# Q3

## Management's Discussion and Analysis

Third Quarter Report, September 30, 2013

CHARTWELL
retirement residences

making people's lives BETTER

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three and Nine Months Ended September 30, 2013 and 2012

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Chartwell Retirement Residences ("Chartwell" or the "Trust") has prepared the following management's discussion and analysis (the "MD&A") to provide information to assist its current and prospective investors' understanding of the financial results of Chartwell for the three and nine months ended September 30, 2013. This MD&A should be read in conjunction with Chartwell's unaudited, condensed consolidated interim financial statements for the three and nine months ended September 30, 2013 and the notes thereto (the "Financial Statements"), the audited financial statements for the year ended December 31, 2012 and the notes thereto (the "2012 Financial Statements") and the annual Management's Discussion and Analysis for the year ended December 31, 2012 (the "2012 MD&A"). This material is available on Chartwell's website at www.chartwell.com. Additional information about Chartwell, including its Annual Information Form ("AIF") for the year ended December 31, 2012, 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 November 14, 2013.

All references to "Chartwell", "we", "our", "us" or the "Trust", unless the context indicates otherwise, refer to Chartwell Retirement Residences and its subsidiaries. For ease of reference "Chartwell" and the "Trust" are used in reference to the ownership and the operation of retirement and long term care communities and the third-party management business of Chartwell. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust.

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; "Q4" refers to the three-month period ended December 31; "2013" refers to the calendar year 2013; "2012" refers to the calendar year 2012 and "YTD" means year-to-date.

Unless otherwise indicated, all comparisons of results for Q3 2013 and 2013 YTD are in comparison to results from Q3 2012 and 2012 YTD, respectively.

In this document we use a number of key performance indicators such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI"), "Same Property NOI", "Same Property Revenue", "Same Property Direct Operating Expenses", "G&A Expenses as a percentage of Revenue", "Interest Coverage Ratio", "Indebtedness Ratio", "Net Debt to Adjusted EBITDA Ratio" and any related per unit amounts to measure, compare and explain the operating results and financial performance of the Trust. These key performance indicators do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and, therefore, may not be comparable to similar measures presented by other publicly-traded entities. Please refer to the "Key Performance Indicators" section of this MD&A for details of each of these non-IFRS performance indicators.

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

This document contains forward-looking information based on management's expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry as of the date of this MD&A. Refer to the "Forward-Looking Information and Risks and Uncertainties" section of this MD&A for more information.

## Business Overview

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

**Our Vision is…** Making People's Lives Better

**Our Mission is…**

- to provide a happier, healthier and more fulfilled life experience for seniors;
- to provide peace of mind for our residents' loved ones; and
- to attract and retain employees who care about making a difference in our residents' lives.

**Our Values are…**

Respect – We honour and celebrate seniors

Empathy – We believe compassion is contagious

Service Excellence – We believe in providing excellence in customer service

Performance – We believe in delivering and rewarding results

Education – We believe in lifelong learning

Commitment – We value commitment to the Chartwell family

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

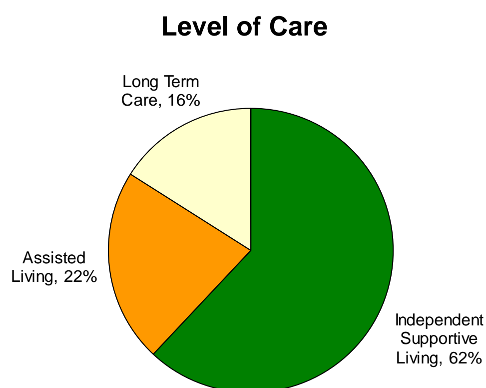
At September 30, 2013, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 31,977 suites in 233 communities. At September 30, 2013, our portfolio of owned and leased communities consisted of interests in 30,801 suites in 225 communities.

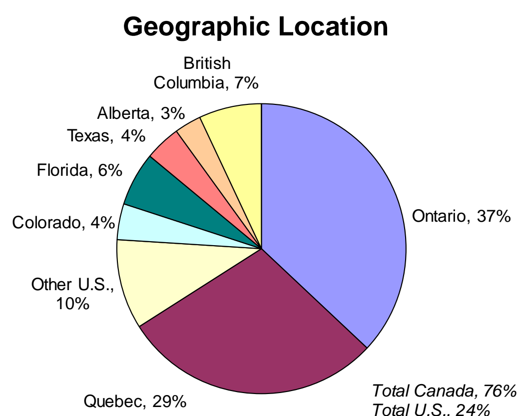
The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at September 30, 2013:

| | Canadian Retirement Operations | | Canadian Long Term Care Operations | | United States Operations | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Communities | Suites/Beds | Communities | Suites/Beds | Communities | Suites/Beds | Communities | Suites/Beds |
| **Owned Properties:** [1] | | | | | | | | |
| 100% Owned | | | | | | | | |
| Operating [2] | 106 | 12,397 | 24 | 3,136 | 44 | 6,192 | 174 | 21,725 |
| Lease-up | 2 | 212 | - | - | - | - | 2 | 212 |
| Total 100% Owned | 108 | 12,609 | 24 | 3,136 | 44 | 6,192 | 176 | 21,937 |
| Partially Owned - operating [3] | 47 | 8,631 | - | - | - | - | 47 | 8,631 |
| Total Owned | 155 | 21,240 | 24 | 3,136 | 44 | 6,192 | 223 | 30,568 |
| **Properties under Operating Lease** | | | | | | | | |
| 100% Interest | - | - | - | - | 2 | 233 | 2 | 233 |
| Total Owned and Leased | 155 | 21,240 | 24 | 3,136 | 46 | 6,425 | 225 | 30,801 |
| **Managed Properties** | 4 | 568 | 4 | 608 | - | - | 8 | 1,176 |
| Total | 159 | 21,808 | 28 | 3,744 | 46 | 6,425 | 233 | 31,977 |

*(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.*
*(2) Seven owned U.S. communities (613 suites) are classified as assets held for sale in our financial statements.*
*(3) We have a 50% ownership interest in these properties with the exception of one Canadian property in which we have a 33.3% ownership interest.*

**Composition of Portfolio of Owned and Leased Suites**
**at Chartwell's Share of Ownership or Leased Interest, at September 30, 2013 by:**



