

Management's Discussion and Analysis

Q1

First Quarter Report
March 31, 2010





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

For the Three Months Ended March 31, 2010

Contents

| | | | |
|---|----|--|----|
| BUSINESS OVERVIEW | 2 | Canadian Long-Term Care Operations | 22 |
| BUSINESS STRATEGY AND 2010 OUTLOOK | 4 | U.S. Operations | 23 |
| SIGNIFICANT EVENTS | 8 | Canadian Management Operations | 24 |
| HIGHLIGHTS OF CONSOLIDATED RESULTS OF OPERATIONS | 10 | FINANCIAL POSITION | 25 |
| CONSOLIDATED RESULTS OF OPERATIONS | 12 | LIQUIDITY AND CAPITAL COMMITMENTS | 27 |
| Summary of Revenue | 12 | Liquidity | 27 |
| Summary of Direct Operating Expenses | 13 | Debt Leverage | 28 |
| General, Administrative and Trust Expenses | 14 | Capital Expenditures | 29 |
| Interest and Property Lease Expense..... | 14 | Contractual Obligations and Guarantees.... | 29 |
| Mezzanine Loans, Mezzanine Loan Interest Income and Impairment of Mezzanine Loans | 15 | Cash Flow Analysis | 29 |
| Other Items | 16 | Distributions..... | 29 |
| Non-GAAP Measures | 18 | KEY PERFORMANCE INDICATORS | 31 |
| Quarterly Financial Information..... | 20 | CHANGES TO SIGNIFICANT ACCOUNTING POLICIES | 31 |
| SUMMARY OF RESULTS OF OPERATIONS BY DIVISION | 21 | CRITICAL ACCOUNTING ESTIMATES | 37 |
| Canadian Retirement Operations | 21 | CONTROLS AND PROCEDURES | 37 |
| | | FORWARD-LOOKING INFORMATION AND RISKS AND UNCERTAINTIES | 38 |

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 months ended March 31, 2010. This MD&A should be read in conjunction with Chartwell’s consolidated financial statements for the three months ended March 31, 2010 and the notes thereto (the “Financial Statements”), audited financial statements for the year ended December 31, 2009 and the notes thereto (the “2009 Financial Statements”) and annual Management’s Discussion and Analysis for the year ended December 31, 2009 (the “2009 MD&A”). This material is available on Chartwell’s website at www.chartwellreit.ca. Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of May 12, 2010.

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; “2010” refers to the calendar year 2010; “2009” refers to the calendar year 2009 and “YTD” means year to date.

Unless otherwise indicated, all comparisons of results for Q1 2010 are in comparison to results from Q1 2009.

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 measures are not defined by Canadian generally accepted accounting principles (“CGAAP”) and may not be comparable to similar measures presented by other income trusts or other companies. Please refer to the “Key Performance Indicators” section of the 2009 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 spectrum of care from independent supportive living (“ISL”) communities, through assisted living (“AL”) communities, to long-term care (“LTC”) communities, 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

As of March 31, 2010, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 28,423 suites in 218 communities which are operating, under construction or in various stages of development. As of March 31, 2010, our portfolio of owned and leased communities consisted of interests in 23,771 suites in 184 communities.

The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our four operating segments at March 31, 2010:

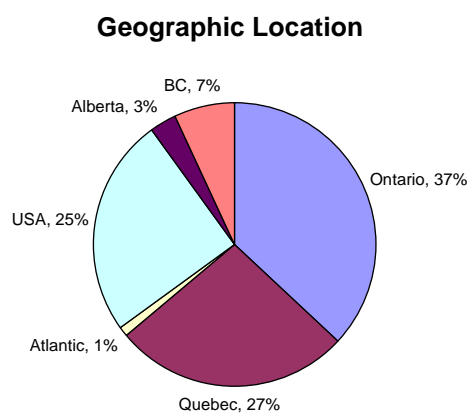
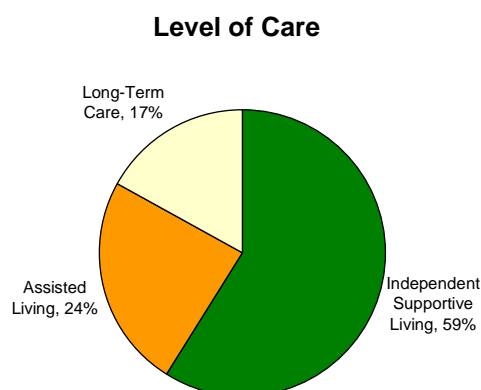
| | Canadian Retirement Operations | | Canadian Long-Term Care Operations | | United States Operations | | Canadian Management Operations | | Total | |
|--|--------------------------------|-------------|------------------------------------|-------------|--------------------------|-------------|--------------------------------|-------------|-------------|-------------|
| | Communities | Suites/Beds | Communities | Suites/Beds | Communities | Suites/Beds | Communities | Suites/Beds | Communities | Suites/Beds |
| Owned Properties: ⁽¹⁾ | | | | | | | | | | |
| 100% Owned | | | | | | | | | | |
| Operating | 103 | 12,177 | 16 | 1,779 | 23 | 2,311 | - | - | 142 | 16,267 |
| Internal Growth | - | 419 | - | - | - | - | - | - | - | 419 |
| Total 100% Owned | 103 | 12,596 | 16 | 1,779 | 23 | 2,311 | - | - | 142 | 16,686 |
| 50% Owned | | | | | | | | | | |
| Operating | 6 | 703 | 8 | 1,385 | 26 | 4,760 | - | - | 40 | 6,848 |
| Total 50% Owned | 6 | 703 | 8 | 1,385 | 26 | 4,760 | - | - | 40 | 6,848 |
| Total Owned | 109 | 13,299 | 24 | 3,164 | 49 | 7,071 | - | - | 182 | 23,534 |
| Properties under Operating Lease: | | | | | | | | | | |
| 100% Interest | - | - | - | - | 2 | 237 | - | - | 2 | 237 |
| Total Leased | - | - | - | - | 2 | 237 | - | - | 2 | 237 |
| Total Owned and Leased | 109 | 13,299 | 24 | 3,164 | 51 | 7,308 | - | - | 184 | 23,771 |
| Other: | | | | | | | | | | |
| Managed Properties | | | | | | | 27 ⁽³⁾ | 3,316 | 27 | 3,316 |
| Mezzanine Loans ⁽²⁾ | - | - | - | - | - | - | 7 | 1,336 | 7 | 1,336 |
| Total Other | - | - | - | - | - | - | 34 | 4,652 | 34 | 4,652 |
| Total | 109 | 13,299 | 24 | 3,164 | 51 | 7,308 | 34 | 4,652 | 218 | 28,423 |

(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 provided and internal management responsibility.

(2) Includes communities on which we have mezzanine loans outstanding and retain purchase options.

(3) We hold purchase options on 9 of these communities.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Interest, at March 31, 2010 by:



Business Strategy and 2010 Outlook *

Our business strategy remains principally focused on providing quality care and services to our residents, which will allow us to grow AFFO from our owned and managed seniors housing properties. The following summarizes our strategic objectives:

- Grow property AFFO from our existing properties:
 - Achieve rental rate increases for 2010 of 2.0% to 4.5% while maintaining and improving on our high levels of service to and satisfaction of our residents.
 - Implement new initiatives to increase occupancy including new payment options in many Canadian jurisdictions to increase the percentage of seniors living in seniors housing properties (“penetration rate”) and leveraging our new Canadian and U.S. websites to drive increased traffic to our properties.
 - Continue our initiatives to capture economies of scale and operational efficiencies.
 - Manage our portfolio of assets, including conducting asset management reviews of each property on a prioritized basis to identify its highest and best use.
- Pursue initiatives to reduce our exposure to third-party developers, including acquiring properties in satisfaction of outstanding mezzanine loans.
- Evaluate opportunities for on balance sheet development where we can achieve significant long-term value.
- Prudently expand our portfolio with an emphasis on newer properties, primarily in geographic regions where we are already operating, that meet our strict acquisition criteria, including AFFO accretion.
- Evaluate portfolio management opportunities with institutional partners.

Property Operations

Our focus on resident contact, quality of service and innovative marketing strategies allows us to maintain higher than industry average occupancies in most of our markets. We also continue our focus on controlling labour and supply costs. The following summarizes our outlook for 2010 for the markets in which we operate:

Canadian Operations

We expect to see a continued recovery in our Canadian Retirement Operations in 2010 and anticipate generating moderate growth through rate and occupancy increases supported by improving market conditions. In addition, this spring, we implemented a new sales approach throughout our Canadian Retirement Operations which has resulted in increased sales activity including an increased number of deposits on hand. The following summarizes our expectations:

- In Ontario, we anticipate average rental rates will continue to increase by 3.25% to 3.5% in 2010. Occupancies softened slightly in Q1 2010 though less than in the same period of last year. In addition, our metrics to track future arrivals are more favourable than we experienced at this time last year. We expect that these improvements, combined with the substantial waiting list for Ontario LTC accommodation that is currently in excess of 25,000 people and which creates a spillover effect to help support occupancies in retirement properties, should result in continued steady improvements in occupancies through 2010.
- In Alberta, we anticipate average rental rates will continue to increase by 3.25% to 3.5% in 2010 and occupancy levels are projected to continue to remain high.

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

- In British Columbia, we expect to continue to achieve average rental rate increases of 3.25% to 3.5% in 2010. Occupancies have been affected by oversupply conditions in two regional markets which, combined with reduced occupancies in one LTC property, have resulted in lower occupancy levels than our past performance. Our occupancy statistics have shown slightly positive future arrivals for some time, however, this is just beginning to turn into improved occupancies as future arrivals had not been fully offsetting departures. We anticipate that with the absorption of new supply and improved economic conditions, we will begin to see growth in occupancies in mid-2010.
- As a result of obtaining full control of our properties in Quebec, and the initiatives to reposition and renew many of these properties, we realized improved occupancy in our Quebec platform through 2009 and we anticipate this growth will continue steadily in 2010. We expect to achieve an average rental rate increase of 2.0% in 2010.

We continue to closely manage expenses in our Canadian Retirement Operations to ensure that we are mitigating the potential effects of the uncertain economic environment on NOI.

Our Canadian Long-Term Care Operations have achieved same property NOI growth of 5.0% this year which is primarily attributed to a funding increase received in April of 2009. The government of Ontario recently committed to renew this funding as part of ongoing base funding. We do not anticipate significant further increases in base funding in 2010 as the provincial government deficit is expected to constrain revenue growth.

