized as part of acquisitions under CGAAP. Under IFRS, these costs are expensed as incurred.

Critical Accounting Policies and Estimates

In our 2010 Financial Statements as well as in our 2010 MD&A, we identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. On January 1, 2011, with the adoption of IFRS, the critical accounting policies and estimates have been updated to conform to this adoption. Please refer to notes 1, 2 and 3 to our Financial Statements for the three months ended March 31, 2011 for a description of our adoption of IFRS and a detailed discussion regarding our significant accounting policies and application of critical accounting estimates and judgements.

New Accounting Standards

Recent Accounting Pronouncements

Financial Instruments

In October 2010, the International Accounting Standards Board ("IASB") issued IFRS 9 – *Financial Instruments* ("IFRS 9"). IFRS 9, which replaces IAS 39 – *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the interim and annual consolidated financial statements commencing January 1, 2013. We are assessing the impact of this new standard on our consolidated financial statements.

Consolidated Financial Statements

On May 12, 2011, IASB issued IFRS 10 – *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 replaces portions of IAS 27 – *Consolidated and Separate Financial Statements* ("IAS 27") that addresses consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements

On May 12, 2011, the IASB issued IFRS 11 – *Joint Ventures* ("IFRS 11"). IFRS 11 supersedes IAS 31 – *Interest in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Furthermore, IFRS 11 eliminates the option to proportionately consolidate interests in jointly-controlled entities; these entities must now use the equity method. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28 – *Investments in Associates and Joint Ventures* ("IAS 28") has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11. This would impact 27 of our jointly-controlled properties which are currently proportionately consolidated under IFRS and will not have an impact on Unitholder's equity, net income or FFO going forward as it only has a presentation impact on the financial statements.

Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 12 requires extensive disclosures relating to a Trust's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. We are currently assessing the impact of these new standards and amendments on our consolidated financial statements.

Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13 – *Fair Value Measurement* ("IFRS 13"), which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. We are currently assessing the impact of the new standard on our consolidated financial statements.

Employee Benefits

On June 16, 2011 the IASB revised IAS 19 – *Employee Benefits*. The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. We are assessing the impact of the amendments on our consolidated financial statements.

Presentation of Financial Statements

On June 16, 2011 the IASB issued amendments to IAS 1 – *Presentation of Financial Statements*. The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. We are currently assessing the impact of the amendments on our consolidated financial statements.

Controls and Procedures

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

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

The President and Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision of, the design of the Trust's disclosure controls and procedures and internal control over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at June 30, 2011. 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 changes in the Trust's internal controls over financial reporting that occurred during the three-month period ended June 30, 2011 that have significantly affected, or are reasonably likely to significantly affect the Trust's internal control over financial reporting.

Forward-Looking Information and Risks and Uncertainties

Forward-Looking Information

This MD&A contains forward-looking information that reflects the current expectations, estimates and projections of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. The words "plans", "expects", "does not expect", "is expected", "budget", "scheduled", "estimates", "intends", "anticipates", "does not anticipate", "projects", "believes" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "might", "occur", "be achieved" or "continue" and similar expressions identify forward-looking statements. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond our control, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

Examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- information related to the 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;
- possible benefits from the implementation of new supply chain management programs, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods that offset any benefits from our purchasing power and is subject to the assumption that we are able to negotiate favourable terms with our vendors in the future;
- growth, or lack thereof, of G&A expenses, which is subject to the risk and uncertainty that economic conditions may result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase;
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks;
- our ability to predict seasonal increases in occupancy rates due to uncertain economic conditions;
- the decline in anticipated development and operations management fees due to reduced third-party development activities;
- our ability to renew maturing debt, including our Credit Facility and to obtain new financings, in due course;
- the impact surrounding the implementation of the expected new regulations affecting retirement homes in Ontario;
- timing of closing of acquisitions which are subject to legal, regulatory and lenders' approvals which may not be received as currently expected;
- our expectations regarding achievement of certain occupancy levels at our LTC and retirement communities.

While we anticipate that subsequent events and developments may cause our views to change, we do not intend to update forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See risk factors highlighted in materials filed with the securities regulatory authorities in Canada from time to time, including but not limited to our most recent Annual Information Form.

Risks and Uncertainties

Our Annual Information Form dated March 12, 2011 and our 2010 MD&A contain a detailed discussion of risk factors and uncertainties facing the REIT.

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