## Business Strategy

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

**Grow core property portfolio contribution by:**

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

**Maintain a strong financial position by:**

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

**Improve quality and efficiency of our corporate support services by:**

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

**Build value of our real estate portfolio by:**

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

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

| | |
|---|---|
| **Grow core property portfolio contribution** | • Re-branding of our Canadian communities is ongoing.<br>• Same property NOI [1] grew $0.1 million or 0.2% in Q3 2013 and $2.8 million or 1.7% in 2013 YTD.<br>• Same property occupancy improved 0.7 percentage points to 89.9% in Q3 2013. |
| **Maintain a strong financial position** | • At September 30, 2013, we had cash on hand [2] of $6.6 million and $45.3 million available borrowing capacity on our secured revolving operating credit facility ("Credit Facility").<br>• Interest Coverage Ratio [1] improved to 2.27 in Q3 2013 from 2.16 in Q3 2012.<br>• Net Debt to Adjusted EBITDA Ratio [1] improved to 8.6 at September 30, 2013 from 8.7 at September 30, 2012.<br>• Indebtedness Ratio [1] improved to 56.7% at September 30, 2013, from 57.9% at December 31, 2012.<br>• Obtained $88.6 million of new fixed-rate mortgages with a weighted average term to maturity of 13.8 years, bearing a weighted average interest rate of 3.53% in 2013 YTD. |
| **Improve quality and efficiency of our corporate support services** | • Completed the implementation of our core financial system.<br>• Completed the implementation of a prospect management system.<br>• Continued functionality enhancements to our website and financial reporting system.<br>• Completed the development of a capital budgeting system.<br>• Commenced the development of a procurement system.<br>• Commenced the implementation of a fixed asset management system. |
| **Build value of our real estate portfolio** | • Completed acquisitions of three properties (345 suites) for $40.5 million in 2013 YTD with another $27.0 million acquisition (138 suites) closing in October 2013.<br>• Completed the redevelopment of two LTC residences in Ontario (128 beds), with two other development/redevelopment projects (226 suites) in progress for completion in 2013.<br>• Commenced development of 54 additional suites at two of our communities.<br>• Completed the sale of five 50%-owned properties located in New York State in February 2013.<br>• The sale of seven other U.S. non-core properties for $80.9 million closed on October 1, 2013. |

*(1) Non-IFRS; refer to the "Key Performance Indicators" section of this MD&A.*
*(2) Non-IFRS; includes our share of joint-venture cash of $5.0 million. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A.*

# 2013 Outlook

Our 2012 MD&A contains a detailed discussion of our 2013 Outlook. There were no significant changes in Q3 2013, except as follows:

The interest rate environment continues to be volatile with fluctuations in both long-term interest rates and credit spreads. The economic forecasts point to gradually increasing interest rates over time. Since April 2013, the Government of Canada 10-year bond yield increased by approximately 70 basis points, which, combined with the decline in REIT unit prices, contributed to higher overall cost of capital. In order to mitigate our exposure to potentially rising interest rates, we implemented an early mortgage refinancing program. Subsequent to September 30, 2013, we refinanced $142.5 million of 2013 and 2014 maturities bearing a weighted average interest rate of 4.36%, with new mortgages bearing a weighted average interest rate of 3.86% and a weighted average term to maturity of 13 years.

# Significant Events

Significant events that have affected or may be expected to affect our results in the future are described in our 2012 MD&A. There were no significant changes in 2013, except as follows:

On January 11, 2013, we announced that we changed our name from Chartwell Seniors Housing Real Estate Investment Trust to Chartwell Retirement Residences.

## *Acquisitions*

On June 19, 2013, we purchased a 171-unit retirement residence and a 65-bed LTC residence located at the Cite Jardin complex in Gatineau, Quebec. We now own a 100% interest in this six-tower complex with a total of 863 suites. These properties were constructed in 2007. The purchase price was $19.0 million, not including closing costs, and was fully financed by a two-year mortgage bearing interest at 4.5%.

On August 14, 2013, we purchased a 109-unit retirement residence built in 2011 and located in Kamloops, British Columbia. The purchase price was $21.5 million, not including closing costs, and was financed through an $11.8 million five-year mortgage bearing interest at 3.65%, with the balance paid using cash on hand.

On October 25, 2013, we completed the acquisition of a 138-unit retirement residence built in 2009 and located in Mission, British Columbia. The purchase price was $27.0 million, not including closing costs, and was financed through a $15.3 million five-year mortgage bearing interest at 4.35%, with the balance paid using cash on hand.

## *Dispositions*

During Q1 2013, we, along with our joint venture partner, completed the sale of a five-property portfolio located in New York State (the “Bristal Portfolio”). The sale price was U.S.$290.0 million and was settled by the purchaser’s assumption of debt of U.S.$197.7 million, with the balance, net of working capital adjustments and holdbacks, received in cash. We owned a 50% interest in the Bristal Portfolio and, as a result of this sale, a $48.9 million gain is included in our share of income from this joint venture.

During Q2 2013, we entered into an agreement to sell seven non-core communities (comprising 613 suites), located in the U.S. The sale price was U.S.$80.9 million and was partially settled by the assumption of debt with the balance, net of working capital adjustments and holdbacks, received in cash. This transaction closed on October 1, 2013.

# Adoption of IFRS 11 – Joint Arrangements

As of January 1, 2013, we have adopted IFRS 11 which requires certain joint ventures that were previously accounted for using line-by-line proportionate ("line-by-line") consolidation to now be accounted for using the equity method (Please refer to the "Critical Accounting Policies and Estimates" section of this MD&A). Under IFRS 11, as applied to Chartwell, equity accounting is required where an interest in a joint venture is held through a separate legal entity such as a partnership or corporation; however, where an interest is held directly, line-by-line consolidation continues to apply.

The following table summarizes the details of our joint ventures and related accounting methods:

| Joint Arrangements | # of Properties | Suites/Beds | Chartwell ownership | Method of accounting |
|---|---|---|---|---|
| Chartwell-HCN Landlord [1] | 39 | 7,662 | 50% | Line-by-line |
| Chartwell-HCN Operator [1] | Same as above | Same as above | 50% | Equity |
| Robert Speck | 1 | 113 | 33% | Line-by-line |
| Oakville | 1 | 147 | 50% | Equity |
| Constantia | 1 | 121 | 50% | Equity |
| Pickering | 1 | 117 | 50% | Equity |
| Valley Vista | 1 | 151 | 50% | Line-by-line |
| Riverside | 1 | 138 | 50% | Line-by-line |
| Churchill | 1 | 97 | 50% | Line-by-line |

*(1) Chartwell directly holds its interest in real estate but its interest in operations is held through separate legal entities.*

The adoption of IFRS 11 has had a significant impact on the presentation of our consolidated financial statements. We believe that presenting our operating and financial results of our joint arrangements using line-by-line consolidation, a non-IFRS basis, provides more useful information to current and prospective investors to assist them with their understanding of our financial performance. Therefore, the discussion of our operating results in this MD&A is based on financial information developed using line-by-line consolidation for all our joint ventures. The following tables provide a complete reconciliation of our consolidated financial statements to the financial information used in this MD&A.