In Ontario and British Columbia, operations are expected to be affected by the harmonization of provincial sales taxes with the federal Goods and Services Tax (“GST”) on July 1, 2010. Harmonization with the GST will result in Ontario and British Columbia increasing the tax burden in the seniors housing sector by broadening the scope of their current sales taxes to include items such as utilities and contracted services, including maintenance contracts. We are expecting that in the case of our Long-Term Care Operations, provincial governments will not adversely affect the health services provided to seniors with this additional new tax and the Province of British Columbia recently announced that long term care operators will be eligible for relief. We continue to advocate for similar relief in Ontario. In respect of our Retirement Operations in Ontario and British Columbia, we anticipate that most markets will bear rental rate increases to absorb the new costs beginning in 2011. The additional cost to the REIT of the harmonization of provincial sales tax and GST in 2010 is estimated to be approximately \$1.2 million.

U.S. Operations

Occupancies in our U.S. Operations experienced some improvement in the latter half of 2009 and we were cautiously optimistic that this would continue into 2010. However, we have seen softening in occupancies in Q1 2010 relative to Q4 2009 and continue to monitor trends very closely. Reduced occupancy has been largely offset by lower salary costs to date in 2010. We anticipate that average rental rates will increase by 3.5% to 4.5% in 2010.

Management of General, Administrative and Trust Expenses

In 2009, we diligently managed our general, administrative and trust (“G&A”) expenses, delayed or cancelled certain corporate activities and actively reduced costs to the extent possible while ensuring that support to our field operations teams remained strong. We will continue to contain G&A expenses in 2010 to priority initiatives that drive increased property revenues and/or operational and administrative efficiencies.

Canadian Management Operations

We continue to provide operations management services to a number of owners of seniors housing communities in Canada, and asset management services to ING Real Estate Investment Management Australia PTY Limited and its affiliates (“ING”). While we ensure that our existing clients receive the highest quality service, we generally do not seek to grow the number of “one off” management contracts. We would, however, consider portfolio management opportunities with institutional partners in the future.

As of March 31, 2010, we managed six communities owned by partnerships controlled by an institutional investor (“Seasons”). In Q1 2010, Seasons repaid mezzanine loans on two of these properties and notified us that they would be internalizing management of these two properties effective June 30, 2010.

With our reduced emphasis on development management activities and the wind-down of our relationship with Spectrum Seniors Holdings LP (“Spectrum”), we expect development and operations management fee income to continue to decline in 2010.

Mezzanine Loan Interest Income

We continue working with the borrowers in order to collect amounts due from them. It is possible that we may acquire or receive in payment, a limited number of their properties, with their remaining properties being refinanced or sold to third parties. As a result, we expect mezzanine loan interest income to continue to decline in 2010.

Development

In March 2010 we opened a 71-suite addition to our existing 72-suite retirement residence in Vernon, British Columbia with total project costs of \$10.9 million. We continue to evaluate other opportunities for on balance sheet greenfield and internal growth development on a limited scale. Later in 2010 we anticipate commencement of development of two retirement residences adjacent to our existing LTC properties in Kitchener and Oshawa, Ontario. These developments will add 214 retirement suites at a total development cost of approximately \$47.8 million. In addition, we anticipate redeveloping, subject to successful negotiations with the funding authority, one LTC community in British Columbia.

The redevelopment of 35,000 LTC beds in Class B and C homes is required by the government of Ontario over the next 10 years and capital funding is provided for this renewal initiative. We have 12 Class B and C LTC properties in Ontario with a total of 1,166 beds that will be able to access this redevelopment program. In 2010, we anticipate that we will develop our overall plan for these properties as well as starting the physical redevelopment of three of these properties.

Acquisitions

We expect to complete the previously announced acquisitions of ING’s 50% interest in the Meridian and Regency portfolios in Q2 2010 as discussed under the “Significant Events” section of this MD&A. We will continue working with Spectrum, Melior and their joint venture partners to collect the remaining outstanding mezzanine loans or, where appropriate, convert them into equity in the properties. We also remain open to opportunities to acquire newer properties on an accretive basis in geographic regions where we are already operating.

Liquidity and Debt Profile

Late in 2009, we successfully raised \$166.8 million by issuing 27.4 million Trust Units through two public offerings through a syndicate of investment dealers. The net proceeds from the offerings will be used to complete the acquisition of the remaining 50% interest in the Meridian and Regency properties from ING and its affiliates (see “Transactions with ING” section in this MD&A), and to take advantage of certain restructuring opportunities relating to our mezzanine financing investments with Spectrum, Melior and others, with the remaining proceeds expected to be used for general Trust purposes. Initially, we have deployed the net proceeds to repay amounts outstanding under our secured revolving operating facility (“Credit Facility”) and have repaid certain mortgages, with the balance invested in short-term interest-bearing deposits. At March 31, 2010 we had cash on hand in the amount of \$66.6 million and available borrowing capacity of \$58.4 million under our Credit Facility.

Our strategy in managing our mortgage profile is to spread our maturities over time so that no more than 10% of the total debt comes due in any given year. In 2009, due to the challenging credit market conditions, we did not have sufficient access to competitively-priced, longer-term debt and therefore, completed most of our financings on a 5-year basis. This results in a slightly higher weighting in our 2014 maturities. We expect, subject to availability of competitively priced debt, to refinance our 2010 maturing mortgages with longer-term fixed-rate debt.

In Canada we have access to low-cost mortgage financing insured by the Canada Mortgage and Housing Corporation (“CMHC”) and most of our 2009 financings were completed on a CMHC-insured basis. At March 31, 2010, approximately 69% of our total Canadian mortgage debt was CMHC-insured.

In the U.S. we have no debt maturities until 2013.

Taxation

We currently qualify as a mutual fund trust for Canadian income tax purposes, and under legislation that became law on June 22, 2007 (the “SIFT Rules”), we became a specified investment flow-through trust (a “SIFT”).

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. In both 2009 and 2008, 100% of our distributions were characterized as tax-deferred returns of capital. We believe that it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Trust Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

Summary

Our properties are generating stable operating income and cash flows and our emphasis on growth in AFFO from our property portfolio will continue. We believe that the outcome of the current economic climate will be positive in the mid-term for our sector as significant reductions in new seniors housing starts due to tight credit markets will reduce future supply from previously anticipated levels. Demographic trends in most markets we operate, should result in increasingly strong demand in the coming years which, combined with lower new supply expectations, will result in favourable market dynamics. As a result, significant opportunities may become available for prudent industry participants.

Significant Events

Significant events that have effected or may be expected to affect our results in the future are described in our 2009 MD&A. The following section contains updates to these significant events as of the date of this MD&A.

Acquisitions

In line with our strategy to acquire newer properties in geographic regions where we are already operating, in Q1 2010 we acquired, through foreclosure proceedings, two operating properties and one parcel of vacant land from Melior and one operating property from Melior and Spectrum in Quebec. As a result, mezzanine loans with the carrying amount of \$12.8 million were settled. The original amount of these loans was \$22.6 million which was reduced by fees recorded as a reduction of mezzanine loan balances of \$1.0 million and previously recorded impairment provisions of \$8.8 million. In addition, as part of the settlement agreement with Melior, we acquired one parcel of vacant land in Quebec, adjacent to our existing community for \$1.75 million.

The following tables summarize acquisitions completed in Q1 2010 and in 2009:

| (\$millions, except communities and suites) | Q1 2010 | 2009 |
|---|---------|------------------|
| Number of communities | 3 | 6 ⁽¹⁾ |
| Number of suites | 598 | 619 |
| Purchase price (including closing costs) | 82.8 | 83.1 |
| Financed as follows: | | |
| Mortgage debt assumed | 67.7 | 60.1 |
| Discharge of mezzanine loans receivable | 12.8 | 9.3 |
| Settlement of receivables with Spectrum | - | 10.5 |
| Cash | 1.8 | 1.3 |
| Acquisition costs | 0.5 | 1.9 |
| Total | 82.8 | 83.1 |

(1) We acquired a 50% interest in four of these communities.

| # | Community | Location | Type | Effective Date of Acquisition | Beds/Suites |
|---------------------------|---|---------------------|------------|-------------------------------|-------------|
| 2010 Acquisitions: | | | | | |
| 1. | Les Seigneuries du Carrefour | Sherbrooke, QC | Retirement | March 9, 2010 | 275 |
| 2. | Les Appartements du Château de Bordeaux | Sillery, QC | Retirement | March 9, 2010 | 150 |
| 3. | Cite-jardin IV | Gatineau, QC | Retirement | March 9, 2010 | 173 |
| Total 2010 Acquisitions | | | | | 598 |
| 2009 Acquisitions: | | | | | |
| 1. | Chatsworth Suites and Bungalows ⁽¹⁾ | Kelowna, BC | Retirement | February 1, 2009 | 103 |
| 2. | Churchill House Retirement Community ⁽¹⁾ | North Vancouver, BC | Retirement | February 1, 2009 | 97 |
| 3. | Riverside Retirement Residence ⁽¹⁾ | London, ON | Retirement | March 1, 2009 | 138 |
| 4. | Pickering City Centre ⁽¹⁾ | Pickering, ON | Retirement | March 1, 2009 | 117 |
| 5. | Chartwell Select Thunder Bay | Thunder Bay, ON | Retirement | October 1, 2009 | 109 |
| 6. | Carrington Suites | Mission, BC | Retirement | December 1, 2009 | 55 |
| Total 2009 Acquisitions | | | | | 619 |

(1) We acquired a 50% interest in these communities.

Transactions with Spectrum

During Q2 2009, Stephen A. Suske, who held a significant interest in Spectrum, left his position as Chief Executive Officer and Vice-Chair of Chartwell. In addition, during Q2 2009, Brent Binions, President and Chief Executive Officer of Chartwell made arrangements with respect to his holdings in Spectrum such that the Trustees of Chartwell are satisfied that no conflict exists between him and Chartwell. At December 31, 2009, Richard Noonan, Chief Operating Officer of Chartwell, owned a minority interest (less than 2%) in Spectrum and as a result is not engaged in any negotiations between Chartwell and Spectrum.

