

# Q3

## Management's Discussion and Analysis

Third Quarter Report  
September 30, 2011





# **MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

For the Three and Nine Months Ended September 30, 2011

## **Contents**

<p><b>BUSINESS OVERVIEW</b> .....2</p> <p><b>BUSINESS STRATEGY</b> .....4</p> <p><b>2011 OUTLOOK AND SIGNIFICANT EVENTS</b> .....6</p> <p><b>HIGHLIGHTS OF CONSOLIDATED RESULTS OF OPERATIONS</b>.....8</p> <p><b>CONSOLIDATED RESULTS OF OPERATIONS</b> .....11</p> <p>Summary of Property Revenue.....11</p> <p>Summary of Direct Operating Expenses.....11</p> <p>General, Administrative and Trust Expenses...12</p> <p>Management Fee Revenue.....12</p> <p>Mezzanine Loans and Mezzanine Loan Interest Income .....13</p> <p>Finance Costs .....14</p> <p>Other Expenses /Income.....15</p> <p>Other Items.....16</p> <p>Non-IFRS Measures .....17</p> <p>Quarterly Financial Information .....19</p>	<p><b>SUMMARY OF RESULTS OF OPERATIONS BY DIVISION</b> ..... 20</p> <p>Canadian Retirement Operations ..... 20</p> <p>Canadian Long Term Care Operations ..... 21</p> <p>U.S. Operations ..... 23</p> <p><b>FINANCIAL POSITION</b> .....25</p> <p><b>LIQUIDITY AND CAPITAL COMMITMENTS</b> .26</p> <p>Liquidity.....26</p> <p>Debt Strategy .....26</p> <p>Capital Expenditures.....30</p> <p>Contractual Obligations and Guarantees .....30</p> <p>Cash Flow Analysis.....30</p> <p>Distributions .....31</p> <p><b>KEY PERFORMANCE INDICATORS</b>..... 32</p> <p><b>CRITICAL ACCOUNTING POLICIES AND ESTIMATES</b> ..... 34</p> <p><b>NEW ACCOUNTING STANDARDS</b> ..... 34</p> <p><b>CONTROLS AND PROCEDURES</b> ..... 36</p> <p><b>FORWARD-LOOKING INFORMATION AND RISKS AND UNCERTAINTIES</b> ..... 37</p>
---	---

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 nine months ended September 30, 2011. This MD&A should be read in conjunction with Chartwell’s unaudited, interim consolidated financial statements for the three and nine months ended September 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](http://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](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of November 9, 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 nine months ended September 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 Q3 2011 and 2011 YTD are in comparison to results from Q3 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 September 30, 2011, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 24,590 suites in 195 communities. At September 30, 2011, our portfolio of owned and leased communities consisted of interests in 23,106 suites in 184 communities.

The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at September 30, 2011:

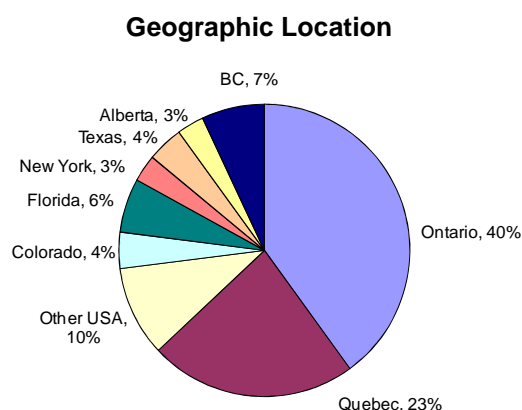
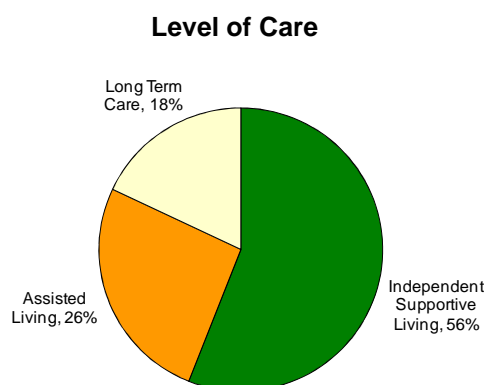
	Canadian Retirement Operations		Canadian Long Term Care Operations		United States Operations		Total	
	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds
<b>Owned Properties:</b> <sup>(1)</sup>								
100% Owned								
Operating	102	11,407	24	3,116	29	3,391	155	17,914
Development suites in lease-up	-	359	-	-	-	-	-	359
<b>Total 100% Owned</b>	<b>102</b>	<b>11,766</b>	<b>24</b>	<b>3,116</b>	<b>29</b>	<b>3,391</b>	<b>155</b>	<b>18,273</b>
Partially Owned <sup>(2)</sup>								
Operating	7	873	-	-	20	3,623	27	4,496
Development suites in lease-up	-	-	-	-	-	93	-	93
<b>Total Partially Owned</b>	<b>7</b>	<b>873</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>3,716</b>	<b>27</b>	<b>4,589</b>
<b>Total Owned</b>	<b>109</b>	<b>12,639</b>	<b>24</b>	<b>3,116</b>	<b>49</b>	<b>7,107</b>	<b>182</b>	<b>22,862</b>
<b>Properties under Operating Lease:</b>								
100% Interest	-	-	-	-	2	244	2	244
<b>Total Leased</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>244</b>	<b>2</b>	<b>244</b>
<b>Total Owned and Leased</b>	<b>109</b>	<b>12,639</b>	<b>24</b>	<b>3,116</b>	<b>51</b>	<b>7,351</b>	<b>184</b>	<b>23,106</b>
<b>Managed Properties</b> <sup>(3)</sup>	<b>6</b>	<b>716</b>	<b>5</b>	<b>768</b>			<b>11</b>	<b>1,484</b>
<b>Total</b>	<b>115</b>	<b>13,355</b>	<b>29</b>	<b>3,884</b>	<b>51</b>	<b>7,351</b>	<b>195</b>	<b>24,590</b>

(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 September 30, 2011 by:**



## Business Strategy

Our business strategy is principally focused on providing quality care and services to our residents, which we believe will help us to 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 to reduce financing risks.
- 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 Q3 2011:

<p><b>Enhance the quality of our cash flows and grow core property AFFO</b></p>	<ul style="list-style-type: none"> <li>• AFFO from core property operations (excluding contribution from mezzanine loans and fee revenue) was 95% of the total AFFO in 2011 YTD compared to 88% in 2010 and 79% in 2009.</li> <li>• Same property NOI improved by \$2.0 million or 4.9% in Q3 2011.</li> <li>• Same property occupancy improved to 90.4% with strong improvements in the U.S..</li> <li>• Expense control initiatives mitigate impact of the HST in Ontario and British Columbia.</li> </ul>
<p><b>Streamline operating processes; improve research and information management</b></p>	<ul style="list-style-type: none"> <li>• The second phase of the budgeting and forecasting system implementation was successfully completed in July 2011.</li> <li>• Operating process reviews completed in 2010 and 2011 resulted in measurable expense savings.</li> </ul>
<p><b>Build value through development program</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Redevelopment of three LTC communities in Ontario are in progress.</li> </ul>
<p><b>Reduce existing mezzanine loan exposure</b></p>	<ul style="list-style-type: none"> <li>• In 2011 YTD, reduced our mezzanine loan exposure by \$10.3 million as we collected \$8.2 million of mezzanine loans in cash and converted \$2.1 million of loans to equity in two properties.</li> </ul>
<p><b>Acquire newer, state-of-the-art properties</b></p>	<ul style="list-style-type: none"> <li>• Completed the previously announced acquisition of a 50% interest in 15 communities in the U.S. for U.S.\$169.0 million, bringing our ownership in such properties to 100%.</li> </ul>
<p><b>Maintain a strong financial position</b></p>	<ul style="list-style-type: none"> <li>• Interest Coverage Ratio improved to 1.96x in Q3 2011 from 1.78x in Q3 2010.</li> <li>• Indebtedness Ratio improved to 56.9% at September 30, 2011 compared to 57.5% at June 30, 2011.</li> </ul>

## 2011 Outlook and Significant Events <sup>♦</sup>

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 Seniors Holdings LP (“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
<i>Financed as follows:</i>	
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
<b>Total</b>	<b>21.8</b>

In July 2011, we sold 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 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 recorded a gain on sale of \$5.9 million.

On November 1, 2011, we completed the previously announced acquisition of a 50% interest in a 15-property portfolio (2,947 suites) in the U.S. from ING Real Estate Community Living Group (“ING”) which brought our ownership in these properties to 100%. The purchase price was U.S.\$169.0 million and was partially settled by the assumption of debt with an outstanding balance of U.S.\$135.8 million, 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, net of working capital adjustments, was settled in cash utilizing our Credit Facility. We continue to be joint venture partners with ING on a five-property portfolio located in New York State.

<sup>♦</sup> This section contains forward-looking information. Please see the “Forward-Looking Information and Risks and Uncertainties” section in this MD&A.



Our U.S. strategy is to consolidate our U.S. holdings in key States and to divest non-core properties over time. Disposition of these properties and regular mortgage principal repayments would reduce our proforma indebtedness ratio over time.

In Q3 2011, we transferred the management of 45 of our communities in the U.S. to Brookdale Senior Living Inc. ("Brookdale") as a result of Brookdale's acquisition of Horizon Bay Realty LLC ("HBR"). Under the new agreements, the average terms of the management contracts have been reduced to approximately 10 years, with a new maturity date of December 31, 2021. The base management fee for the properties under contract is 5% of gross revenues. The new contracts include an incentive fee mechanism whereby Brookdale can earn an additional fee of up to 2% of gross revenues upon the achievement of specified annual operating targets. Management fees may also be reduced by up to 1% if such annual operating targets are not achieved. Under the terms of the new contracts, cost savings in property direct operating expenses will replace cash flows we had been receiving from our ownership interests in Horizon Bay Chartwell ("HBC") and Horizon Bay Chartwell II ("HBCII"). Under IFRS, an intangible asset for this below-market management contract with a fair value of \$2.9 million due to cost savings, was recognized in exchange for the disposition of the ownership interest in HBC and HBCII. As a result, we have recorded a gain of \$1.8 million in our income statement during Q3 2011.

As part of the restructuring of the management agreements, we have granted Brookdale a limited time option to acquire a 20% interest in the U.S. real estate assets managed by Brookdale at fair market value, which would be determined based on fully-stabilized occupancy. In addition, we have granted Brookdale a right of first offer should we decide to sell our interest in the U.S. properties being managed by Brookdale.

Our industry demographic trends in the U.S. are positive and new construction starts are at an historically low level. We have seen improved occupancy trends in our U.S. properties during Q3 and our mid-term outlook for our U.S. portfolio is positive. We do, however, remain cautious in our short-term outlook.

In October 2011, we amended and restated the terms of our settlement agreement to allow Spectrum to sell certain of its assets to Renaissance Lifestyle Communities Inc. ("Renaissance") pursuant to its Initial Public Offering. Subsequently, we were notified that the previously announced sale of certain Spectrum assets to Renaissance is not proceeding at this time. We retain all of our rights under our agreements with Spectrum, including mezzanine loan agreements and the development agreement, as amended. We will continue to work with Spectrum to collect our accounts receivable and mezzanine loans and to manage certain of its operating properties.

## 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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Property revenue	186,509	184,566	1,943	552,360	520,107	32,253
Weighted average occupancy rate - same property portfolio	90.4%	90.1%	0.3pp	90.1%	89.9%	0.2pp <sup>(6)</sup>
Same property NOI <sup>(1)</sup>	42,877	40,886	1,991	125,770	123,899	1,871
AFFO <sup>(2)</sup>	22,368	20,287	2,081	64,494	61,291	3,203
AFFO per unit diluted <sup>(3)</sup>	0.15	0.16	(0.01)	0.44	0.47	(0.03)
FFO <sup>(4)</sup>	24,958	22,571	2,387	71,655	68,071	3,584
FFO per unit diluted <sup>(3)</sup>	0.17	0.17	-	0.49	0.52	(0.03)
Distributions declared	19,649	17,576	2,073	58,732	52,671	6,061
Distributions declared per unit <sup>(3)</sup>	0.14	0.14	-	0.27	0.27	-
Distributions declared as a percentage of AFFO	87.8%	86.6%	1.2pp	91.1%	85.9%	5.2pp
Net loss	(770)	(17,934)	17,164	(38,082)	(38,832)	750
Weighted average number of units outstanding, diluted <sup>(5)</sup> (000s)	146,137	130,666	15,471	145,571	130,532	15,039

(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 Q3 2011 was \$22.4 million, an increase of \$2.1 million compared to Q3 2010 AFFO of \$20.3 million. On a per unit basis, AFFO in Q3 2011 was \$0.15 per unit diluted compared to \$0.16 per unit diluted in Q3 2010. The following items contributed to the changes in AFFO:

- Incremental contribution from the property portfolio increased AFFO by \$1.4 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 \$0.3 million, primarily due to lower fees from Spectrum due to fewer assets under management.
- Lower mezzanine loan interest income reduced AFFO by \$1.1 million.
- Lower G&A expenses of \$1.6 million, offset by \$1.4 million of severance costs, increased AFFO by \$0.2 million.
- Per unit amounts were also affected by a 11.8% 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 \$64.5 million, an increase of \$3.2 million compared to 2010 YTD of \$61.3 million. 2011 YTD AFFO was \$0.44 per unit diluted compared to 2010 YTD AFFO of \$0.47 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 \$2.8 million.
- Lower interest expense, due to redemption of convertible debentures in Q4 2010, resulted in an increase in AFFO of \$5.6 million.
- Higher G&A expenses, primarily as a result of severance cost of \$1.4 million, reduced AFFO by \$0.8 million.
- Lower mezzanine loan interest income reduced AFFO by \$2.9 million.
- Lower management fee income reduced AFFO by \$1.5 million primarily due to lower asset management fees from ING, as a result of our acquisition of ING's interest in the Regency and Meridian portfolios in 2010 and lower fees from Spectrum due to fewer assets under management.
- Per unit amounts were also affected by an 11.5% increase in the weighted average number of units outstanding.

In Q3 2011, FFO was \$25.0 million or \$0.17 per unit diluted compared to Q3 2010 FFO of \$22.6 million or \$0.17 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 \$71.7 million or \$0.49 per unit diluted compared to 2010 YTD of \$68.1 million or \$0.52 per unit diluted.

Net loss in Q3 2011 and 2011 YTD was \$0.8 million and \$38.1 million, respectively, compared to a net loss in Q3 2010 and 2010 YTD of \$17.9 million and \$38.8 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 the LTIP option component liability.

## Same Property Portfolio Highlights

(\$000s, except occupancy rates)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Canadian retirement:						
NOI	28,806	28,214	592	84,830	83,460	1,370
Occupancy	88.9%	89.4%	(0.5pp)	88.9%	89.1%	(0.2pp)
Canadian LTC:						
NOI	3,106	2,955	151	9,022	8,785	237
Occupancy	98.5%	98.1%	0.4pp	98.3%	98.2%	0.1pp
U.S.:						
NOI (U.S.\$)	10,965	9,717	1,248	31,918	31,654	264
Occupancy	91.1%	88.9%	2.2pp	89.9%	88.6%	1.3pp
Combined:						
NOI <sup>(1)</sup>	42,877	40,886	1,991	125,770	123,899	1,871
Occupancy	90.4%	90.1%	0.3pp	90.1%	89.9%	0.2pp

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

Combined same property occupancy improved slightly to 90.4% with same property NOI improving \$2.0 million in Q3 2011 through positive contributions from all of our operating platforms.

For 2011 YTD, combined same property occupancy improved to 90.1% with same property NOI increasing \$1.9 million through positive contributions from all of our portfolios as follows:

- In our Canadian retirement portfolio, same property NOI increased 2.1% in Q3 2011 and 1.6% for 2011 YTD primarily as a result of regular annual rental rate increases, increased ancillary revenues and strong expense controls. Q3 2011 occupancy was 88.9% compared to 89.4% in Q3 2010. 2011 YTD occupancy was 88.9% compared to 89.1% in 2010 YTD.
- In our Canadian LTC portfolio, same property NOI increased 5.1% in Q3 2011 primarily due to higher government funding. Occupancies increased to 98.5% in Q3 2011 compared to 98.1% in Q3 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 2.7% primarily due to higher government funding and to savings in administrative costs. Occupancies improved slightly to 98.3% from 98.2% in 2010 YTD.
- In our U.S. portfolio, same property NOI increased 12.8% in Q3 2011 and 0.8% for 2011 YTD primarily due to higher revenues as a result of improved occupancies. Occupancies increased to 91.1% in Q3 2011 from 88.9% in Q3 2010 and to 89.9% for 2011 YTD from 88.6% for 2010 YTD.

# Consolidated Results of Operations

## Summary of Property Revenue

(\$000s, except occupancy rates)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Same property <sup>(1)</sup>	139,623	134,575	5,048	412,794	399,810	12,984
Acquisitions and other <sup>(1)</sup>	48,760	49,712	(952)	146,326	119,712	26,614
Eliminations	(950)	(1,503)	553	(3,673)	(4,049)	376
Foreign exchange on U.S. dollar revenue	(924)	1,782	(2,706)	(3,087)	4,634	(7,721)
<b>Total property revenue</b>	<b>186,509</b>	<b>184,566</b>	<b>1,943</b>	<b>552,360</b>	<b>520,107</b>	<b>32,253</b>
Weighted average occupancy rate - same property portfolio	90.4%	90.1%	0.3pp	90.1%	89.9%	0.2pp

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

Total property revenue grew 1.1% in Q3 2011 as increased revenue from our same property portfolio was partially offset by lower revenue from our acquisition portfolio and foreign exchange translation on U.S. dollar revenue. For 2011 YTD, total property revenue grew 6.2% as increased revenue from our same property and acquisitions portfolios was partially offset by lower foreign exchange translation on U.S. dollar revenue.

Same property revenue increased \$5.0 million or 3.8% in Q3 2011 and \$13.0 million or 3.2% 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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Same property <sup>(1)</sup>	96,745	93,689	3,056	287,025	275,914	11,111
Acquisitions and other <sup>(1)</sup>	36,475	36,625	(150)	109,227	87,701	21,526
Eliminations	(950)	(1,503)	553	(3,673)	(4,049)	376
Foreign exchange on U.S. dollar expenses	(618)	1,185	(1,803)	(2,058)	3,166	(5,224)
<b>Total direct operating expenses</b>	<b>131,652</b>	<b>129,996</b>	<b>1,656</b>	<b>390,521</b>	<b>362,732</b>	<b>27,789</b>

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

Total direct operating expenses increased 1.3% in Q3 2011 primarily due to modest growth in same property direct operating expenses, offset by foreign exchange translation. For 2011 YTD, total direct operating expenses increased 7.7% 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 \$3.1 million or 3.3% in Q3 2011 and \$11.1 million or 4.0% for 2011 YTD, primarily due to additional staffing costs required 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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
G&A expenses	4,621	6,247	(1,626)	17,163	17,791	(628)
Severance costs	1,397	-	1,397	1,397	-	1,397
Total G&A	6,018	6,247	(229)	18,560	17,791	769
As % of revenue (excluding severance costs)	2.5%	3.3%	(0.8pp)	3.1%	3.4%	(0.3pp)

In Q3 2011, G&A expenses, excluding severance costs, decreased \$1.6 million or 26%. In Q3 2010, we incurred approximately \$0.9 million consulting costs related to process improvement and SIFT reviews, IFRS implementation and compensation reviews. There were no similar expenses in Q3 2011. In addition, compensation costs were lower by approximately \$0.4 million in Q3 2011 compared to Q3 2010 due to staffing reductions as a result of process efficiency reviews and certain executive vacancies. The remaining decrease is primarily due to timing of certain corporate expenditures.