The following is the Q3 2013 Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

| ($000s) | Q3 2013 [(1)] | IFRS 11 adjustments [(2)] | Q3 2013 using line-by-line [(3)] |
|---|---|---|---|
| **Revenue** | | | |
| Resident | 208,444 | 25,170 | 233,614 |
| Management and other fees | 2,164 | - | 2,164 |
| Lease revenue from joint ventures | 7,960 | (7,960) | - |
| Mezzanine loan interest | 32 | - | 32 |
| | 218,600 | 17,210 | 235,810 |
| **Expenses** | | | |
| Direct operating | 148,740 | 15,479 | 164,219 |
| General, administrative and Trust (“G&A”) | 6,800 | - | 6,800 |
| | 155,540 | 15,479 | 171,019 |
| Income before the undernoted | 63,060 | 1,731 | 64,791 |
| Finance costs | 28,176 | 334 | 28,510 |
| Property lease expense | 682 | - | 682 |
| Other expense/(income) | (286) | 35 | (251) |
| Depreciation of property, plant and equipment (“PP&E”) | 40,097 | 1,029 | 41,126 |
| Amortization of intangible assets | 514 | - | 514 |
| Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains) | (3,074) | - | (3,074) |
| Share of joint venture loss/(income) | (333) | 333 | - |
| Loss before income taxes | (2,716) | - | (2,716) |
| Income tax expense/(benefit): | | | |
| Current | 65 | - | 65 |
| Deferred | - | - | - |
| | 65 | - | 65 |
| Loss for the period | (2,781) | - | (2,781) |
| Other comprehensive income/(loss): | | | |
| Unrealized foreign currency income/(loss) on translation of foreign operations | (1,148) | - | (1,148) |
| Total comprehensive loss | (3,929) | - | (3,929) |

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

The following is the Q3 2012 Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

| ($000s) | Q3 2012 [1] | IFRS 11 Adjustments [2] | Q3 2012 using line-by-line [3] |
|---|---|---|---|
| **Revenue** | | | |
| Resident | 195,591 | 31,036 | 226,627 |
| Management and other fees | 1,962 | - | 1,962 |
| Lease revenue from joint ventures | 7,475 | (7,475) | - |
| Mezzanine loan interest | 31 | - | 31 |
| | 205,059 | 23,561 | 228,620 |
| **Expenses** | | | |
| Direct operating | 137,936 | 19,267 | 157,203 |
| G&A | 5,847 | - | 5,847 |
| | 143,783 | 19,267 | 163,050 |
| Income before the undernoted | 61,276 | 4,294 | 65,570 |
| Finance costs | 28,378 | 2,015 | 30,393 |
| Property lease expense | 620 | - | 620 |
| Other expense/(income) | 714 | 30 | 744 |
| Depreciation of PP&E | 46,509 | 1,191 | 47,700 |
| Amortization of intangible assets | 807 | - | 807 |
| Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains) | 9,262 | - | 9,262 |
| Share of joint venture loss/(income) | (1,058) | 1,058 | - |
| Loss before income taxes | (23,956) | - | (23,956) |
| Income tax expense/(benefit): | | | |
| Current | 77 | - | 77 |
| Deferred | (5,495) | - | (5,495) |
| | (5,418) | - | (5,418) |
| Loss for the period | (18,538) | - | (18,538) |
| Other comprehensive loss: | | | |
| Unrealized foreign currency loss on translation of foreign operations | (1,377) | - | (1,377) |
| Total comprehensive loss | (19,915) | - | (19,915) |

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

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

| ($000s) | 2013 YTD [1] | IFRS 11 adjustments [2] | 2013 YTD using line-by-line [3] |
|---|---|---|---|
| **Revenue** | | | |
| Resident | 610,766 | 78,014 | 688,780 |
| Management and other fees | 6,024 | - | 6,024 |
| Lease revenue from joint ventures | 23,351 | (23,351) | - |
| Mezzanine loan interest | 128 | - | 128 |
| | 640,269 | 54,663 | 694,932 |
| **Expenses** | | | |
| Direct operating | 435,567 | 48,881 | 484,448 |
| General, administrative and Trust (“G&A”) | 22,469 | - | 22,469 |
| | 458,036 | 48,881 | 506,917 |
| Income before the undernoted | 182,233 | 5,782 | 188,015 |
| Finance costs | 83,796 | 2,032 | 85,828 |
| Property lease expense | 2,019 | - | 2,019 |
| Other expense/(income) | (399) | (48,235) | (48,634) |
| Depreciation of property, plant and equipment (“PP&E”) | 115,981 | 2,858 | 118,839 |
| Amortization of intangible assets | 1,575 | - | 1,575 |
| Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains) | (9,947) | - | (9,947) |
| Share of joint venture loss/(income) | (49,127) | 49,127 | - |
| Income before income taxes | 38,335 | - | 38,335 |
| Income tax expense/(benefit): | | | |
| Current | 194 | - | 194 |
| Deferred | - | - | - |
| | 194 | - | 194 |
| Income/(loss) for the period | 38,141 | - | 38,141 |
| Other comprehensive income/(loss): | | | |
| Unrealized foreign currency income/(loss) on translation of foreign operations | 1,570 | - | 1,570 |
| Total comprehensive income | 39,711 | - | 39,711 |

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

The following is the 2012 YTD Statement of Comprehensive Loss adjusted to remove the effects of IFRS 11:

| ($000s) | 2012 YTD [1] | IFRS 11 Adjustments [2] | 2012 YTD using line-by-line [3] |
|---|---|---|---|
| **Revenue** | | | |
| Resident | 581,986 | 62,124 | 644,110 |
| Management and other fees | 4,196 | - | 4,196 |
| Lease revenue from joint ventures | 12,459 | (12,459) | - |
| Mezzanine loan interest | 701 | - | 701 |
| | 599,342 | 49,665 | 649,007 |
| **Expenses** | | | |
| Direct operating | 413,741 | 37,629 | 451,370 |
| G&A | 18,976 | - | 18,976 |
| | 432,717 | 37,629 | 470,346 |
| Income before the undernoted | 166,625 | 12,036 | 178,661 |
| Finance costs | 90,579 | 6,070 | 96,649 |
| Property lease expense | 1,879 | - | 1,879 |
| Other expense/(income) | 9,099 | 316 | 9,415 |
| Depreciation of PP&E | 135,458 | 5,743 | 141,201 |
| Amortization of intangible assets | 2,866 | - | 2,866 |
| Changes in fair value of financial instruments and unrealized foreign exchange losses/(gains) | 47,775 | - | 47,775 |
| Share of joint venture loss/(income) | 93 | (93) | - |
| Loss before income taxes | (121,124) | - | (121,124) |
| Income tax expense/(benefit): | | | |
| Current | 218 | - | 218 |
| Deferred | (20,554) | - | (20,554) |
| | (20,336) | - | (20,336) |
| Loss for the period | (100,788) | - | (100,788) |
| Other comprehensive loss: | | | |
| Unrealized foreign currency loss on translation of foreign operations | (2,122) | - | (2,122) |
| Total comprehensive loss | (102,910) | - | (102,910) |