Subsequent to March 31, 2010 we agreed to extend the term of our settlement agreement with Spectrum from the original date of August 16, 2010 to December 31, 2010 to allow Spectrum more time to complete its orderly wind down. We also agreed to acquire Spectrum's 50% interest in Valley Vista Retirement Residence located in Vaughan, Ontario. Valley Vista is a 139-suite residence opened in April 2009 and is currently 37% occupied. The purchase price for Spectrum's 50% interest will be \$17.4 million and will be partially settled by the assumption of the existing mortgage with the committed amount of \$15.4 million of which \$15.1 million is currently outstanding. The existing mortgage is a demand loan due on December 31, 2012 which bears interest at prime plus 1.50%, subject to the minimum rate of 4%. The remaining portion of the purchase price will be paid in cash, subject to working capital adjustments and settlement of certain amounts owing to us.

Transactions with ING

In Q4 2009, we agreed to acquire ING's 50% ownership interests in eight LTC properties in Ontario (the "Regency Care Portfolio") and six retirement properties in the U.S. (the "Meridian Portfolio") that we do not already own.

The Regency Care Portfolio is comprised of eight LTC communities consisting of 1,385 Class A beds situated in southern Ontario originally acquired in a joint venture with ING in July 2007. The purchase price for ING's 50% interest in the Regency Care Portfolio is \$79.5 million (before closing costs), less outstanding mortgages in respect of the properties of approximately \$68.9 million bearing interest at a weighted average interest rate of 7.41% and a weighted average term to maturity of 17.9 years, resulting, subject to working capital adjustments, in a cash payment to ING of approximately \$10.6 million.

The Meridian Portfolio consists of six retirement communities totalling 1,057 suites within five properties in the Denver, Colorado area and one property in Temple, Texas. The Meridian Portfolio was acquired in a joint venture with ING in August 2005. Our U.S. joint venture property management company, Horizon Bay Chartwell ("HBC"), will continue managing these properties. The purchase price for ING's 50% interest in the Meridian Portfolio is U.S.\$110.5 million (before closing costs), less outstanding mortgages in respect of the properties of approximately U.S.\$75.2 million bearing interest at 5.41% and maturing in September 2015, resulting, subject to working capital adjustments, in a cash payment to ING of approximately U.S.\$35.3 million.

The closing costs are estimated at \$4.0 million and the closing of these transactions is expected to occur in the spring of 2010, subject to receipt of the regulatory and lenders' approval.*

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

Development Activities

We are continuously seeking ways to improve our properties and add new resident services and amenities. Under our internal growth program, we evaluate various strategies for revenue and expense optimization, including the addition of new suites to existing communities.

Completed Internal Growth Projects

The following table summarizes completed internal growth projects in 2009 and 2010:

| Project | Location | Suites | Total Cost (\$millions) | Debt (\$millions) | Construction Completion | Leased Suites at March 31, 2010 |
|-------------------------------|--------------|------------|----------------------------|----------------------|----------------------------|---------------------------------------|
| 2010 | | | | | | |
| Carrington House | Vernon, BC | 71 | 10.9 | 9.2 | Q1 2010 | 0 |
| Total 2010 | | 71 | 10.9 | 9.2 | | 0 |
| 2009 | | | | | | |
| Gayton Terrace ⁽¹⁾ | Richmond, VA | 98 | U.S.\$21.3 | U.S.\$17.7 | Q2 2009 | 37 |
| Quail Creek Retirement Centre | Renfrew, ON | 34 | 6.3 | 5.5 | Q3 2009 | 26 |
| Total 2009 | | 132 | | | | 63 |
| Total | | 203 | | | | 63 |

⁽¹⁾ We own a 50% interest in this community.

Highlights of Consolidated Results of Operations

Same Property Portfolio Highlights ⁽¹⁾

Same property NOI increased by \$2.0 million or 4.6% for Q1 2010 compared to Q1 2009 as follows:

- In our Canadian retirement portfolio, same property NOI increased in Q1 2010 compared to Q1 2009 by \$2.1 million or 8.3% primarily as a result of regular annual rental rate increases and savings in utility costs and other operating expenses.
- In our Canadian LTC portfolio, same property NOI increased \$0.2 million or 5.0% in Q1 2010 compared to Q1 2009, primarily due to increased government funding which commenced in April 2009.
- In our U.S. portfolio, same property NOI decreased by U.S.\$0.3 million or 2.1% in Q1 2010 compared to Q1 2009. Reduced occupancy was partially offset by regular annual rental rate increases, targeted cost reduction initiatives, and tight management of expenses.

Same property occupancy continued to be relatively strong at 90.7% in Q1 2010. However, this represents a 0.5 percentage point decrease from 91.2% in Q4 2009 and a 0.7 percentage point decrease from 91.4% in Q1 2009.

Acquisition and Internal Growth Portfolio Highlights

For Q1 2010, acquisitions and internal growth contributed \$3.9 million of NOI, or an additional \$1.7 million compared to Q1 2009, excluding the impact of foreign exchange.

⁽¹⁾ Note: statistics in this section exclude the effects of foreign exchange translation and results from discontinued operations.

General, Administrative and Trust Expenses

G&A expenses, excluding severance and other costs, increased by 1.4% to \$4.6 million in Q1 2010 compared to Q1 2009. As a percentage of revenue, G&A expenses, excluding severance and other costs, were at 2.7% for Q1 2010 compared to 2.6% in Q1 2009.

Per Unit Analysis

AFFO for Q1 2010 was \$20.2 million, or \$0.16 per unit diluted, a reduction of \$0.05 per unit compared to Q1 2009 AFFO of \$21.9 million or \$0.21 per unit diluted. Excluding the realized foreign exchange gain of \$4.9 million or \$0.05 per unit diluted recorded in Q1 2009, our AFFO per unit diluted was flat in Q1 2010 as compared to Q1 2009. Incremental contribution from the property portfolio and lower G&A expenses, was offset by lower mezzanine loan interest income, lower fee income and dilution from the issuance of Trust Units in Q4 2009 as follows:

- Incremental contribution from the property portfolio, primarily due to acquisitions completed subsequent to January 1, 2009, and same property NOI growth, increased AFFO by \$2.9 million or \$0.03 per unit diluted.
- Lower G&A expenses, primarily due to lower severance costs, increased AFFO by \$1.3 million or \$0.01 per unit diluted.
- Lower mezzanine loan interest reduced AFFO by \$1.1 million or \$0.01 per unit diluted.
- Lower management fee income reduced AFFO by \$0.6 million.
- Dilution attributed to the issuance of Trust Units reduced AFFO by \$0.04 per unit diluted as the proceeds from the issuance of Trust Units in Q4 2009 were not fully deployed as of March 31, 2010.

FFO for Q1 2010 was \$19.5 million, an increase of \$0.2 million compared to Q1 2009. On a per unit basis, FFO for Q1 2010 was \$0.15 per unit diluted, a decrease of \$0.04 per unit diluted compared to Q1 2009 primarily due to the increased number of units outstanding as a result of equity raises completed in Q4 2009.

Net loss decreased \$0.08 per unit diluted to \$0.06 per unit diluted for Q1 2010 primarily due to lower amortization of limited life intangible assets and increased property NOI which were partially offset by realized foreign exchange losses.

The following table presents a summary of selected financial and operating performance measures:

| (\$000s, except per unit amounts and occupancy rates) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|---|-------------|-------------|------------------------|
| Property revenue ⁽¹⁾ | 162,583 | 165,454 | (2,871) |
| Total revenues ⁽¹⁾ | 167,092 | 171,286 | (4,194) |
| Net loss | (8,009) | (13,945) | 5,936 |
| Net loss per unit (basic and diluted) | (0.06) | (0.14) | 0.08 |
| Distributions declared | 17,537 | 18,621 | (1,084) |
| Distributions declared per unit | 0.14 | 0.19 | (0.05) |
| FFO ⁽²⁾ | 19,486 | 19,309 | 177 |
| FFO per unit diluted ⁽³⁾ | 0.15 | 0.19 | (0.04) |
| AFFO ⁽⁴⁾ | 20,236 | 21,908 | (1,672) |
| AFFO per unit diluted ⁽³⁾ | 0.16 | 0.21 | (0.05) |
| Weighted average occupancy rate - same property portfolio | 90.7% | 91.4% | (0.7pp) ⁽⁵⁾ |
| Weighted average number of units including Class B Units of Chartwell Master Care LP ⁽³⁾ : | | | |
| Basic | 128,035,280 | 99,436,296 | 28,598,984 |
| Diluted (includes LTIP) | 130,374,173 | 102,053,286 | 28,320,887 |

(1) Excludes the effects of discontinued operations.

(2) Refer to the "Non-GAAP Measures - Funds from Operations" section of this MD&A for the reconciliation of FFO to Net Loss.

(3) Refer to the "Key Performance Indicators – Per Unit Amounts" section of the 2009 MD&A for a discussion of the calculation of the per unit amounts.

(4) Refer to the "Non-GAAP Measures - Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.

(5) Percentage points.

Consolidated Results of Operations

Summary of Property Revenue

| (\$000s, except occupancy rates) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|---|---------|---------|-----------------------|
| Same property ⁽¹⁾ | 150,439 | 148,410 | 2,029 |
| Acquisitions and other ⁽¹⁾ | 12,167 | 8,813 | 3,354 |
| Eliminations | (1,643) | (1,747) | 104 |
| Foreign exchange on U.S. dollar revenue | 1,620 | 9,978 | (8,358) |
| Total property revenue ⁽²⁾ | 162,583 | 165,454 | (2,871) |
| Weighted average occupancy rate - same property portfolio | 90.7% | 91.4% | (0.7pp) |

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

(2) Excludes discontinued operations.

Total property revenue decreased by 1.7% in Q1 2010 compared to Q1 2009 as increased revenue from same property and acquisitions and other portfolios were offset by lower foreign exchange translation on U.S. dollar revenues.

Same property revenue increased by approximately \$2.0 million or 1.4% in Q1 2010 compared to Q1 2009 despite lower occupancies. We continue to drive revenue growth as follows:

- Yield management programs in the Canadian retirement portfolio to increase market-based rates on suite turnover. However, the positive impact of these programs has been offset by increasing move-in incentives. Move-in incentives typically reduce the average rental rate in the first year to which the incentives applied.
- Regular annual rental rate increases that are competitive to local market conditions.
- The addition of new services for residents at some of our communities.

Weighted average occupancy rates in the same property portfolio were 90.7% in Q1 2010, a decrease of 0.7 percentage points from 91.4% in Q1 2009 and a 0.5 percentage point decrease from 91.2% in Q4 2009. The following factors have contributed to the decrease:

- U.S. same property average occupancy in Q1 2010 was 89.2% or 2.0 percentage points lower than 91.2% in Q1 2009 and 0.8 percentage points lower than 90.0% in Q4 2009.
- Our British Columbia properties experienced softer occupancies in Q1 2010 than Q1 2009, with average occupancies in our Western Canada platform 3.5 percentage points lower, or 89.9% in Q1 2010 compared to 93.4% in Q1 2009 and 0.9 percentage points lower than 90.8% in Q4 2009.
- Occupancies softened in Q1 2010 in our Ontario retirement properties, with average occupancy 92.5% compared to 93.7% in Q1 2009 and 92.9% in Q4 2009.