In Q3 2011, we incurred non-recurring severance costs of \$1.4 million related to the departure of two senior executives.

For 2011 YTD, G&A expenses, excluding severance costs, decreased \$0.6 million primarily due to lower consulting costs and professional fees as discussed above.

G&A expenses, as a percentage of revenue, excluding severance costs, decreased to 2.5% in Q3 2011 and decreased to 3.1% for 2011 YTD.

## Management Fee Revenue

(\$000s)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Spectrum:						
Operations management	64	288	(224)	463	949	(486)
Other	-	-	-	-	20	(20)
Total Spectrum	64	288	(224)	463	969	(506)
ING	69	15	54	211	875	(664)
Other	554	688	(134)	1,655	2,006	(351)
Total management fee revenue	687	991	(304)	2,329	3,850	(1,521)

Management fee revenue declined \$0.3 million in Q3 2011 and \$1.5 million for 2011 YTD. Fees from Spectrum declined \$0.2 million in Q3 2011 and \$0.5 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 \$0.7 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 nine 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)	(24.5)
Repayments of mezzanine loans in cash	(8.2)	(2.8)
Offset against impairment	(10.7)	-
Gross mezzanine loans outstanding (end of period)	23.2	62.5

In Q3 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.

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 September 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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Mezzanine loan interest before effective yield adjustments	97	1,098	(1,001)	1,153	3,451	(2,298)
Effective yield adjustments for:						
Placement fees integral to lending activities	-	135	(135)	-	635	(635)
Legal costs integral to lending activities	-	-	-	-	(52)	52
<b>Total mezzanine loan interest income</b>	<b>97</b>	<b>1,233</b>	<b>(1,136)</b>	<b>1,153</b>	<b>4,034</b>	<b>(2,881)</b>

Mezzanine loan interest income decreased \$1.1 million in Q3 2011 and \$2.9 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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Mortgages and loans payable						
Same property <sup>(1)</sup>	16,785	17,133	(348)	50,180	51,659	(1,479)
Acquisitions <sup>(1)</sup>	6,669	7,011	(342)	20,115	16,802	3,313
Foreign exchange on U.S. dollar expenses	(192)	426	(618)	(610)	1,048	(1,658)
	23,262	24,570	(1,308)	69,685	69,509	176
Convertible debentures	1,107	2,980	(1,873)	3,319	8,940	(5,621)
Credit Facility and other interest	184	-	184	1,102	-	1,102
	24,553	27,550	(2,997)	74,106	78,449	(4,343)
Amortization of financing costs and debt mark-to-market adjustments	728	852	(124)	2,317	2,369	(52)
	25,281	28,402	(3,121)	76,423	80,818	(4,395)
Interest Capitalized to properties under development	(394)	(166)	(228)	(967)	(320)	(647)
Distributions on Class B Units recorded as interest expense	226	252	(26)	681	758	(77)
<b>Total interest expense</b>	<b>25,113</b>	<b>28,488</b>	<b>(3,375)</b>	<b>76,137</b>	<b>81,256</b>	<b>(5,119)</b>
<i>Property lease expense</i>						
Contractual lease payments for the period	636	495	141	1,794	1,515	279
Foreign exchange on U.S. dollar expenses	(3)	14	(17)	(18)	43	(61)
<b>Total property lease expense</b>	<b>633</b>	<b>509</b>	<b>124</b>	<b>1,776</b>	<b>1,558</b>	<b>218</b>
<b>Total finance costs</b>	<b>25,746</b>	<b>28,997</b>	<b>(3,251)</b>	<b>77,913</b>	<b>82,814</b>	<b>(4,901)</b>

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

Interest expense in the same property portfolio decreased in Q3 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 \$3.3 million for 2011 YTD primarily due to mortgages assumed on acquisitions completed in 2010 and 2011 YTD.

Interest expense on convertible debentures decreased \$1.9 million in Q3 2011 and \$5.6 million for 2011 YTD as we redeemed \$125 million of convertible debentures in Q4 2010.



During the first nine months of 2011, we have used our Credit Facility at varying levels and as a result, in Q3 2011 and 2011 YTD, we incurred interest expense of \$0.2 million and \$1.1 million, respectively. There were no balances outstanding on our Credit Facility in the first nine months of 2010.

During Q3 2011 and 2011 YTD, we capitalized interest of \$0.4 million and \$1.0 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)	Q3 2011	Q3 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)
Bargain purchase on acquisition	-	2,647	(2,647)	-	3,397	(3,397)
Gain on disposal of properties	7,328	-	7,328	7,328	250	7,078
Interest income on loans and receivables	1,066	1,016	50	2,855	3,352	(497)
<b>Total other income</b>	<b>8,394</b>	<b>3,663</b>	<b>4,731</b>	<b>12,273</b>	<b>16,638</b>	<b>(4,365)</b>
Impairment on non-current assets	-	-	-	8,500	-	8,500
Transaction costs arising on business combinations	292	380	(88)	627	2,292	(1,665)
<b>Total other expenses</b>	<b>292</b>	<b>380</b>	<b>(88)</b>	<b>9,127</b>	<b>2,292</b>	<b>6,835</b>
<b>Total other income</b>	<b>8,102</b>	<b>3,283</b>	<b>4,819</b>	<b>3,146</b>	<b>14,346</b>	<b>(11,200)</b>

Under IFRS, when step acquisitions are completed and control is acquired, 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 2011 resulted in a gain of \$2.1 million.

In 2010, we purchased a 50% interest in the Regency and Meridian portfolios from ING to bring our ownership to 100%, which resulted in a gain on remeasurement of the previously held interest, of \$9.6 million. In addition, we recorded a bargain purchase on acquisition of \$3.4 million relating to other acquisitions completed in the first nine months of 2010.

The gain on disposal of properties for Q3 2011 resulted from a gain realized on the disposition of one retirement property in Quebec of \$5.9 million and the net gain arising from the disposal of ownership interest in HBC and HBCII, and the signing of new management contracts realized on the transition of the management of our U.S. properties to Brookdale of \$1.8 million (please refer to the "2011 Outlook and Significant Events" section of this MD&A). For 2010 YTD, 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 \$0.5 million for 2011 YTD primarily due to a one-time fee of \$0.3 million we received in Q1 2010 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. On November 1, 2011, we acquired 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, in Q2 2011, we recognized an impairment provision of \$8.5 million related to our original 50% interest in this portfolio.