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

The following is the Balance Sheet at September 30, 2013 adjusted to remove the impact of IFRS 11:

| ($000s) | September 30, 2013 (1) | IFRS 11 Adjustments (2) | September 30, 2013 using line-by-line (3) |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | 1,597 | 5,019 | 6,616 |
| Trade and other receivables | 20,268 | (187) | 20,081 |
| Mezzanine loans receivables | - | - | - |
| Capital funding receivable | 4,646 | - | 4,646 |
| Other assets | 29,725 | 8,181 | 37,906 |
| Assets held for sale | 63,555 | - | 63,555 |
| Total current assets | 119,791 | 13,013 | 132,804 |
| Non-current assets: | | | |
| Other assets | 7,272 | - | 7,272 |
| Capital funding receivable | 65,582 | | 65,582 |
| Investment in joint ventures | 32,902 | (32,902) | - |
| Intangible assets | 49,972 | - | 49,972 |
| PP&E | 2,603,566 | 47,315 | 2,650,881 |
| Total non-current assets | 2,759,294 | 14,413 | 2,773,707 |
| Total assets | 2,879,085 | 27,426 | 2,906,511 |
| **Liabilities and Unitholders' Equity** | | | |
| Current liabilities: | | | |
| Credit Facility | 47,000 | - | 47,000 |
| Accounts payable and other liabilities | 114,511 | (2,017) | 112,494 |
| Distributions payable | 7,865 | - | 7,865 |
| Mortgages payable | 380,560 | 13,234 | 393,794 |
| Liabilities related to assets held for sale | 63,797 | - | 63,797 |
| Total current liabilities | 613,733 | 11,217 | 624,950 |
| Non-current liabilities: | | | |
| Mortgages payable | 1,568,512 | 16,209 | 1,584,721 |
| Convertible debentures | 140,400 | - | 140,400 |
| Class B Units of Chartwell Master Care LP | 16,766 | - | 16,766 |
| Total non-current liabilities | 1,725,678 | 16,209 | 1,741,887 |
| Total liabilities | 2,339,411 | 27,426 | 2,366,837 |
| Unitholders' equity | 539,674 | - | 539,674 |
| Total liabilities and unitholders' equity | 2,879,085 | 27,426 | 2,906,511 |

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

The following is the Balance Sheet at December 31, 2012 adjusted to remove the impact of IFRS 11:

| ($000s) | December 31, 2012 Restated for IFRS 11 (1) | IFRS 11 Adjustments (2) | December 31, 2012 As previously reported (3) |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | 25 | 5,284 | 5,309 |
| Trade and other receivables | 20,970 | (674) | 20,296 |
| Mezzanine loans receivables | - | - | - |
| Capital funding receivable | 4,396 | - | 4,396 |
| Other assets | 25,859 | 2,459 | 28,318 |
| Assets held for sale | - | 97,404 | 97,404 |
| Total current assets | 51,250 | 104,473 | 155,723 |
| Non-current assets: | | | |
| Other assets | 7,186 | - | 7,186 |
| Capital funding receivable | 56,661 | - | 56,661 |
| Investment in joint ventures | 33,498 | (33,498) | - |
| Intangible assets | 50,775 | - | 50,775 |
| PP&E | 2,685,431 | 49,512 | 2,734,943 |
| Total non-current assets | 2,833,551 | 16,014 | 2,849,565 |
| Total assets | 2,884,801 | 120,487 | 3,005,288 |
| **Liabilities and Unitholders' Equity** | | | |
| Current liabilities: | | | |
| Credit Facility | 77,000 | - | 77,000 |
| Accounts payable and other liabilities | 122,993 | (1,921) | 121,072 |
| Distributions payable | 7,800 | - | 7,800 |
| Obligation to joint venture | 7,296 | (7,296) | - |
| Mortgages payable | 269,026 | 13,197 | 282,223 |
| Deferred consideration on business combinations | 520 | - | 520 |
| Liabilities related to assets held for sale | - | 99,969 | 99,969 |
| Total current liabilities | 484,635 | 103,949 | 588,584 |
| Non-current liabilities: | | | |
| Mortgages payable | 1,680,589 | 16,538 | 1,697,127 |
| Convertible debentures | 147,150 | - | 147,150 |
| Class B Units of Chartwell Master Care LP | 18,302 | - | 18,302 |
| Deferred tax liabilities | - | - | - |
| Total non-current liabilities | 1,846,041 | 16,538 | 1,862,579 |
| Total liabilities | 2,330,676 | 120,487 | 2,451,163 |
| Unitholders' equity | 554,125 | - | 554,125 |
| Total liabilities and unitholders' equity | 2,884,801 | 120,487 | 3,005,288 |

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

The implementation of IFRS 11 has had a significant impact on the presentation of our consolidated financial statements; however, it had no impact on our operating performance, financial position or key performance indicators.

# Consolidated Results of Operations

## Highlights

The following table summarizes selected financial and operating performance measures:

| ($000s, except occupancy rates, per unit amounts and number of units) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Resident revenue [(1)] | 233,614 | 226,627 | 6,987 | 688,780 | 644,110 | 44,670 |
| Weighted average occupancy rate - same property portfolio [(2)] | 89.9% | 89.2% | 0.7pp | 89.6% | 89.0% | 0.6pp |
| Same property NOI [(3)] | 58,253 | 58,133 | 120 | 172,455 | 169,654 | 2,801 |
| AFFO [(4)(5)] | 32,569 | 31,409 | 1,160 | 92,448 | 81,452 | 10,996 |
| AFFO per unit diluted [(6)(7)] | 0.18 | 0.18 | - | 0.53 | 0.49 | 0.04 |
| FFO [(8)] | 36,577 | 35,432 | 1,145 | 103,026 | 90,736 | 12,290 |
| FFO per unit diluted [(6)(7)] | 0.21 | 0.20 | 0.01 | 0.58 | 0.54 | 0.04 |
| Distributions declared [(9)] | 23,516 | 23,266 | 250 | 70,378 | 67,371 | 3,007 |
| Distributions declared per unit [(7)] | 0.14 | 0.14 | - | 0.41 | 0.41 | - |
| Distributions declared as a percentage of AFFO | 72.2% | 74.1% | (1.9pp) | 76.1% | 82.7% | (6.6pp) |
| Net income/(loss) for the period | (2,781) | (18,538) | 15,757 | 38,141 | (100,788) | 138,929 |