These reductions were partially offset by strengthening occupancies in our Quebec platform with occupancy in the same property platform rising to 86.6% or 1.8 percentage points higher than Q1 2009. However, same property occupancy in Quebec was lower than 86.9% in Q4 2009.

Summary of Direct Operating Expenses

| (\$000s) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|---|---------|---------|-----------------------|
| Same property ⁽¹⁾ | 105,149 | 105,100 | 49 |
| Acquisitions and other ⁽¹⁾ | 8,305 | 6,650 | 1,655 |
| Eliminations | (1,643) | (1,747) | 104 |
| Foreign exchange on U.S. dollar expenses | 1,035 | 6,363 | (5,328) |
| Total direct operating expenses – properties | 112,846 | 116,366 | (3,520) |
| Direct operating expenses – management operations | 1,008 | 1,025 | (17) |
| Total direct operating expenses ⁽²⁾ | 113,854 | 117,391 | (3,537) |

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

(2) Excludes discontinued operations.

Total direct operating expenses decreased by 3.0% in Q1 2010 compared to Q1 2009 primarily due to decreased foreign exchange translation of U.S. dollar direct operating expenses.

Same property direct operating expenses remained essentially flat for Q1 2010 compared to Q1 2009.

General, Administrative and Trust Expenses

| (\$000s, except percentage of revenue) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|--|--------------|--------------|-----------------------|
| G&A expenses | 4,554 | 4,489 | 65 |
| Severance and other costs | - | 1,331 | (1,331) |
| Total G&A | 4,554 | 5,820 | (1,266) |
| As % of revenue: | | | |
| Excluding severance and other costs | 2.7% | 2.6% | 0.1pp |

In Q1 2010, G&A expenses before severance and other costs remained relatively flat at \$4.6 million or 2.7% of revenue compared to Q1 2009.

Severance and other costs decreased \$1.3 million in Q1 2010 as compared to Q1 2009.

Interest and Property Lease Expense

| (\$000s) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|--|---------------|---------------|-----------------------|
| Mortgages and loans payable | | | |
| Same property | 20,124 | 20,656 | (532) |
| Acquisitions | 1,306 | 698 | 608 |
| Foreign exchange on U.S. dollar expenses | 361 | 2,406 | (2,045) |
| | 21,791 | 23,760 | (1,969) |
| Convertible debentures | 2,979 | 2,979 | - |
| Credit Facility and other | - | 56 | (56) |
| Interest capitalized to properties under development | (254) | (322) | 68 |
| | 24,516 | 26,473 | (1,957) |
| Accretion adjustment to convertible debenture liability | 797 | 731 | 66 |
| Amortization of debt mark-to-market adjustments arising on acquisition | (383) | (247) | (136) |
| Amortization of financing costs | 1,576 | 1,327 | 249 |
| Total Interest Expense | 26,506 | 28,284 | (1,778) |
| Property Lease Expense | | | |
| Contractual lease payments for the period ⁽¹⁾ | 579 | 708 | (129) |

(1) Excludes discontinued operations.

In Q1 2010, interest expense on mortgages and loans payable decreased by \$2.0 million primarily due to a reduction in foreign exchange translation on U.S. dollar expenses. Interest expense on the same property portfolio decreased by \$0.5 million in Q1 2010 compared to Q1 2009 due to lower interest rates achieved on mortgage renewals as well as paydown of certain mortgages completed in 2009 and in Q1 2010.

During Q1 2010, we capitalized interest of \$0.3 million which relates to our net investment in internal growth projects.

Contractual property lease expense decreased by \$0.1 million for Q1 2010 compared to Q1 2009 primarily due to foreign exchange translation.

Mezzanine Loans, Mezzanine Loan Interest Income and Impairment Provision

The following table summarizes the changes in our investments in mezzanine loans for Q1 2010 and Q1 2009:

| (\$millions) | Q1 2010 | Q1 2009 |
|--|---------|---------|
| Gross mezzanine loans outstanding (beginning of period) | 89.8 | 108.1 |
| Discharge of mezzanine loans on our acquisition of the related properties and land | (22.6) | (5.7) |
| Other repayments of mezzanine loans in cash | (2.4) | - |
| Gross mezzanine loans outstanding (end of period) | 64.8 | 102.4 |

In Q1 2010, we updated our assessment of the underlying value of the security for each mezzanine loan as well as the value of the corporate guarantee securing mezzanine loans where applicable. As discussed in the “Critical Accounting Estimates” section of this MD&A, the process of determining fair value is subjective and requires us to exercise judgement in making valuation assumptions including revenue and expense projections, capitalization and discount rates. Based on our updated assessment, we believe no changes are required to the cumulative impairment provisions at this time.

The following table summarizes changes in the impairment provision in Q1 2010:

| (\$millions) | Mezzanine Loans | Accounts Receivable | Total |
|-------------------------------|-----------------|---------------------|-------|
| Balance December 31, 2009 | 30.5 | 6.2 | 36.7 |
| Settlement of mezzanine loans | (8.8) | - | (8.8) |
| Balance March 31, 2010 | 21.7 | 6.2 | 27.9 |

In Q1 2009, we settled mezzanine loans on four projects against which an impairment provision of \$8.8 million had been previously recorded. (Please refer to “Significant Events – Acquisitions” section of this MD&A).

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

| (\$millions) | 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 | 13 | 25.3 | (0.2) | - | 25.1 |
| Melior, Spectrum and Partners | 7 | 27.9 | (2.1) | (21.7) | 4.1 |
| Seasons and Partners | 4 | 11.6 | (0.4) | - | 11.2 |
| Total gross mezzanine loans outstanding | 24 | 64.8 | (2.7) | (21.7) | 40.4 |

The following table summarizes interest income on our mezzanine loans recorded in Q1 2010 and Q1 2009:

| (\$000s) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|--|---------|---------|-----------------------|
| Mezzanine loan interest before effective yield adjustments | 1,229 | 2,437 | (1,208) |
| Effective yield adjustments for: | | | |
| Placement fees integral to lending activities | 322 | 305 | 17 |
| Legal costs integral to lending activities | (52) | (171) | 119 |
| Total mezzanine loan interest income | 1,499 | 2,571 | (1,072) |

Mezzanine loan interest decreased by \$1.1 million for Q1 2010 compared to Q1 2009 due to lower balances of loans outstanding and due to the fact that interest revenue from Spectrum and Melior is only recognized when payments have been received. For all other projects, 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 targeted stabilization dates of the underlying development projects 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.

Other Items

| (\$000s) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|--|----------|----------|-----------------------|
| Bank interest and other income | 1,380 | 812 | 568 |
| Below-market lease amortization revenue | 184 | 361 | (177) |
| Realized foreign exchange gains and (losses) | (8) | 4,987 | (4,995) |
| Unrealized gains and (losses) on derivative financial instruments and unrealized foreign exchange gains and (losses) | (1,887) | (2,971) | 1,084 |
| Depreciation of properties | (18,771) | (19,097) | 326 |
| Amortization of limited life intangible assets | (5,985) | (11,701) | 5,716 |
| Results from discontinued operations | - | (2,896) | 2,896 |
| Current income tax (expense) recovery | (80) | 168 | (248) |
| Future income tax (expense) recovery | (2,996) | (1,752) | (1,244) |
| Non-controlling interest | 119 | 234 | (115) |
| Net loss | (8,009) | (13,945) | 5,936 |

Bank Interest and Other Income: Bank interest and other income was higher in Q1 2010 compared to Q1 2009 primarily due to a one-time fee of \$0.3 million received in Q1 2010 from a third party, as we agreed to waive our option to acquire a long-term care property adjacent to our retirement residence in Western Canada.

Realized Gains (Losses): We recorded a net realized foreign exchange gain of \$4.9 million in Q1 2009 primarily related to the settlement of a foreign exchange SWAP contract.

Unrealized Gains (Losses): The unrealized foreign exchange loss primarily related to the intercompany cross-border U.S. dollar-denominated loans receivable and payable that we used to finance our operations in a tax efficient manner. At March 31, 2010, we had net loans outstanding of approximately U.S.\$37.5 million from our U.S. subsidiaries. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange gains and losses are required to be recorded in income under CGAAP.

Depreciation and Amortization: The decrease in depreciation of properties is primarily due to lower foreign exchange translation of our U.S. operations. Amortization of limited life intangible assets decreased in Q1 2010 compared to Q1 2009 as approximately \$56.1 million of intangible assets were fully amortized in 2009, with a further \$3.5 million of intangible assets being fully amortized in Q1 2010.

Current and Future Income Tax (Expense) Recovery: The provision for future income tax expense relates to the temporary differences between the carrying amounts and the tax bases of assets and liabilities, including those that are expected to reverse on or after March 31, 2010. These temporary differences are tax effected using the estimated, substantively-enacted SIFT tax rate at the time that these differences are expected to reverse.

Net Loss: Net loss after discontinued operations decreased to \$0.06 per unit diluted for Q1 2010, a decrease of \$0.08 per unit diluted compared to Q1 2009. Increased NOI, reduced interest expense and reduced amortization of limited life intangible assets in Q1 2010 were partially offset by lower realized foreign exchange gains.

Non-GAAP Measures

FFO and AFFO do not have a standardized meaning under CGAAP.

Refer to the “Key Performance Indicators” section of our 2009 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 loss to FFO:

| (\$000s, except per unit amounts) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|---|---------------|---------------|--------------------------|
| Net loss | (8,009) | (13,945) | 5,936 |
| <i>Add (Subtract):</i> | | | |
| Depreciation of properties ⁽¹⁾ | 18,771 | 19,720 | (949) |
| Amortization of limited life intangible assets ⁽¹⁾ | 5,985 | 12,194 | (6,209) |
| Depreciation of leasehold improvements included in depreciation of properties | (138) | (117) | (21) |
| Future income tax expense/ (recovery) | 2,996 | 1,752 | 1,244 |
| Non-controlling interest | (119) | (295) | 176 |
| FFO ⁽²⁾ | 19,486 | 19,309 | 177 |
| | | | |
| FFO per unit | | | |
| Basic | 0.15 | 0.19 | (0.04) |
| Diluted | 0.15 | 0.19 | (0.04) |

(1) Includes depreciation and amortization that has been reclassified as discontinued operations in Q1 2009.