Transaction costs incurred in Q3 2011 primarily relate to the purchase of ING's 50% interest in 15 U.S. properties, which was completed subsequent to September 30, 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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Depreciation on property, plant and equipment	39,028	39,315	(287)	120,054	115,877	4,177
Amortization of limited life intangible assets	322	1,052	(730)	1,313	1,841	(528)
Changes in fair value of financial instruments and unrealized foreign exchange loss/ (gain)	(8,753)	7,131	(15,884)	(6,144)	7,288	(13,432)
Current income tax expense/ (benefit)	80	84	(4)	251	246	5
Deferred income tax expense/ (benefit)	2,072	(4,815)	6,887	(5,398)	(7,420)	2,022

**Depreciation on Property, Plant and Equipment:** Depreciation increased due to acquisitions completed from April through December of 2010 and during the first nine months of 2011.

**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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Net income/(loss)	(770)	(17,934)	17,164	(38,082)	(38,832)	750
<i>Add (Subtract):</i>						
Depreciation of properties	39,028	39,315	(287)	120,054	115,877	4,177
Amortization of limited life intangible assets	322	1,052	(730)	1,313	1,841	(528)
Depreciation of leasehold improvements and software costs included in depreciation and amortization above	(131)	(163)	32	(478)	(447)	(31)
Loss/(gain) on disposal of property	(7,328)	-	(7,328)	(7,328)	(250)	(7,078)
Bargain purchase on acquisition	-	(2,647)	2,647	-	(3,397)	3,397
Impairment on non-current assets	-	-	-	8,500	-	8,500
Gain recorded on remeasurement of previously held equity interest on acquisition	-	-	-	(2,090)	(9,639)	7,549
Transaction costs arising on business acquisitions	292	380	(88)	627	2,292	(1,665)
Deferred income taxes	2,072	(4,815)	6,887	(5,398)	(7,420)	2,022
Changes in fair value of interest rate swap contract	111	38	73	(28)	89	(117)
Distributions on Class B Units recorded as interest expense	226	252	(26)	681	758	(77)
Changes in fair value of Class B Units	(1,430)	3,400	(4,830)	(1,060)	3,721	(4,781)
Changes in fair value of convertible debentures	(435)	1,374	(1,809)	(1,485)	1,249	(2,734)
Changes in fair value of LTIP option	(2,808)	348	(3,156)	(1,396)	1,052	(2,448)
Changes in fair value of Deferred Trust Units	(237)	-	(237)	151	-	151
Unrealized foreign exchange loss/(gain)	(3,954)	1,971	(5,925)	(2,326)	1,177	(3,503)
FFO <sup>(1)</sup>	24,958	22,571	2,387	71,655	68,071	3,584
FFO per unit diluted	0.17	0.17	-	0.49	0.52	(0.03)

(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 \$2.4 million in Q3 2011 primarily due to increased contributions from the property portfolio, lower G&A expenses 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.

## Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

(\$000s, except per unit amounts)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
FFO <sup>(1)</sup>	24,958	22,571	2,387	71,655	68,071	3,584
Add (Subtract):						
Principal portion of capital subsidy receivable from Health Authorities	783	911	(128)	2,634	2,155	479
Amounts received under income guarantees	-	-	-	-	133	(133)
Amortization of financing costs and fair value adjustments on mortgages payable	728	852	(124)	2,317	2,369	(52)
Financing cost reserve <sup>(2)</sup>	(371)	(356)	(15)	(1,065)	(1,035)	(30)
AFFO before capex reserve	26,098	23,978	2,120	75,541	71,693	3,848
Maintenance capex reserve - 2% of property revenue	(3,730)	(3,691)	(39)	(11,047)	(10,402)	(645)
AFFO <sup>(3)</sup>	22,368	20,287	2,081	64,494	61,291	3,203
AFFO per unit diluted	0.15	0.16	(0.01)	0.44	0.47	(0.03)

(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.

In Q3 2011 and 2011 YTD, AFFO was reduced by approximately \$0.1 million of marketing costs relating to two of our development projects. We expect to incur additional marketing costs prior to opening these projects, scheduled for Q1 2012. These marketing costs and lease-up losses are expensed as incurred under IFRS. Under CGAAP, these costs were eligible for capitalization to the projects under development. There were no similar expenses in the same periods of 2010.

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 Q3 2010 and 2010 YTD FFO and AFFO as previously reported under CGAAP to FFO and AFFO reported under IFRS.

(\$000s)	Q3 2010		2010 YTD	
	FFO	AFFO	FFO	AFFO
As previously reported under CGAAP	20,013	20,574	65,211	62,406
Amortization of financing costs and accretion adjustments on convertible debentures	1,210	-	3,546	-
Unrealized foreign exchange loss	1,971	-	1,177	-
Amortization of below-market leases	(184)	-	(552)	-
Capitalized interest and operating costs on development projects in lease-up	(247)	(247)	(1,066)	(1,066)
Other	(192)	(40)	(245)	(49)
Reported under IFRS	22,571	20,287	68,071	61,291

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 \$1.1 million due to the reversal of previously capitalized interest and operating costs.

## Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

(\$000s)	IFRS							CGAAP
	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	187,293	185,047	183,502	189,270	186,790	175,673	165,528	166,084
Direct operating expenses	(131,652)	(129,406)	(129,463)	(133,793)	(129,996)	(119,825)	(112,911)	(116,529)
General, administrative and trust expenses	(6,018)	(6,381)	(6,161)	(6,971)	(6,247)	(5,966)	(5,578)	(4,941)
Finance costs	49,623	49,260	47,878	48,506	50,547	49,882	47,039	44,614
Other income (expense)	(25,746)	(26,053)	(26,114)	(28,460)	(28,997)	(27,276)	(26,541)	(27,036)
Depreciation and amortization	8,102	(5,896)	940	(143)	3,283	9,683	1,380	-
Changes in fair value of financial instruments and unrealized foreign exchange gain/(loss)	(39,350)	(41,244)	(40,773)	(45,400)	(40,367)	(39,928)	(37,423)	(26,374)
Foreign exchange gain/(loss)	8,753	1,755	(4,364)	1,694	(7,131)	2,722	(2,879)	-
Non-controlling interest	-	-	-	-	-	-	-	(820)
Current income tax (expense)/recovery	-	-	-	-	-	-	-	68
Deferred income tax (expense)/recovery	(80)	(95)	(76)	(35)	(84)	(82)	(80)	(80)
Income/(loss) from continuing operations	(2,072)	3,425	4,045	(745)	4,815	2,878	(273)	2,578
Income/(loss) from discontinued operations	(770)	(18,848)	(18,464)	(24,583)	(17,934)	(2,121)	(18,777)	(7,050)
Net income/(loss) for the period	-	-	-	-	-	-	-	(186)
FFO	(770)	(18,848)	(18,464)	(24,583)	(17,934)	(2,121)	(18,777)	(7,236)
FFO per unit diluted	24,958	24,047	22,650	21,248	22,571	23,587	21,913	16,858
AFFO	0.17	0.17	0.16	0.15	0.17	0.18	0.17	0.14
AFFO per unit diluted	22,368	21,876	20,250	18,849	20,287	21,216	19,788	14,667
	0.15	0.15	0.14	0.13	0.16	0.16	0.15	0.13

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 Q3 2011 and 2011 YTD.