*(1) Non-IFRS; includes our share of revenue from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.*
*(2) pp = percentage points.*
*(3) Non-IFRS; excludes the effects of foreign exchange on the U.S. dollar. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.*
*(4) Refer to the "Non-IFRS Measures – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO and AFFO per unit diluted calculations.*
*(5) Includes $0.5 million and $1.4 million in negative AFFO incurred on properties in lease-up in Q3 2013 and 2013 YTD, respectively ($0.9 million and $2.3 million in Q3 2012 and 2012 YTD, respectively).*
*(6) Includes dilutive impact of conversion of convertible debentures into Trust Units.*
*(7) Refer to the "Key Performance Indicators – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.*
*(8) Refer to the "Non-IFRS Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net income/(loss) and calculations of FFO per unit diluted.*
*(9) Includes distributions declared on Trust Units and distributions on Class B Units of Chartwell Master Care LP ("Class B Units") and subscription receipts recorded as interest expense.*

In Q3 2013, AFFO was $32.6 million or $0.18 per unit diluted. This represents an increase of $1.2 million or 3.7% compared to Q3 2012 AFFO of $31.4 million or $0.18 per unit diluted. The changes in AFFO, including our share of amounts from joint ventures, include the following:

- Incremental contribution from our property portfolio of $2.1 million, primarily due to acquisitions and same property NOI growth;
- Lower interest expense of $0.8 million, primarily due to lower interest rates achieved on renewals and lower drawings on our Credit Facility;
- Lower negative AFFO on properties in lease-up of $0.4 million; and
- Higher management fee income and other items combined for $0.3 million;

offset by:

- Lower AFFO of $0.7 million due to the sale of the Bristal Portfolio;
- Higher G&A expenses of $1.0 million incurred to support significant growth in our property portfolio; and
- Lower amounts received under income guarantees and other items, combined for $0.7 million.

For 2013 YTD, AFFO was $92.4 million or $0.53 per unit diluted. This represents an increase of $11.0 million or 13.5% compared to AFFO in 2012 YTD of $81.5 million or $0.49 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from the property portfolio of $17.0 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of $1.8 million, primarily due to fees generated by providing management services for the properties acquired in partnership with Health Care REIT ("HCN") in May 2012 (the "Maestro Portfolio"); and
- Lower negative AFFO on properties in lease-up of $0.9 million;

offset by:

- Lower AFFO of $2.2 million due to the sale of the Bristal Portfolio;
- Higher interest expense of $1.7 million primarily due to acquisitions in 2012 and 2013;
- Higher G&A expenses of $3.5 million incurred to support significant growth in our property portfolio;
- Lower mezzanine interest income of $0.6 million; and
- Higher capital funding, maintenance capex reserve and other items combined for $0.7 million.

Per unit amounts were also impacted by the dilutive effect of the $135.0 million aggregate principal amount of 5.7% convertible debentures issued in Q1 2012.

In Q3 2013, FFO increased by $1.1 million or 3.2% to $36.6 million or $0.21 per unit diluted compared to Q3 2012 FFO of $35.4 million or $0.20 per unit diluted. In addition to the items noted in the discussion of AFFO above, FFO was also impacted by changes in amortization of financing costs and debt mark-to-market adjustments.

For 2013 YTD, FFO was $103.0 million or $0.58 per unit diluted. This represents an increase of $12.3 million or 13.5% compared to 2012 YTD FFO of $90.7 million or $0.54 per unit diluted.

In Q3 2013, net loss was $2.8 million compared to a net loss in Q3 2012 of $18.5 million. For 2013 YTD, net income was $38.1 million compared to a net loss of $100.8 million in 2012 YTD. In addition to items which impacted AFFO and FFO as discussed above, net income was also impacted by depreciation of properties and amortization of limited life intangibles, changes in fair value of financial instruments and unrealized foreign exchange, and changes in deferred income taxes. Furthermore, net income in 2013 YTD increased due to a $48.9 million gain on the sale of the Bristal Portfolio. Net loss for 2012 YTD included transaction costs related to the acquisition of the Maestro Portfolio, convertible debenture issuance costs and distributions on subscription receipts recorded as interest expense. There were no such expenses in 2013 YTD.

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

## *Same Property Portfolio Highlights*

| ($000s, except occupancy rates) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Canadian retirement: | | | | | | |
| NOI [1] | 33,814 | 34,688 | (874) | 98,129 | 98,880 | (751) |
| Occupancy | 87.5% | 87.5% | - | 87.6% | 87.3% | 0.3pp |
| Canadian LTC: | | | | | | |
| NOI [1] | 6,708 | 6,628 | 80 | 19,743 | 18,844 | 899 |
| Occupancy | 99.0% | 99.0% | - | 98.6% | 98.5% | 0.1pp |
| U.S.: | | | | | | |
| NOI (U.S.$) [1] | 17,731 | 16,817 | 914 | 54,583 | 51,930 | 2,653 |
| Occupancy | 90.4% | 88.2% | 2.2pp | 89.4% | 87.9% | 1.5pp |
| Combined: | | | | | | |
| NOI [1][2] | 58,253 | 58,133 | 120 | 172,455 | 169,654 | 2,801 |
| Occupancy | 89.9% | 89.2% | 0.7pp | 89.6% | 89.0% | 0.6pp |

*(1) Non-IFRS; includes our share of NOI from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.*

*(2) Non-IFRS; excludes the effect of foreign exchange. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.*

For Q3 2013, combined same property occupancy improved to 89.9%, with same property NOI increasing $0.1 million or 0.2% as follows:

- In our Canadian retirement portfolio, same property NOI decreased $0.9 million or 2.5% as higher staffing costs incurred to address regulatory requirements in Quebec, and to deliver enhanced services to our residents, as well as higher utilities, property taxes, marketing and food expenses, more than offset the revenue growth from ancillary services and regular annual rental rate increases in line with competitive market conditions. Q3 2013 occupancy remained consistent with Q3 2012 at 87.5%.
- In our Canadian LTC portfolio, same property NOI improved $0.1 million or 1.2% primarily due to higher government funding and increased preferred accommodation rates. Q3 2013 occupancy remained high at 99.0%.
- In our U.S. portfolio, same property NOI increased 5.4% primarily due to higher revenues as a result of improved occupancy, regular annual rental rate increases in line with competitive market conditions and lower property taxes; partially offset by higher resident move-in incentives, higher staffing costs, bad debt, utilities and insurance expenses, and higher management fees. Occupancy improved to 90.4% in Q3 2013 from 88.2% in Q3 2012.