(2) Refer to the “Key Performance Indicators – Funds from Operations” section of the 2009 MD&A for a discussion of the nature of various adjustments made in FFO calculations.

For Q1 2010, FFO increased by \$0.2 million compared to Q1 2009. On a per unit basis, FFO decreased by \$0.04 per unit diluted for Q1 2010 compared to Q1 2009. Excluding realized and unrealized foreign exchange gains and losses in Q1 2010, FFO was \$21.4 million, or \$0.16 per unit diluted compared to \$17.3 million or \$0.17 per unit diluted, as increased contribution from our property portfolio and lower G&A expenses were offset by lower mezzanine loan interest income and management fees, as well as the dilution from the issuance of Trust Units in Q4 2009.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

| (\$000s, except per unit amounts) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|---|---------|---------|--------------------------|
| FFO ⁽¹⁾ | 19,486 | 19,309 | 177 |
| <i>Add (Subtract):</i> | | | |
| Adjustment to record lease expense on a straight-line basis over the lease term | - | 1,767 | (1,767) |
| Unrealized foreign exchange and derivative (gains)/losses | 1,887 | 2,971 | (1,084) |
| Amortization of below-market leases | (184) | (437) | 253 |
| Principal portion of capital subsidy receivable from Health Authorities | 562 | 532 | 30 |
| Amounts received under income guarantees | 69 | 118 | (49) |
| Amortization of financing costs | 1,576 | 1,327 | 249 |
| Accretion adjustment to convertible debenture liability | 797 | 731 | 66 |
| Amortization of debt mark-to-market adjustments arising on acquisition | (382) | (247) | (135) |
| Deferred financing fee reserve ⁽²⁾ | (323) | (299) | (24) |
| AFFO before capex reserve | 23,488 | 25,772 | (2,284) |
| Maintenance capex reserve - 2% of property revenue | (3,252) | (3,864) | 612 |
| AFFO ⁽³⁾ | 20,236 | 21,908 | (1,672) |
| AFFO per unit | | | |
| Basic | 0.16 | 0.22 | (0.06) |
| Diluted | 0.16 | 0.21 | (0.05) |

(1) Refer to the "Key Performance Indicators – Funds from Operations" section of the 2009 MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(2) Deferred financing fee 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 the 2009 MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.

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

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

| (\$000s, except per unit amounts) | 2010 | | 2009 | | | | 2008 As recast ⁽¹⁾ | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|----------------------------------|-----------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenues ⁽²⁾ | 167,092 | 167,788 | 165,837 | 168,620 | 171,286 | 169,440 | 156,524 | 152,605 |
| Direct operating expenses ⁽²⁾ | (113,854) | (117,583) | (112,739) | (114,177) | (117,391) | (117,145) | (103,549) | (102,401) |
| General, administrative and trust expenses | (4,554) | (4,941) | (4,425) | (5,822) | (5,820) | (5,302) | (4,098) | (5,302) |
| Interest expense ⁽²⁾ | 48,684 | 45,264 | 48,673 | 48,621 | 48,075 | 46,993 | 48,877 | 44,902 |
| Property lease expenses ⁽²⁾ | (26,506) | (26,790) | (27,173) | (27,217) | (28,284) | (27,309) | (25,287) | (25,841) |
| Foreign exchange gains/(losses) | (579) | (599) | (588) | (703) | (708) | (655) | (590) | (591) |
| Depreciation and amortization ⁽²⁾ | (1,895) | (820) | (3,848) | (4,309) | 2,016 | 12,534 | 3,358 | (559) |
| Provision for impairment of goodwill | (24,756) | (26,859) | (27,032) | (29,012) | (30,798) | (30,645) | (28,690) | (29,431) |
| Provision for impairment of mezzanine loans and accounts receivable | - | - | - | - | - | (73,323) | - | - |
| (Loss)/Gain on sale of assets | - | - | - | (30,684) | - | (6,406) | - | - |
| Non-controlling interest ⁽²⁾ | - | - | - | - | - | 64 | 126 | (102) |
| Current income tax (expense) recovery ⁽²⁾ | 119 | 70 | 140 | 801 | 234 | 2,308 | 259 | 660 |
| Future income tax (expense) recovery | (80) | (80) | (91) | (82) | 168 | 496 | (629) | 133 |
| (Loss) from discontinued operations ⁽²⁾ | (2,996) | 2,578 | 4,234 | 4,693 | (1,752) | 2,116 | (1,500) | - |
| | - | - | (3,265) | (3,222) | (2,896) | (3,257) | (1,875) | (2,043) |
| Net loss for the period | (8,009) | (7,236) | (8,950) | (41,114) | (13,945) | (77,084) | (5,951) | (12,872) |
| Net loss per unit diluted | (0.06) | (0.06) | (0.09) | (0.41) | (0.14) | (0.81) | (0.06) | (0.14) |
| FFO | 19,486 | 16,858 | 14,552 | (16,690) | 19,309 | 23,249 | 24,451 | 16,524 |
| FFO per unit diluted | 0.15 | 0.14 | 0.14 | (0.16) | 0.19 | 0.23 | 0.24 | 0.16 |

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of the 2009 MD&A and note 2 of the 2009 Financial Statements for a discussion of the details of the correction.

(2) We disposed of our interest in HBR effective October 1, 2009. The disposition is considered discontinued operations. Accordingly, the results attributed to the discontinued operations are disclosed separately.

Our results for the past eight quarters have been affected by the contribution of acquisitions, changes in foreign exchange rates resulting in realized and unrealized gains and losses, 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, as well as management fees and the issuance of Trust Units.

In Q4 2008 we recorded a provision for impairment of goodwill of \$64.5 million and subsequently recast this figure to \$73.3 million as described in the "Correction of Immaterial Prior-Period Error" section of our 2009 MD&A. In Q4 2008 and in Q2 2009, we recorded provisions for impairment of mezzanine loans and accounts receivable of \$6.4 million and \$30.7 million, respectively.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for Q1 2010 compared to Q1 2009.

Canadian Retirement Operations

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

| | Properties | Composition of Suites | | | Total |
|---|------------|-----------------------|--------------|--------------|---------------|
| | | ISL | AL | LTC | |
| Same Property | | | | | |
| 100% Owned | 92 | 7,950 | 2,265 | 671 | 10,886 |
| 50% Owned | 2 | 248 | - | - | 248 |
| Total Same Property | 94 | 8,198 | 2,265 | 671 | 11,134 |
| Acquisitions & Internal Growth | | | | | |
| 100% Owned: | | | | | |
| Operating | 11 | 958 | 5 | 328 | 1,291 |
| Internal growth | - | 264 | - | 155 | 419 |
| 50% Owned | 4 | 418 | 37 | - | 455 |
| Total Acquisitions & Internal Growth | 15 | 1,640 | 42 | 483 | 2,165 |
| Total | 109 | 9,838 | 2,307 | 1,154 | 13,299 |

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

| (\$000s, excluding occupancy rates) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|-------------------------------------|---------|---------|-----------------------|
| Revenues | | | |
| Same property | 74,430 | 72,890 | 1,540 |
| Acquisitions and internal growth | 9,862 | 6,594 | 3,268 |
| Total Revenue | 84,292 | 79,484 | 4,808 |
| Direct Operating Expenses | | | |
| Same property | 47,256 | 47,788 | (532) |
| Acquisitions and internal growth | 6,750 | 5,087 | 1,663 |
| Total Direct Operating Expenses | 54,006 | 52,875 | 1,131 |
| Net Operating Income | | | |
| Same property | 27,174 | 25,102 | 2,072 |
| Acquisitions and internal growth | 3,112 | 1,507 | 1,605 |
| Total Net Operating Income | 30,286 | 26,609 | 3,677 |
| Same property statistics: | | | |
| Weighted average occupancy rate | 89.7% | 90.0% | (0.3pp) |

Same property revenues increased by 2.1% in Q1 2010 as regular rental rate increases, which ranged between 2.0% and 3.5%, have offset a 0.3 percentage point decline in same property occupancy compared to Q1 2009. Same property average occupancy remained strong at 89.7% for Q1 2010.

Same property direct operating expenses decreased by 1.1% in Q1 2010 compared to Q1 2009 primarily due to savings in utility costs and tight management of other controllable expenses.

Same property NOI increased \$2.1 million or 8.3% in Q1 2010 compared to Q1 2009. Same property NOI in our Ontario retirement properties for Q1 2010 increased 10.5% primarily due to regular annual rental rate increases combined with lower utility and winter maintenance costs. Our Western Canadian platform same property NOI was flat with reduced occupancies in certain local markets, offset by regular annual rental rate increases and cost reduction initiatives. Our Quebec platform same property NOI grew 10.4% primarily due to regular annual rental rate increases and improved occupancy combined with savings in utility and other operating expenses.

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 | |
| 100% Owned | 16 | 64 | 99 | 1,616 | 1,779 |
| 50% Owned | 8 | - | - | 1,385 | 1,385 |
| Total | 24 | 64 | 99 | 3,001 | 3,164 |

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

| (\$000s, excluding occupancy rates) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|-------------------------------------|---------|---------|-----------------------|
| Revenues | | | |
| Same property | 36,157 | 35,053 | 1,104 |
| Direct Operating Expenses | | | |
| Same property | 31,826 | 30,927 | 899 |
| Net operating income | | | |
| Same property | 4,331 | 4,126 | 205 |
| Same property statistics: | | | |
| Weighted average occupancy rate | 98.4% | 98.0% | 0.4pp |

Same property revenues increased by 3.1% in Q1 2010 compared to Q1 2009. Direct operating expenses increased by 2.9% in Q1 2010 compared to Q1 2009. The increases are primarily due to higher government funding provided for direct resident care services which are mainly staffing related. This direct resident care funding results in an increase in both revenue and direct operating expenses. In addition, the Ontario government provided additional funding for other accommodation which increased revenues by approximately \$0.3 million for Q1 2010 compared to Q1 2009. The provincial government has committed to continue to provide this new funding as part of our base funding. Same property NOI increased \$0.2 million or 5.0% for Q1 2010 compared to Q1 2009 as a result of this new funding, partially offset by the increase in vacation and sick-pay estimates.

Weighted average occupancies in the same property portfolio were at 98.4% for Q1 2010, an increase of 0.4 percentage points from Q1 2009. Occupancy in all of our Ontario LTC communities exceeded 97% for Q1 2010, and as a result, these communities received government funding as though fully occupied.