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

### Canadian Retirement Operations

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
<b>Same Property - Owned</b>					
100%	92	7,370	2,431	469	10,270
50%	3	376	-	-	376
Total same property owned	95	7,746	2,431	469	10,646
<b>Acquisitions &amp; Development</b>					
100% owned:					
Operating	10	924	25	188	1,137
Development suites in lease-up	-	202	157	-	359
Partially owned <sup>(1)</sup>	4	460	37	-	497
Total acquisitions & development	14	1,586	219	188	1,993
<b>Total</b>	<b>109</b>	<b>9,332</b>	<b>2,650</b>	<b>657</b>	<b>12,639</b>

(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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
<b>Revenue</b>						
Same property	77,886	75,548	2,338	230,829	224,075	6,754
Acquisitions and development	11,276	12,725	(1,449)	34,997	35,708	(711)
Total revenue	89,162	88,273	889	265,826	259,783	6,043
<b>Direct Operating Expenses</b>						
Same property	49,080	47,334	1,746	145,999	140,615	5,384
Acquisitions and development	7,410	8,476	(1,066)	23,546	24,814	(1,268)
Total direct operating expenses	56,490	55,810	680	169,545	165,429	4,116
<b>Net Operating Income</b>						
Same property	28,806	28,214	592	84,830	83,460	1,370
Acquisitions and development	3,866	4,249	(383)	11,451	10,894	557
Total net operating income	32,672	32,463	209	96,281	94,354	1,927
Same property statistics:						
Weighted average occupancy rate	88.9%	89.4%	(0.5pp)	88.9%	89.1%	(0.2pp)

Same property revenues increased 3.1% in Q3 2011 primarily due to regular annual rental rate increases and higher ancillary services revenue.

Same property direct operating expenses increased 3.7% in Q3 2011 primarily due to annual wage increases, higher employee benefits and utility costs.

Same property NOI increased \$0.6 million or 2.1% in Q3 2011. Same property NOI in our Ontario retirement properties decreased \$0.2 million or 1.0% in Q3 2011 primarily due to lower resident revenue as a result of decreased occupancy, offset by higher ancillary revenues and expense savings. Our Western Canadian platform same property NOI increased \$0.3 million or 5.6% in Q3 2011 primarily due to improved occupancies in our British Columbia markets. Our Quebec platform same property NOI increased \$0.4 million or 6.6% in Q3 2011 also due to continued occupancy improvements.

For 2011 YTD, same property NOI increased \$1.4 million or 1.6% 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:

	Q3 2011	Q3 2010	Increase / (Decrease)	Q2 2011	Increase / (Decrease)
Canadian retirement same property portfolio:					
Ontario retirement	89.6%	91.5%	(1.9pp)	89.7%	(0.1pp)
Western Canada	90.5%	88.7%	1.8pp	90.2%	0.3pp
Quebec	87.1%	86.7%	0.4pp	86.8%	0.3pp
Total	88.9%	89.4%	(0.5pp)	88.8%	(0.1pp)

Our Q3 2011 occupancy remained consistent with Q2 2011 occupancy. While occupancy continued to gradually improve in Quebec and in Western Canada, we experienced declines in certain competitive Ontario markets.

Subsequent to September 30, 2011, we have seen positive occupancy trends in our Canadian retirement communities and we expect that occupancies will improve in our Ontario and Western Canada markets in Q4 2011. We have also seen strong leasing activity in our Quebec portfolio, however as expected, one group of residents has vacated 41 units at one of our properties in November, which will affect our Quebec occupancy in Q4 2011.\*

## Canadian Long Term Care Operations

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same property - 100% owned	15	64	51	1,516	1,631
Acquisitions - 100% owned	8	-	-	1,385	1,385
Development - 100% owned <sup>(1)</sup>	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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
<b>Revenue</b>						
Same property	25,396	24,470	926	74,598	72,346	2,252
Acquisitions	25,082	24,057	1,025	73,284	53,023	20,261
Total revenue	50,478	48,527	1,951	147,882	125,369	22,513
<b>Direct Operating Expenses</b>						
Same property	22,290	21,515	775	65,576	63,561	2,015
Acquisitions	21,660	20,591	1,069	63,221	45,171	18,050
Total direct operating expenses	43,950	42,106	1,844	128,797	108,732	20,065
<b>Net Operating Income</b>						
Same property	3,106	2,955	151	9,022	8,785	237
Acquisitions	3,422	3,466	(44)	10,063	7,852	2,211
Total net operating income	6,528	6,421	107	19,085	16,637	2,448
Same property statistics:						
Weighted average occupancy rate	98.5%	98.1%	0.4pp	98.3%	98.2%	0.1pp

Same property revenues increased 3.8% in Q3 2011 primarily due to higher government funding provided for direct resident care and services which are mainly staffing related. Direct operating expenses increased 3.6% in Q3 2011 primarily due to additional staffing costs offset by lower utility costs. As a result, same property NOI increased \$0.2 million or 5.1% in Q3 2011.

For 2011 YTD, same property NOI increased \$0.2 million or 2.7% primarily due to higher funding and lower utility expenses, offset by increased staffing expenses.