For 2013 YTD, combined same property occupancy improved to 89.6%, with same property NOI increasing $2.8 million or 1.7% as follows:

- In our Canadian retirement portfolio, same property NOI decreased 0.8%. The growth in revenues, primarily due to slight occupancy improvements, regular annual rental rate increases in line with competitive market conditions and higher ancillary services, was offset by higher staffing costs, food, utilities and marketing expenses. 2013 YTD occupancy improved to 87.6% from 87.3% in 2012 YTD.
- In our Canadian LTC portfolio, same property NOI increased 4.8%, primarily due to higher government funding and increased preferred accommodation rates. Occupancies remained high at 98.6% compared to 98.5% in 2012 YTD.
- In our U.S. portfolio, same property NOI increased 5.1%, primarily due to higher revenues as a result of improved occupancy, regular annual rental rate increases in line with competitive market conditions and lower property taxes and administrative costs; partially offset by higher management fees, staffing costs, insurance, marketing and bad debt expenses. Occupancies improved to 89.4% in 2013 YTD from 87.9% in 2012 YTD.

## Summary of Net Operating Income

| ($000s, except occupancy rates) | Q3 2013 | Q3 2012 | Increase / (Decrease) | 2013 YTD | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| **Resident Revenue** | | | | | | |
| Same property [1][2] | 198,159 | 192,260 | 5,899 | 586,380 | 572,420 | 13,960 |
| Acquisitions and other [1][2] | 33,313 | 34,686 | (1,373) | 98,489 | 71,330 | 27,159 |
| Foreign exchange on U.S. dollar revenue [1] | 2,142 | (319) | 2,461 | 3,911 | 360 | 3,551 |
| | 233,614 | 226,627 | 6,987 | 688,780 | 644,110 | 44,670 |
| *Less:* Share of resident revenue from joint ventures | 25,170 | 31,036 | (5,866) | 78,014 | 62,124 | 15,890 |
| Total resident revenue | 208,444 | 195,591 | 12,853 | 610,766 | 581,986 | 28,780 |
| **Direct Operating Expenses** | | | | | | |
| Same property [1][2] | 139,906 | 134,127 | 5,779 | 413,925 | 402,766 | 11,159 |
| Acquisitions and other [1][2] | 22,851 | 23,290 | (439) | 67,892 | 48,377 | 19,515 |
| Foreign exchange on U.S. dollar expenses [1] | 1,462 | (214) | 1,676 | 2,631 | 227 | 2,404 |
| | 164,219 | 157,203 | 7,016 | 484,448 | 451,370 | 33,078 |
| *Less:* Share of direct operating expenses from joint ventures | 15,479 | 19,267 | (3,788) | 48,881 | 37,629 | 11,252 |
| Total direct operating expenses | 148,740 | 137,936 | 10,804 | 435,567 | 413,741 | 21,826 |
| **Net Operating Income** | | | | | | |
| Same property [1][2] | 58,253 | 58,133 | 120 | 172,455 | 169,654 | 2,801 |
| Acquisitions and other [1][2] | 10,462 | 11,396 | (934) | 30,597 | 22,953 | 7,644 |
| Foreign exchange on U.S. dollar expenses [1] | 680 | (105) | 785 | 1,280 | 133 | 1,147 |
| | 69,395 | 69,424 | (29) | 204,332 | 192,740 | 11,592 |
| *Less:* Share of NOI from joint ventures | 9,691 | 11,769 | (2,078) | 29,133 | 24,495 | 4,638 |
| Total NOI | 59,704 | 57,655 | 2,049 | 175,199 | 168,245 | 6,954 |
| Weighted average occupancy rate - same property portfolio | 89.9% | 89.2% | 0.7pp | 89.6% | 89.0% | 0.6pp |
| Weighted average occupancy rate - total portfolio | 89.2% | 88.8% | 0.4pp | 89.0% | 88.5% | 0.5pp |

*(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.*

*(2) Non-IFRS; excludes the effect of foreign exchange. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.*

Total resident revenue grew 6.6% in Q3 2013 and 4.9% in 2013 YTD through increased revenue in our same property and acquisitions portfolios, partially offset by the sale of the Bristal Portfolio in Q1 2013.

Same property resident revenue increased $5.9 million or 3.1% for Q3 2013 and $14.0 million or 2.4% for 2013 YTD, primarily as a result of occupancy improvements, regular annual rental rate increases in line with competitive market conditions and higher ancillary services revenues.

Total direct operating expenses grew 7.8% in Q3 2013 and 5.3% in 2013 YTD, due to growth in our same property and acquisition portfolios, partially offset by the sale of the Bristal Portfolio in Q1 2013.

Same property direct operating expenses increased $5.8 million or 4.3% in Q3 2013 and $11.2 million or 2.8% in 2013 YTD, primarily due to higher staffing costs related to growth in the scope of services provided to our residents and to respond to new regulatory requirements, higher management fees and increases in food, marketing, utilities, bad debt and insurance expenses.

Total NOI increased in 2013 YTD due to growth in our same property and acquisitions portfolios, partially offset by the sale of the Bristal Portfolio in Q1 2013.

## General, Administrative and Trust Expenses

| ($000s, except percentage of revenue) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| G&A expenses | 6,800 | 5,847 | 953 | 22,469 | 18,976 | 3,493 |
| G&A as a percentage of revenue (1) | 2.9% | 2.5% | 0.4pp | 3.2% | 2.9% | 0.3pp |

*(1) Non-IFRS; refer to the "Key Performance Indicators – General, Administrative and Trust Expenses as a Percentage of Revenue" section of this MD&A for a discussion of the significance of this metric.*

G&A expenses increased $1.0 million or 16.3% in Q3 2013 and $3.5 million or 18.4% in 2013 YTD, primarily due to staffing costs incurred to support significant growth in our Canadian property portfolio as well as our increased investments in training, education, employee recognition and information technology, partially offset by lower insurance and other corporate expenses.

G&A expenses as a percentage of revenue, including our share of revenue from joint ventures, were 2.9% in Q3 2013 and 3.2% in 2013 YTD compared to 2.5% in Q3 2012 and 2.9% in 2012 YTD.