U.S. Operations

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

| | Properties | Composition of Suites | | | Total |
|---|------------|-----------------------|-------|-----|-------|
| | | ISL | AL | LTC | |
| Same Property - Owned | | | | | |
| 100% | 23 | 711 | 1,600 | - | 2,311 |
| 50% | 25 | 2,891 | 1,483 | 190 | 4,564 |
| Total Same Property Owned | 48 | 3,602 | 3,083 | 190 | 6,875 |
| Properties under Operating Lease | | | | | |
| 100% Interest | 2 | 78 | 159 | - | 237 |
| Total Same Property Owned and Leased | 50 | 3,680 | 3,242 | 190 | 7,112 |
| Internal Growth | | | | | |
| 50% Owned | 1 | 161 | 35 | - | 196 |
| Total | 51 | 3,841 | 3,277 | 190 | 7,308 |

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

| (U.S.\$000s, except as noted otherwise) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|--|---------|---------|-----------------------|
| Revenues | | | |
| Same property | 39,849 | 40,466 | (617) |
| Internal growth and other ⁽¹⁾ | 2,305 | 2,219 | 86 |
| Intercompany eliminations | (1,643) | (1,747) | 104 |
| Total Revenues | 40,511 | 40,938 | (427) |
| Direct Operating Expenses | | | |
| Same property | 26,061 | 26,384 | (323) |
| Internal growth and other ⁽¹⁾ | 1,555 | 1,563 | (8) |
| Intercompany eliminations | (1,643) | (1,747) | 104 |
| Total Direct Operating Expenses | 25,973 | 26,200 | (227) |
| Net Operating Income | | | |
| Same property | 13,788 | 14,082 | (294) |
| Internal growth and other ⁽¹⁾ | 750 | 656 | 94 |
| Total Net Operating Income | 14,538 | 14,738 | (200) |
| Foreign exchange in CDN | 582 | 3,615 | (3,033) |
| Total Net Operating Income in CDN | 15,120 | 18,353 | (3,233) |
| Same property statistics: | | | |
| Weighted average occupancy rate | 89.2% | 91.2% | (2.0pp) |

(1) Includes the results of one property at which we are completing an addition, as well as the results of our U.S. management operations excluding discontinued management operations.

Same property revenue decreased by U.S.\$0.6 million or 1.5% for Q1 2010 compared to Q1 2009. Same property revenues have been impacted by declining occupancy with Q1 2010 weighted average occupancy 89.2% or 2.0 percentage points lower than Q1 2009 weighted average occupancy of 91.2%. Declining occupancies were partially offset by annual rental rate increases.

Same property direct operating expenses decreased \$0.3 million or 1.2% for Q1 2010 compared to Q1 2009. To mitigate reduced occupancy, we are continuing to implement strategies to provide more payment flexibility to existing and potential residents, and are selectively investing in sales and marketing and advertising initiatives. In addition, we reduced staffing levels to align with lower occupancy levels and on staff turnover have been successful in recruiting new hires at lower wage rates.

Same property NOI decreased U.S.\$0.3 million or 2.1% for Q1 2010 compared to Q1 2009.

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

| | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|--|---------|---------|--------------------------|
| Weighted average exchange rate for U.S.\$1.00 to CDN | 1.04 | 1.25 | (0.21) |

A \$0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar impacts AFFO from continuing operations by approximately \$0.1 million.

Canadian Management Operations

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

| | Properties | Composition of Suites | | | Total |
|--------------------|------------|-----------------------|-----|-----|-------|
| | | ISL | AL | LTC | |
| Managed properties | 27 | 2,056 | 396 | 864 | 3,316 |
| Mezzanine loans | 7 | 1,220 | 116 | - | 1,336 |
| Total | 34 | 3,276 | 512 | 864 | 4,652 |

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

| (\$000s) | Q1 2010 | Q1 2009 | Increase / (Decrease) |
|---|---------|---------|--------------------------|
| Management and Other Fee Revenue | | | |
| Spectrum: | | | |
| Development management | - | 377 | (377) |
| Operations management | 302 | 555 | (253) |
| Other | 15 | 17 | (2) |
| Total Spectrum | 317 | 949 | (632) |
| ING | 510 | 595 | (85) |
| Other | 619 | 544 | 75 |
| Total Management and Other Fee Revenue: | 1,446 | 2,088 | (642) |
| Direct operating expenses | 1,008 | 1,025 | (17) |
| Income from Management Operations | 438 | 1,063 | (625) |

In Q1 2010 management operations revenue decreased \$0.6 million compared to Q1 2009 primarily due to lower fees from Spectrum as the number of Spectrum properties under management declined as a result of completion of the majority of the development projects and sales of certain operating projects in 2009.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity for March 31, 2010 compared to December 31, 2009:

| | Increase / (Decrease) (\$millions) | Explanation |
|--------------------------------|---------------------------------------|---|
| Properties | 45.0 | Properties increased as follows: properties acquired during Q1 2010 added \$81.8 million; internal growth developments, building improvements, other capital expenditures added \$5.6 million. These increases were offset by depreciation of \$18.8 million and foreign exchange translation adjustment of \$23.6 million. |
| Mezzanine loans | (14.9) | Mezzanine loans outstanding decreased primarily due to the discharge of \$12.8 million of mezzanine loans on the acquisition of the related properties and collection of two mezzanine loans totalling \$2.4 million. |
| Limited life intangible assets | (2.6) | Limited life intangible assets decreased due to amortization of \$5.9 million and foreign exchange translation adjustment of \$0.4 million. These decreases were offset by an increase of \$3.8 million from acquisitions. |
| Total assets | (13.4) | The decrease in total assets during Q1 2010 is principally due to the decrease in cash, limited life intangible assets and mezzanine loans. These decreases were offset by increases in properties and other assets. |
| Mortgages payable | 10.9 | Mortgages payable decreased as a result of regular amortizing principal repayments of \$8.3 million, mortgage paydowns of \$31.2 million, foreign exchange translation adjustment of \$19.3 million. These decreases were offset by new mortgage financings of \$1.9 million, assumed mortgages on acquired properties of \$67.7 million. |
| Total liabilities | 13.4 | The increase in total liabilities is primarily due to increases in mortgages payable, accounts payable and other liabilities. |
| Non-controlling interest | (0.8) | Non-controlling interest decreased primarily due to exchanges of Class B Units of Chartwell Master Care LP ("Master LP") for Trust Units of \$0.4 million, distributions to the holders of the Class B Units of Master LP of \$0.3 million and non-controlling interests share of net loss of \$0.1 million. |
| Unitholders' equity | (25.9) | The decrease in Unitholders' equity is due primarily to cash distributions, the allocation of the net loss to the Trust's Unitholders and foreign exchange translation in other comprehensive income. |

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at March 31, 2010.

| (\$000s) | Regular Principal Payments | Principal Due at Maturity | Total | % of Total Maturing Debt | Weighted Average Interest Rate of Maturing Debt |
|---|----------------------------------|---------------------------------|------------------|--------------------------------|---|
| Year | | | | | |
| Remainder of 2010 | 27,694 | 63,421 | 91,115 | 5.03% | 5.08% |
| 2011 | 32,192 | 89,543 | 121,735 | 7.10% | 4.37% |
| 2012 | 32,651 | 112,047 | 144,698 | 8.89% | 4.94% |
| 2013 | 32,481 | 110,080 | 142,561 | 8.73% | 5.22% |
| 2014 | 27,665 | 139,059 | 166,724 | 11.03% | 4.31% |
| 2015 | 25,212 | 111,477 | 136,689 | 8.84% | 4.96% |
| 2016 | 22,225 | 172,670 | 194,895 | 13.69% | 6.01% |
| 2017 | 17,907 | 248,373 | 266,280 | 19.71% | 5.67% |
| 2018 | 15,784 | 32,625 | 48,409 | 2.59% | 5.55% |
| 2019 | 14,280 | 97,370 | 111,650 | 7.72% | 6.18% |
| 2020-2024 | 62,518 | 49,859 | 112,377 | 3.95% | 5.81% |
| Thereafter | 72,077 | 34,318 | 106,395 | 2.72% | 4.95% |
| Total | 382,686 | 1,260,842 | 1,643,528 | 100.00% | |
| Mark-to-market adjustments arising on acquisition | | | 12,763 | | |
| Less: Financing costs | | | (20,100) | | |
| Total Mortgage Debt | | | 1,636,191 | | |

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

| | As at March 31, 2010 | As at December 31, 2009 |
|--|----------------------------|-------------------------------|
| Average term to maturity | 7.6 years | 7.9 years |
| Weighted average contractual interest rate | 5.38% | 5.42% |
| Variable-rate mortgage debt | \$70.4 million | \$53.7 million |

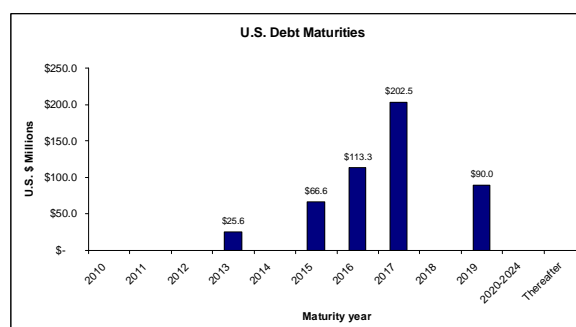
Our strategy is to mitigate the interest rate risk of our debt portfolio by staggering maturities over time and financing our properties with longer-term, fixed-rate mortgage debt.