Weighted average occupancies in the same property portfolio were at 98.5% in Q3 2011, an increase of 0.4 percentage points from Q3 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			Total
		ISL	AL	LTC	
<b>Same Property - Owned</b>					
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
<b>Properties under Operating Lease</b>					
100% Interest	2	61	183	-	244
Total same property owned and leased	44	2,675	3,413	-	6,088
<b>Acquisitions &amp; Development Suites in Lease-up</b>					
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)	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
<b>Revenue</b>						
Same property	36,346	34,556	1,790	107,368	103,389	3,979
Acquisitions, development and other <sup>(1)</sup>	12,397	12,930	(533)	38,044	30,982	7,062
Intercompany eliminations	(950)	(1,503)	553	(3,673)	(4,049)	376
Total revenue	47,793	45,983	1,810	141,739	130,322	11,417
<b>Direct Operating Expenses</b>						
Same property	25,381	24,839	542	75,450	71,735	3,715
Acquisitions, development and other <sup>(1)</sup>	7,398	7,551	(153)	22,459	17,846	4,613
Intercompany eliminations	(950)	(1,503)	553	(3,673)	(4,049)	376
Total direct operating expenses	31,829	30,887	942	94,236	85,532	8,704
<b>Net Operating Income</b>						
Same property	10,965	9,717	1,248	31,918	31,654	264
Acquisitions, development and other <sup>(1)</sup>	4,999	5,379	(380)	15,585	13,136	2,449
Total net operating income	15,964	15,096	868	47,503	44,790	2,713
Foreign exchange in CDN	(307)	590	(897)	(1,030)	1,594	(2,624)
Total net operating income in CDN	15,657	15,686	(29)	46,473	46,384	89
Same property statistics:						
Weighted average occupancy rate	91.1%	88.9%	2.2pp	89.9%	88.6%	1.3pp

(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 5.2% in Q3 2011 primarily due to improved occupancies, regular annual rental rate increases and an increased number of residents purchasing assisted living and care services.

Same property direct operating expenses increased U.S.\$0.5 million or 2.2% in Q3 2011 primarily due to higher operating costs in certain jurisdictions due to regulatory requirements, increased costs required to provide additional care and services to our residents offset by lower sales and marketing, utilities and administration costs.

As a result, same property NOI increased U.S.\$1.2 million or 12.8% in Q3 2011.

For 2011 YTD, same property NOI increased U.S.\$0.3 million or 0.8% due to improved occupancies offset by higher staffing costs as discussed above.

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:

	Q3 2011	Q3 2010	Increase / (Decrease)	2011 YTD	2010 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	0.98	1.04	(0.06)	0.98	1.04	(0.06)

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 September 30, 2011 compared to December 31, 2010:

	Increase / (Decrease) (\$millions)	Explanation
Property, plant and equipment	(84.9)	Property, plant and equipment decreased due to depreciation of \$120.1 million, dispositions of \$61.7 million and impairment of \$8.5 million. These decreases were offset by acquisitions of \$23.6 million, investments in development projects, building improvements and other capital expenditures of \$44.0 million and foreign exchange translation of \$37.8 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	1.6	Intangible assets increased due to additions of \$3.0 million and foreign exchange translation of \$0.4 million. This was offset by amortization of \$1.3 million and dispositions of \$0.5 million.
Capital funding receivable	(2.6)	During the first nine months of 2011, we received capital funding of \$5.2 million, of which \$2.6 million was recorded as interest income and \$2.6 million was recorded as a reduction of the receivable.
Total assets	(98.8)	The decrease in total assets is primarily due to decreases in properties and in mezzanine loans.
Mortgages payable	27.8	Mortgages payable increased as a result of new mortgage financings of \$60.3 million, assumed mortgages on acquired properties of \$13.4 million and foreign exchange translation of \$32.8 million. This was offset by regular amortizing principal repayments of \$30.9 million, mortgages discharged on disposal of properties of \$47.0 million and net financing costs of \$0.8 million.
Total liabilities	(19.8)	The decrease in total liabilities is primarily due to decreases in deferred tax liabilities and the Credit Facility, offset by an increase in mortgages payable.
Unitholders' equity	(79.0)	The decrease in Unitholders' equity is primarily due to cash distributions and the allocation of net loss to the Trust's Unitholders.

### Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 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")	1,500,979				1,500,979
Trust Units issued under LTIP		166,983			166,983
Trust Units transferred to Treasury		(107,328)			(107,328)
DTUs issued				96,328	96,328
DTU distributions				12,532	12,532
Exchange of Class B Units	33,127		(33,127)		-
Balance September 30, 2011	142,132,238	2,304,513	1,681,525	317,694	146,435,970

## 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 September 30, 2011 we had cash on hand in the amount of \$13.9 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 September 30, 2011, the maximum available borrowing capacity under the Credit Facility was \$68.9 million, of which \$2.6 million was utilized to support outstanding letters of credit and \$10.0 million was drawn, leaving available borrowing capacity at \$56.3 million.

Subsequent to September 30, 2011, we added additional properties to the Credit Facility's general asset pool which increased the maximum available borrowing capacity to \$81.1 million.

### ***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 approximately 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.

At September 30, 2011, our Indebtedness Ratio was 54.6% and 56.9% 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 September 30, 2011 and December 31, 2010:

(\$000s)	September 30, 2011	December 31, 2010
Mortgages payable (contractual amount)	1,764,556	1,736,057
Credit Facility	10,000	51,000
Convertible debentures (face value)	75,000	75,000
<b>Total Indebtedness</b>	<b>1,849,556</b>	<b>1,862,057</b>
Total assets	2,580,294	2,679,096
Accumulated depreciation and amortization	294,304	166,917
Cumulative transaction costs on business combinations	3,922	3,295
Change in GBV on transition to IFRS <sup>(1)</sup>	379,670	388,047
GBV of assets	3,258,190	3,237,355
Less: Assets financed by deferred purchase consideration on acquisition properties	7,762	7,512
<b>GBV of assets (net of deferred consideration)</b>	<b>3,250,428</b>	<b>3,229,843</b>
Indebtedness Ratio before convertible debentures	54.6%	55.3%
Indebtedness Ratio including convertible debentures	56.9%	57.7%

(1) Adjusted in Q3 2011 to reflect the disposition of one property in Quebec.

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)	Q3 2011	Q3 2010	2011 YTD	2010 YTD
Interest expense including capitalized interest	25,281	28,402	76,423	80,818
Property lease expense	633	509	1,776	1,558
	<b>25,914</b>	<b>28,911</b>	<b>78,199</b>	<b>82,376</b>
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") <sup>(1)</sup>	50,689	51,563	149,616	150,820
Interest Coverage Ratio	1.96x	1.78x	1.91x	1.83x
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)	Q3 2011	Q3 2010	2011 YTD	2010 YTD
Net loss for the period	(770)	(17,934)	(38,082)	(38,832)
<i>Add / (subtract):</i>				
Deferred income tax	2,072	(4,815)	(5,398)	(7,420)
Current income tax	80	84	251	246
Finance costs	25,746	28,997	77,913	82,814
Other expense/(income)	(8,102)	(3,283)	(3,146)	(14,346)
Interest income included in other expense/(income)	1,066	1,016	2,855	3,352
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	(8,753)	7,131	(6,144)	7,288
Amortization of intangible assets	322	1,052	1,313	1,841
Depreciation of property, plant and equipment	39,028	39,315	120,054	115,877
Adjusted EBITDA	50,689	51,563	149,616	150,820

## Mortgage Debt

At September 30, 2011, we had \$1,764.6 million of mortgages payable of which \$1,122.1 million related to our Canadian properties and \$642.5 million (U.S.\$612.9 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 September 30, 2011.