## Management Fee Revenue

| ($000s) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| HCN | 1,705 | 1,336 | 369 | 4,633 | 2,191 | 2,442 |
| Spectrum | - | 116 | (116) | - | 321 | (321) |
| Other | 459 | 510 | (51) | 1,391 | 1,684 | (293) |
| Total management fee revenue | 2,164 | 1,962 | 202 | 6,024 | 4,196 | 1,828 |

Management fee revenue increased $0.2 million or 10.3% in Q3 2013 and $1.8 million or 43.6% in 2013 YTD, primarily due to operations management and capital project oversight fees earned from HCN. Under our agreements with HCN, we are entitled to operations management fees of 5% of gross revenues, which could be increased to up to 6% of gross revenues, or decreased no lower than 4% of gross revenues upon over or under achievement of agreed-upon operating results, respectively. In addition, we are entitled to capital project oversight fees of between 3% and 7% of the value of the capital project, depending on the size of the project. Only HCN's share of these fees is reported as management fee revenue. The portion of fees related to our ownership in the joint venture properties is offset against G&A expenses, or capital cost of the assets, on consolidation, as applicable.

We completed a settlement with Spectrum in Q4 2012, and no longer earn fees from this entity.

The decrease in other management fees primarily relates to the sale of the Bristal Portfolio in Q1 2013, and the loss of one management contract as a result of the sale of the property by the owner in 2012.

## *Finance Costs*

| ($000s) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Mortgages and loans payable [1] | | | | | | |
| Same property [2] | 22,237 | 23,166 | (929) | 66,853 | 70,171 | (3,318) |
| Acquisitions and other [2][3] | 3,680 | 4,901 | (1,221) | 11,245 | 10,777 | 468 |
| Foreign exchange on U.S. dollar expenses | 362 | (57) | 419 | 657 | 76 | 581 |
| | 26,279 | 28,010 | (1,731) | 78,755 | 81,024 | (2,269) |
| Convertible debentures | 1,939 | 1,934 | 5 | 5,755 | 5,232 | 523 |
| Credit Facility | 534 | 931 | (397) | 1,440 | 2,191 | (751) |
| | 28,752 | 30,875 | (2,123) | 85,950 | 88,447 | (2,497) |
| Amortization of financing costs and debt mark-to-market adjustments [1] | 98 | (279) | 377 | 251 | 1,392 | (1,141) |
| | 28,850 | 30,596 | (1,746) | 86,201 | 89,839 | (3,638) |
| Interest capitalized to properties under development | (564) | (431) | (133) | (1,045) | (1,477) | 432 |
| Distributions on Class B Units recorded as interest expense | 224 | 228 | (4) | 672 | 682 | (10) |
| Distributions on subscription receipts | - | - | - | - | 2,242 | (2,242) |
| Convertible debenture issuance costs | - | - | - | - | 5,363 | (5,363) |
| | 28,510 | 30,393 | (1,883) | 85,828 | 96,649 | (10,821) |
| *Less:* Share of joint-venture finance costs | 334 | 2,015 | (1,681) | 2,032 | 6,070 | (4,038) |
| Total finance costs | 28,176 | 28,378 | (202) | 83,796 | 90,579 | (6,783) |

*(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.*
*(2) Non-IFRS; excludes the effect of foreign exchange. Refer to the "Key Performance Indicators – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.*
*(3) Includes $0.4 million and $1.2 million related to properties in lease-up in Q3 2013 and 2013 YTD, respectively ($0.5 million and $1.2 million in Q3 2012 and 2012 YTD, respectively).*

Interest expense on the same property portfolio decreased $0.9 million in Q3 2013 and $3.3 million in 2013 YTD, due to regular mortgage principal repayments and lower interest rates achieved on renewals.

Interest expense in our acquisitions and other portfolio decreased $1.2 million in Q3 2013 primarily due to the sale of the Bristal Portfolio in February 2013. For 2013 YTD, interest expense in our acquisitions and other portfolio increased $0.5 million primarily due to the acquisition of the Maestro Portfolio in May 2012, partially offset by the sale of the Bristal Portfolio.

Interest expense on our convertible debentures increased in 2013 YTD. In Q1 2012, we issued a new series of $135.0 million aggregate principal amount of 5.7% convertible debentures and redeemed all of the issued and outstanding $75.0 million aggregate principal amount of 5.9% convertible debentures.

Amortization of financing costs and debt mark-to-market adjustments increased $0.4 million in Q3 2013 as a result of lower debt mark-to-market adjustments, as well as by higher amortization of financing costs due to mortgage renewal activity. For 2013 YTD, amortization of financing costs and debt mark-to-market adjustments decreased $1.1 million primarily due to higher amortization of debt mark-to-market adjustments in the current year due to the timing of acquisitions, partially offset by an early refinancing mortgage penalty incurred in Q2 2012.

We capitalized interest of $0.6 million and $1.0 million in Q3 2013 and 2013 YTD, respectively, related to our development projects under construction. Interest capitalization stops once a development project becomes available for use.

In Q2 2012, on conversion of the subscription receipts to Trust Units, we paid $2.2 million of distributions related to the period when the subscription receipts were outstanding. Under IFRS, such distributions are recorded as interest expense.

Under IFRS, we have elected to carry our convertible debentures at fair value and as a result, the issuance costs of $5.4 million were expensed in Q1 2012.

## Other (Expense)/Income

| ($000s) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Transaction costs arising on business acquisitions and dispositions [1] | (902) | (1,621) | 719 | (3,500) | (12,670) | 9,170 |
| Interest income on capital funding receivable and bank balances [1] | 1,048 | 868 | 180 | 3,082 | 2,967 | 115 |
| Gain on sale of assets [1] | 105 | 9 | 96 | 49,052 | 288 | 48,764 |
| | 251 | (744) | 1,995 | 48,634 | (9,415) | 58,049 |
| *Less:* Share of joint ventures | (35) | (30) | (5) | 48,235 | (316) | 48,551 |
| Total other (expense)/income | 286 | (714) | 1,000 | 399 | (9,099) | 9,498 |

*(1) Non-IFRS; includes our share of amounts from joint ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.*

Transaction costs arising on business acquisitions and dispositions are expensed as incurred and fluctuate from period to period based on the timing and volume of transactions. 2012 YTD amounts relate primarily to the acquisition of the Maestro Portfolio.

Gain on sale of assets of $49.1 million in 2013 YTD includes the disposition of the Bristal Portfolio which closed in Q1 2013.