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

Debt maturing in 2010 through 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. We have no U.S. debt maturities until 2013. In Canada, we have access to low cost CMHC-insured debt and we intend to continue financing our properties through this program. At March 31, 2010, approximately 69% of our total Canadian mortgage debt was CMHC-insured. In Q1 2010 we repaid \$31.2 million of our mortgages in order to mitigate a temporary dilution from the units offering completed in Q4 2009. We anticipate renewing or replacing 2010 maturing mortgages in due course.*

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

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



Convertible Debentures

At March 31, 2010 we had \$124.9 million of 6% convertible unsecured subordinated debentures and \$75 million of 5.9% convertible unsecured subordinated debentures outstanding. The 6% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of \$15.60 per unit and mature on December 1, 2011. 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.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during Q1 2010:

| | Trust Units | LTIP Units under Subscription | Class B Units of Master LP | Deferred Trust Units | Total |
|--|-------------|-------------------------------|----------------------------|----------------------|-------------|
| Balance December 31, 2009 | 125,762,133 | 2,436,895 | 1,976,859 | 120,592 | 130,296,479 |
| Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP") | 118,635 | - | - | - | 118,635 |
| Trust Units issued under the Long-Term Incentive Plan ("LTIP") | - | 97,882 | - | - | 97,882 |
| LTIP Units under subscription surrendered | - | (34,585) | - | - | (34,585) |
| Exchange of LTIP Units | 160,000 | (160,000) | - | - | - |
| Deferred Trust Units issued | - | - | - | 9,261 | 9,261 |
| Deferred Trust Unit distributions | - | - | - | 2,219 | 2,219 |
| Exchange of Class B Units of Master LP | 106,000 | - | (106,000) | - | - |
| Balance March 31, 2010 | 126,146,768 | 2,340,192 | 1,870,859 | 132,072 | 130,489,891 |

Liquidity and Capital Commitments

Liquidity

Our cash commitments include payments related to long-term debt and convertible debentures, deferred purchase obligations, obligations under operating leases as well as cash distributions to Unitholders. In addition, we are committed to acquiring ING's 50% interest in the Regency Care and Meridian Portfolios, as well as acquiring one property from Spectrum, as discussed under the "Significant Events" section of this MD&A.

Our principal source of liquidity is cash flow from operations. At March 31, 2010 we had cash on hand in the amount of \$66.6 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 arranged for a Credit Facility with a committed capacity of \$75 million.

Our Credit Facility matures on June 27, 2010. The amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 2.75% or at the applicable bankers' acceptance rate plus 4.00%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to Unitholders. The Credit Facility is secured by first and second charges on 23 seniors housing communities. At March 31, 2010, the maximum available borrowing capacity under the Credit Facility was \$58.4 million, which was undrawn. As of March 31, 2010, although we were not in compliance with the debt service coverage covenant and the distribution payout covenant under the Credit Facility, we obtained a waiver from the lenders with respect to these covenants. We also expect not to be in compliance with the debt service coverage covenant in Q2 2010 and have received waivers for this quarter as well.*

We commenced discussions with the syndicate lenders regarding the renewal of the Credit Facility and expect to complete such renewal prior to the maturity date.*

Debt Leverage

The maximum debt leverage permitted by our Declaration of Trust is 60% (65% including convertible debentures).

The following table presents the calculation of the debt leverage ratio as at March 31, 2010, including the indebtedness of third parties guaranteed by Chartwell:

| (\$000s) | Q1 2010 |
|--|-----------|
| Mortgages payable | 1,643,528 |
| Loans payable | - |
| Guarantee ⁽¹⁾ | 6,098 |
| Credit Facility | - |
| Total indebtedness excluding convertible debentures | 1,649,626 |
| Convertible debentures (face value) | 199,925 |
| Indebtedness | 1,849,551 |
| Total assets | 2,585,299 |
| Accumulated depreciation and amortization ⁽²⁾ | 502,454 |
| Gross book value ("GBV") of assets | 3,087,753 |
| Less: Assets financed by deferred purchase consideration on acquisition properties | 13,639 |
| Gross book value of assets (net of deferred consideration) | 3,074,114 |
| Debt to GBV before convertible debentures | 53.7% |
| Debt to GBV including convertible debentures | 60.2% |

(1) Guarantee was reduced to \$6,098 upon the property achieving revenue targets as per the loan agreements.

(2) Includes accumulated depreciation and amortization related to fully amortized properties and intangible assets of \$148,824.

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

Capital Expenditures

We classify our capital expenditures under the following categories:

- Building expansions – capital expenditures in respect of our internal growth projects as described in the “Significant Events” section of this MD&A.
- Acquisition-related capital expenditures – capital expenditures which were identified during the acquisition due diligence process for newly acquired assets.
- Building improvements – include capital expenditures that improve the revenue generating potential of our properties.
- Long-term replacement items – include expenditures for assets that will likely be replaced several times over the life of the building, such as roofing, paving, HVAC equipment, etc.
- Furniture, fixtures and equipment purchases.

The following table summarizes additions to properties during Q1 2010:

| (\$000s) | Q1 2010 |
|--|---------|
| Building expansions (internal growth) | 2,157 |
| Acquisition-related capital expenditures | 361 |
| Building improvements | 1,847 |
| Furniture, fixtures and equipment | 1,249 |
| Total | 5,614 |

Contractual Obligations and Guarantees

Details of our contractual obligations and guarantees are disclosed in our 2009 MD&A. There were no significant changes in our contractual obligations and guarantees in Q1 2010 that are outside of the ordinary course of business.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q1 2010 and Q1 2009:

| Cash Provided by (Used in): | Increase / (Decrease) (\$millions) | Explanation |
|-----------------------------|------------------------------------|--|
| Operating activities | (0.8) | Cash flows from operating activities decreased primarily due to lower interest and fee income offset by favourable changes in non-cash operating items and increased contributions from property operations. |
| Financing activities | (42.8) | Cash flows from financing activities decreased primarily due to higher mortgage repayments. |
| Investing activities | 1.5 | Cash flow from investing activities increased by \$1.5 million, as mezzanine loan repayments and lower additions to properties were partially offset by lower restricted cash and deposits in escrow. |

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. In Q3 2009, cash distributions per unit were reduced to \$0.0450 per month, or \$0.54 on an annualized basis from \$0.0617 per unit, or \$0.74 on an annualized basis.

In both 2009 and 2008, 100% of our distributions were characterized as tax-deferred returns of capital.

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 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.

The following table summarizes distributions made in Q1 2010 and the years ended December 31, 2009 and 2008:

| (\$000s) | Q1 2010 | 2009 | 2008 |
|--|---------|---------|---------|
| Distributions declared on Trust Units | 17,284 | 67,711 | 75,670 |
| Distributions on Class B Units of Master LP | 253 | 1,395 | 3,595 |
| Distributions reinvested under DRIP | (851) | (5,074) | (9,230) |
| Distributions applied against LTIP installment loan receivable | (302) | (1,771) | (2,144) |
| Distributions paid or payable in cash | 16,384 | 62,261 | 67,891 |

The following table summarizes cash distributions made in Q1 2010 and the years ended December 31, 2009 and 2008 in relation to net loss and cash flows from operating activities:

| (\$000s) | Q1 2010 | 2009 | 2008 |
|---|----------|-----------|-----------|
| Cash flows from operating activities | 18,977 | 64,810 | 101,525 |
| Loss before non-controlling interest | (8,128) | (72,692) | (111,660) |
| Cash distributions declared ⁽¹⁾ | 16,384 | 62,261 | 67,891 |
| Excess (shortfall) of cash flows from operating activities over cash distributions paid | 2,593 | 2,549 | 33,634 |
| Excess (shortfall) of net loss before non-controlling interest over cash distributions paid | (24,512) | (134,953) | (179,551) |

(1) Cash distributions do not include distributions satisfied through issuance of units under DRIP or distributions applied against the LTIP installment loan receivable.

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. In Q1 2010, changes in non-cash working capital reduced cash flows from operating activities by \$4.8 million. For 2009, changes in non-cash working capital reduced cash flows from operating activities by \$25.2 million.

Our distributions exceeded net loss in Q1 2010, 2009 and 2008. We anticipate that this will continue. We do not use net loss in accordance with CGAAP as the basis to establish the level of distributions to Unitholders as net loss includes, among other items, non-cash depreciation and amortization and impairment provisions related to our property portfolio. We do not consider non-cash depreciation and amortization and impairment provisions 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 our current distribution level is sustainable.

Key Performance Indicators

We use a number of key performance indicators for monitoring and analyzing our financial results. These key performance measures are not defined by CGAAP and may not be comparable to similar measures presented by other income trusts or other companies. Key financial performance measures are described in our 2009 MD&A and there were no changes to our key performance indicators in Q1 2010, except as follows:

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, beginning in 2009 we have designated properties where we have added significant capacity or expect in the current year to open new suites to be excluded from the same property portfolio.

The following table summarizes the same property portfolio for Q1 2010:

| | Properties | Suites/Beds |
|---|------------|---------------|
| Canadian Retirement Operations | 94 | 11,134 |
| Canadian Long-Term Care Operations | 24 | 3,164 |
| U.S. Operations (owned and leased) ⁽¹⁾ | 50 | 7,112 |
| Total Same Property Portfolio | 168 | 21,410 |

(1) Excludes discontinued operations.

Changes to Significant Accounting Policies

We prepare our financial statements in Canadian dollars in accordance with CGAAP. Our significant accounting policies are summarized in note 1 of the 2009 Financial Statements.

We monitor the Canadian Institute of Chartered Accountants' ("CICA") recently issued accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on our consolidated financial statements and note disclosures.

Ontario Long-Term Care Licensing

The new legislation governing LTC communities in Ontario, which, among other things, contemplates the granting of licenses for fixed terms of up to 25 years has not yet been fully proclaimed into effect. If it is proclaimed into effect in the current form, we may be required to start amortizing the value of our long-term care licenses over the respective license term.

Business Combinations, Section 1582; Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602:

On January 1, 2009, the CICA issued three new standards which are applicable to Chartwell on January 1, 2011:

Business Combinations, Section 1582: The new section expands the definition of a business subject to an acquisition and establishes significant new guidelines on the measurement of consideration given, and

the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of business combinations are no longer considered part of the acquisition accounting. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities.

Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602: These two sections replace Section 1600, Consolidated Financial Statements. These two sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). The new sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new sections also require non-controlling interest to be presented as a separate component of Unitholders' equity. Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

Section 1582 is applicable to Chartwell prospectively to business combinations for which the acquisition date is on or January 1, 2011. Section 1601 and Section 1602 apply to interim and annual financial statements relating to the fiscal years beginning on or after January 1, 2011. Early adoption is permitted, if all three sections are applied at the same time. At present, we have no plans to adopt these sections earlier than the effective date.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed its strategic plan that will result in CGAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") over a transitional period to be completed by January 1, 2011. We will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011.

We are in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This is an ongoing process as the International Accounting Standards Board ("IASB") and the AcSB issue new standards and recommendations and as the Canadian accounting profession interprets those standards and recommendations.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving CGAAP-based clauses (including such items as debt covenants), employee compensation plans, and key performance metrics. Accordingly, our implementation plan includes measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst Management, the Board of Directors, the Audit Committee, and Investors. Management provides regular updates to the Audit Committee on the status of the implementation project.