(\$000s)	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Remainder of 2011	9,420	38,990	48,410	3%	4.08%
2012	38,329	145,892	184,221	11%	4.94%
2013	38,252	131,684	169,936	10%	5.04%
2014	34,046	132,203	166,249	10%	4.36%
2015	31,509	200,174	231,683	15%	5.08%
2016	28,128	166,023	194,151	12%	6.10%
2017	21,141	247,896	269,037	19%	5.70%
2018	22,223	32,625	54,848	2%	5.55%
2019	21,075	100,285	121,360	7%	6.18%
2020	20,946	34,734	55,680	3%	4.54%
2021	19,307	39,091	58,398	3%	4.70%
2022	18,077	9,161	27,238	1%	5.60%
2023	16,185	13,648	29,833	1%	6.01%
2024	11,450	17,394	28,844	1%	7.13%
Thereafter	103,182	21,486	124,668	2%	4.97%
Total	433,270	1,331,286	1,764,556	100%	
Mark-to-market adjustments arising on assumption			11,559		
Less: Financing costs			(18,206)		
Total Mortgage Debt			1,757,909		

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

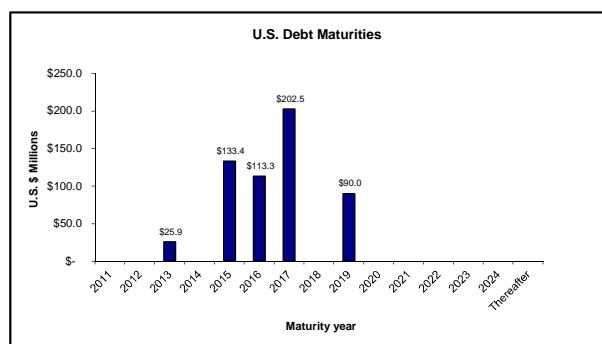
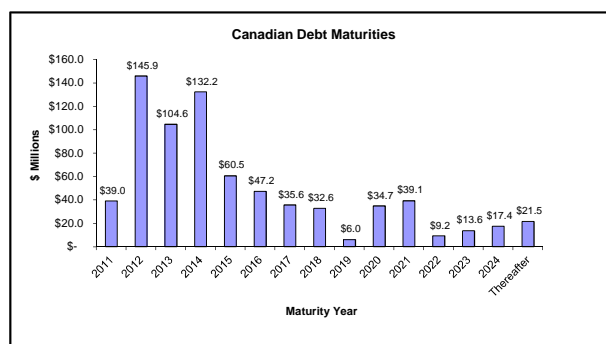
	At September 30, 2011			At December 31, 2010	
	Canadian Debt		U.S. Debt	Combined	Combined
	Fixed Rate	Variable Rate	Fixed Rate		
Amount (\$millions)	1,033.8	88.3	642.5	1,764.6	1,736.1
Weighted average rate	5.23%	4.37%	5.88%	5.42%	5.44%
Average term to maturity (years)	8.7	1.3	5.1	7.1	7.5

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 September 30, 2011, approximately 62% 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.\$25.9 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.\*

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



## Convertible Debentures

At September 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 now be called by us at par at any time until maturity.

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

## 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 Q3 2011 and 2011 YTD:

(\$000s)	Q3 2011	2011 YTD
Development	7,663	20,441
Acquisition	6,549	6,549
Revenue enhancing and repositioning	804	2,714
Maintenance	5,189	12,516
Total	20,205	42,220

## 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 nine 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 Q3 2011 and Q3 2010:

Cash Provided by (Used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	(11.1)	Cash flows from operating activities decreased primarily due to negative changes in non-cash working capital items and lower fee and interest income.
Financing activities	(9.5)	Cash flows from financing activities decreased primarily due to repayments of the Credit Facility, offset by new mortgage financing.
Investing activities	14.3	Cash flows from investing activities increased primarily due to a reduction in acquisition activity and proceeds from the disposal of properties, 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 Q3 2011 and 2011 YTD, our average DRIP participation was 17.3% and 19.8%, respectively compared to 6.7% participation in 2010 and 7.5% in 2009.

The following table summarizes distributions made in Q3 2011, 2011 YTD, 2010 and 2009:

(\$000s)	Q3 2011	2011 YTD	2010	2009
Distributions declared on Trust Units	19,423	58,051	71,144	67,711
Distributions on Class B Units	226	681	989	1,395
Distributions reinvested under DRIP	(3,832)	(11,657)	(4,795)	(5,074)
Distributions applied against LTIP receivable	(311)	(924)	(1,235)	(1,771)
Distributions paid or payable in cash	15,506	46,151	66,103	62,261

The following table summarizes cash distributions made in Q3 2011, 2011 YTD, 2010 and 2009 in relation to net loss and cash flows from operating activities:

(\$000s)	Q3 2011	2011 YTD	2010	2009 <sup>(2)</sup>
Cash flows from operating activities	25,930	73,422	96,437	64,810
Net loss	(770)	(38,082)	(63,419)	(72,692)
Distributions paid or payable in cash <sup>(1)</sup>	15,506	46,151	66,103	62,261
Excess of cash flows from operating activities over cash distributions paid	10,424	27,271	30,334	2,549
(Shortfall) of net loss over cash distributions paid	(16,276)	(84,233)	(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 decreased cash flows from operating activities by \$0.2 million in Q3 2011 by \$0.9 million in 2011 YTD.

Our distributions exceeded net loss in Q3 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 and fluctuations in fair values of certain liabilities in establishing our distribution levels as we believe that the value of our real estate investments generally does not diminish over time 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.\*

\* 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, is fundamentally beneficial to the users of the financial information, improving their understanding of our operating results. We generally consider FFO to be a meaningful measure for reviewing our operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), 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 September 30, 2011:

	Properties	Suites/Beds
Canadian Retirement Operations	95	10,646
Canadian Long Term Care Operations	15	1,631
U.S. Operations (owned and leased)	44	6,088
Total Same Property Portfolio	154	18,365

## **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 September 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 September 30, 2011 that have significantly affected, or are reasonably likely to significantly affect the Trust’s internal control over financial reporting except as discussed below.

On September 1, 2011, Brookdale assumed management of 45 of our U.S. properties. Brookdale acquired HBR, which had previously been managing these properties. We are in the process of understanding the conversion and monitoring controls of the new service provider.

# 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.