The IFRS implementation project consists of four phases. Some activities will be in process concurrently as IFRS is applied to specific areas. The following provides a summary of the different phases and their status.

| Phase | Description and Status |
|--|--|
| Initial Assessment Phase | <p>This phase identifies the significant differences between existing CGAAP and IFRS at a high level as relevant to Chartwell.</p> <p>Based upon the current state of IFRS, this phase identified a number of topics that will impact our financial results and the necessary effort to make the transition to IFRS. Targeted training and communication activities, leveraging both internal and external resources, occurred during this phase.</p> <p>We have completed our initial assessment phase.</p> |
| Detailed Assessment Phase | <p>Building upon the assessment performed in the initial assessment phase, this phase included:</p> <ul style="list-style-type: none"> • Identification, evaluation and selection of accounting policies necessary for us to change over to IFRS; • Identification of the business impacts resulting from the identified accounting differences. Business impacts considered in our project plan are: business units, internal controls over financial reporting processes, information technology, stakeholders, regulatory matters, and others as identified during this phase; • Assessment of IFRS 1 exemptions and elections. This aspect of the project plan has followed the detailed assessment of the financial statement items and was revisited periodically throughout the project; • An initial training analysis and information systems impact analysis were also components of this phase. <p>We have completed the detailed assessment phase.</p> |
| Design Phase | <p>This phase integrates the solutions from the detailed assessment phase into our underlying financial system and processes that are necessary for us to change over to IFRS.</p> <p>In addition, we will have designed business process changes and developed detailed training programs.</p> <p>The design phase is expected to be completed by the end of Q2 2010.</p> |
| Testing, Implementation and Review Phase | <p>During 2010, we will be testing our IFRS systems, processes, financial statements, notes to the financial statements, policies and procedures, internal controls, and internal management reporting throughout the period in preparation for our conversion date of January 1, 2011.</p> <p>This phase will also include the formal approval process to the recommended accounting policies (throughout 2010), implementation of training programs for finance and operational staff (Q2 2010), implementation of new information technology systems resulting from the need to implement IFRS (Q4 2010) and update of CEO/CFO certification process (Q4 2010).</p> |

Key IFRS dates:

- January 1, 2010 (transition date): We will prepare an opening statement of financial position according to IFRS, as at this date, to facilitate the changeover to IFRS in 2011.
- December 31, 2010 (last CGAAP reporting date): This is the last date that we will report our financial results under CGAAP.
- January 1, 2011 (changeover date): the date after which we will prepare and report interim and annual 2011 financial statements according to IFRS with 2010 comparatives also according to IFRS.

This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned that it may not be appropriate to use such information for any other purpose. This information reflects our most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS standards, regulations, or economic conditions which could change these assumptions or expectations.

Impact of Adoption of IFRS

The IFRS framework is, for the most part, consistent with the framework of CGAAP, but there are significant differences in the resulting standards derived from their application. Set out below are the key changes in accounting policies due to the adoption of IFRS that are expected to impact our consolidated financial statements. It is important to note that several IFRS standards are in the process of being amended by the IASB. This is expected to continue up to and beyond the first IFRS reporting period of March 31, 2011. We are monitoring the IASB's schedule of projects, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and CGAAP. Therefore, at this stage, the impact of the significant differences outlined below cannot be reliably quantified.

First-Time Adoption of IFRS

Our adoption of IFRS will require the application of First-Time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does include certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the significant optional exemptions available under IFRS 1 that we expect to apply or not apply in preparing our first financial statements under IFRS:

Business Combinations: IFRS 1 generally provides for IFRS 3 *Business Combinations* to be applied either retrospectively or prospectively from the date of transition to IFRS (or to restate all business combinations after a selected date). Retrospective application would require an entity to restate all prior transactions that meet the definition of a business under IFRS.

The significant difference in the application of IFRS 3 is that transaction costs (including appraisals, legal fees, land transfer tax, commissions) arising from the acquisition of the business is expensed immediately; under CGAAP, these amounts are included in the purchase price of the acquired business.

The result of this difference will have a negative impact on NOI, FFO and AFFO in the year of acquisition.

We expect to elect to not restate any business combinations that have occurred prior to January 1, 2010. Business combinations entered into after January 1, 2010 will be restated.

Fair Value or Revaluation as Deemed Cost: Under IFRS 1, an item of property, plant and equipment can be initially measured upon transition to IFRS at fair value as deemed cost (or a previous CGAAP revaluation) as opposed to the historical cost model. If fair value as deemed cost is used, this will become the new cost amount for qualifying assets at transition. This election is available on an asset by asset basis.

We are still in the process of assessing the application of this option.

Borrowing Costs: IAS 23, *Borrowing Costs* requires the capitalization of borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that

asset. Under CGAAP, we made an accounting policy choice to capitalize these costs as incurred. However, the application of these rules under CGAAP may not be consistent with IFRS.

We expect to elect to apply the requirements of IAS 23 retroactively and will restate borrowing costs to the date of inception of the Trust to comply with IFRS. The impact of this change is not expected to be material.

Cumulative Translation Differences: At the date of transition, we can elect to deem the cumulative translation differences for all U.S. operations to be zero and recognize these differences in retained earnings. This would result in any gains and losses on subsequent disposals of U.S. operations to exclude translation differences that arose before the date of transition to IFRS. It is expected that we will elect this IFRS 1 exemption.

Designation of previously recognized financial instruments: IFRS provides the option to change the designation of certain financial instruments on adoption of IFRS. It is expected that we will elect this option for our convertible debentures and designate them at fair value through profit or loss. This is not expected to have a significant impact on our financial statements.

Share based payment transactions: IFRS 2 Share-based Payments requires that cash-settled share-based payments to employees be measured, both initially and at each reporting period, based on fair values of the awards. CGAAP on the other hand requires that such payments be measured based on intrinsic values of the award. This difference may impact the accounting measurement of some of our cash-settled employee incentive plans. Under IFRS 1, we can:

- a) elect to apply IFRS 2 *Share-based payments* retrospectively to all share-based payment transactions occurring before the date of transition to IFRS (January 1, 2010) as if it has always applied; or
- b) elect not to apply retrospective treatment to:
 - (1) equity instruments granted after November 7, 2002 that vested before the date of transition to IFRS or
 - (2) liabilities arising from share-based payment transactions that were settled before the date of transition to IFRS.

We are currently in the process of assessing the application of IFRS 2.

Other Impacts of IFRS

Joint Ventures: The IASB is currently considering Exposure Draft 9, *Joint Arrangements* (“ED 9”), that is intended to modify the current IAS 31 - *Interest in Joint Ventures*. The IASB has indicated that it expects to issue a new standard to replace IAS 31 in the near future. Currently under CGAAP, we use the proportionate consolidation method to account for interests in joint ventures. ED 9 proposes to eliminate the option to proportionately consolidate such interests that exist in IAS 31, and requires an entity to recognize its interests in a joint venture, using the equity method. We will continue to account for interests in joint ventures under the proportionate consolidation method until the standard becomes effective.

Impairment of Assets: CGAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IFRS uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). IFRS also allows the reversals of any impairment losses when the recoverable amount of the asset is higher than the carrying amount. Reversals of impairment losses are disallowed under

CGAAP. The difference in methodologies may potentially result in asset impairments upon transition to IFRS. At this time we are continuing with our analysis of potential impairments under IFRS.

Provisions: IAS 37 Provisions, Contingent Liabilities, and Contingent Assets requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. Probable, for IFRS 37 purposes, means more likely than not. Under CGAAP, the criterion for recognition is “likely,” which is a higher threshold than “probable.” Therefore, it is possible that some contingent liabilities would meet the recognition criteria under IFRS that were not recognized under CGAAP. This is not expected to have a material effect on our financial statements.

Presentation of Financial Statements: IFRS differs from CGAAP with respect to presentation and disclosure within the financial statements including the notes thereto. We are currently assessing these presentation and disclosure differences.

Trust Units – Liability vs. Equity: IAS 32 defines a financial instrument as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Equity instruments are exempt from liability classification even if they contain an obligation for the entity to deliver cash or another financial asset, once they meet certain criteria under IAS 32.16A and 32.16B.

Our Trust Units are considered as equity instruments as they have satisfied these criteria, however, another factor in determining whether the instrument is a liability or equity is the issuer’s discretion over proposing the payment of distributions. If the issuer does not have this discretion to pay distributions, the instrument is a liability.

We have changed our Declaration of Trust, whereby distributions are at the discretion of our Trustees and therefore, our Trust Units will continue be classified as equity under IFRS.

Compound Financial Instruments: Under CGAAP, our convertible debentures are carried as components of debt and equity. The debt is measured under the effective interest rate method using amortized cost. Under IFRS, since the convertible debentures contain options to convert to Trust Units and Trust Units are puttable instruments; the convertible debentures will be carried as debt in their entirety without a separate component of equity being recorded.

Non-Controlling Interest: In our financial statements under CGAAP, our Class B Units of Master LP are presented as non-controlling interest outside of equity. Under IFRS, this is considered as a financial instrument that must be classified as either equity or liability. Class B Units of Master LP are exchangeable into Trust Units at the option of the holder and therefore, may be considered puttable instruments. Such puttable instruments may be classified as financial liabilities in the financial statements. We expect that Class B Units of Master Care LP will be classified as financial liabilities on our financial statements under IFRS.

Critical Accounting Estimates

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

Our 2009 MD&A sets out the nature of critical accounting estimates that may affect our financial statements. There have not been any significant changes in the nature of the critical accounting estimates that could affect our financial statements in Q1 2010.

Controls and Procedures

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. Over the past two years, we made significant investments in improvements to our information systems and financial processes. We expect to continue these efforts to further strengthen our internal control in 2010. 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, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (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 March 31, 2010. 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 control 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 GAAP. There were no changes in the Trust's internal control over financial reporting that occurred during the interim period ended March 31, 2010 that have significantly affected, or are reasonably likely to significantly affect the Trust's internal control over financial reporting.

Forward-Looking Information and Risks and Uncertainties

Forward-Looking Information

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

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

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- possible benefits from the implementation of new purchasing 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 can 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 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 Spectrum’s reduced development activities;
- our ability to renew maturing debt, including our Credit Facility, in due course;
- timing of closing of acquisitions which are subject to legal, regulatory and lenders’ approvals which may not be received as currently expected;
- the expected impact of IFRS implementation as well as timing of completion of certain phases of the IFRS convergence project.

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this 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 (“AIF”).

Risks and Uncertainties

Our AIF dated March 30, 2010 and our 2009 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.