## Other Items

| ($000s) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Property lease expense | 682 | 620 | 62 | 2,019 | 1,879 | 140 |
| Depreciation of PP&E [1] | 41,126 | 47,700 | (6,574) | 118,839 | 141,201 | (22,362) |
| Amortization of limited life intangible assets | 514 | 807 | (293) | 1,575 | 2,866 | (1,291) |
| Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain) | (3,074) | 9,262 | (12,336) | (9,947) | 47,775 | (57,722) |
| Current income tax expense/(benefit) | 65 | 77 | (12) | 194 | 218 | (24) |
| Deferred income tax expense/(benefit) | - | (5,495) | 5,495 | - | (20,554) | 20,554 |

*(1) Non-IFRS; includes our share of joint-venture depreciation of $1.0 million in Q3 2013 ($1.2 million in Q3 2012). Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.*

Depreciation of PP&E and limited life intangible assets decreased primarily due to certain assets being fully amortized in 2012 and 2013 YTD.

Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain) result from changes in the market value of the underlying financial instruments and foreign exchange rate movements. These amounts are expected to fluctuate from period to period due to changes in financial markets.

Under IFRS, subscription receipts issued on March 9, 2012 were required to be recorded as a liability on our balance sheet until May 1, 2012, when the subscription receipts were converted to Trust Units and reclassified to unitholders' equity. We were also required to fair-value this liability. As a result, in Q2

2012 and 2012 YTD, we recorded losses of $8.7 million and $29.6 million, respectively, related to the change in fair value of these subscription receipts. There were no comparable amounts in 2013.

## *Non-IFRS Measures*

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

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

### Funds from Operations ("FFO")

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

| ($000s, except per unit amounts) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Net income/(loss) for the period | (2,781) | (18,538) | 15,757 | 38,141 | (100,788) | 138,929 |
| *Add (Subtract):* | | | | | | |
| Depreciation of PP&E [1] | 41,126 | 47,700 | (6,574) | 118,839 | 141,201 | (22,362) |
| Amortization of limited life intangible assets | 514 | 807 | (293) | 1,575 | 2,866 | (1,291) |
| Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above | (229) | (144) | (85) | (702) | (433) | (269) |
| Gain on sale of assets [1] | (105) | (9) | (96) | (49,052) | (288) | (48,764) |
| Transaction costs arising on business acquisitions and dispositions [1] | 902 | 1,621 | (719) | 3,500 | 12,670 | (9,170) |
| Deferred income taxes | - | (5,495) | 5,495 | - | (20,554) | 20,554 |
| Distributions on Class B Units recorded as interest expense | 224 | 228 | (4) | 672 | 682 | (10) |
| Distributions on subscription receipts recorded as interest expense | - | - | - | - | 2,242 | (2,242) |
| Convertible debenture issuance costs | - | - | - | - | 5,363 | (5,363) |
| Changes in fair value of financial instruments and unrealized foreign exchange gains/losses | (3,074) | 9,262 | (12,336) | (9,947) | 47,775 | (57,722) |
| FFO [2] | 36,577 | 35,432 | 1,145 | 103,026 | 90,736 | 12,290 |
| Interest expense on 5.7% convertible debentures | 1,939 | 1,934 | 5 | 5,755 | 4,322 | 1,433 |
| Diluted FFO [2][3] | 38,516 | 37,366 | 1,150 | 108,781 | 95,058 | 13,723 |
| FFO per unit | 0.21 | 0.20 | 0.01 | 0.59 | 0.55 | 0.04 |
| FFO per unit diluted [4] | 0.21 | 0.20 | 0.01 | 0.58 | 0.54 | 0.04 |

*(1) Non-IFRS; includes our share of amounts from joint-ventures. Refer to the "Adoption of IFRS 11 – Joint Arrangements" section of this MD&A for reconciliation of our Financial Statements to financial information used in this MD&A.*
*(2) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.*
*(3) Diluted FFO is solely utilized for the purposes of calculating FFO per unit diluted.*
*(4) Includes dilutive impact of 5.7% convertible debentures.*

FFO increased by $1.1 million or 3.2% in Q3 2013 and by $12.3 million or 13.5% in 2013 YTD primarily due to higher contribution from our property portfolio, higher management fees and lower finance costs; partially offset by higher G&A expenses incurred as a result of the significant growth in our property portfolio and the sale of the Bristal Portfolio. The growth in FFO for 2013 YTD is also a result of the acquisition of the Maestro Portfolio.

## Adjusted Funds from Operations (“AFFO”)

The following table provides the calculation of AFFO:

| ($000s, except per unit amounts) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| FFO [1] | 36,577 | 35,432 | 1,145 | 103,026 | 90,736 | 12,290 |
| *Add (Subtract):* | | | | | | |
| Principal portion of capital subsidy receivable from Health Authorities | 1,106 | 942 | 164 | 3,191 | 2,787 | 404 |
| Amounts received under income guarantees | - | 621 | (621) | 1,361 | 1,087 | 274 |
| Amortization of financing costs and debt mark-to-market adjustments [2] | 63 | (569) | 632 | 118 | 1,104 | (986) |
| Financing cost reserve [3] | (504) | (484) | (20) | (1,472) | (1,379) | (93) |
| AFFO before capex reserve | 37,242 | 35,942 | 1,300 | 106,224 | 94,335 | 11,889 |
| Maintenance capex reserve - 2% of property revenue [4] | (4,673) | (4,533) | (140) | (13,776) | (12,883) | (893) |
| AFFO [5] | 32,569 | 31,409 | 1,160 | 92,448 | 81,452 | 10,996 |
| Interest expense on 5.7% convertible debentures | 1,939 | 1,934 | 5 | 5,755 | 4,322 | 1,433 |
| Diluted AFFO [5][6] | 34,508 | 33,343 | 1,165 | 98,203 | 85,774 | 12,429 |
| AFFO per unit | 0.19 | 0.18 | 0.01 | 0.53 | 0.49 | 0.04 |
| AFFO per unit diluted [7] | 0.18 | 0.18 | - | 0.53 | 0.49 | 0.04 |

*(1) Refer to the “Key Performance Indicators – Funds from Operations” section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.*
*(2) Excludes amortization of financing costs incurred in respect of renewal of our Credit Facility.*
*(3) Financing cost reserve is calculated quarterly as 60 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.*
*(4) Refer to the “Liquidity and Capital Commitments – Capital Expenditures” section of this MD&A for a discussion of the nature of this reserve.*
*(5) Refer to the “Key Performance Indicators – Adjusted Funds from Operations” section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.*
*(6) Diluted AFFO is solely utilized for the purposes of calculating AFFO per unit diluted.*
*(7) Includes the dilutive impact of 5.7% convertible debentures.*

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

## Weighted Average Number of Units

The following table provides details of the weighted average number of units outstanding:

| (000s) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Weighted average number of units [1] | 174,982 | 173,067 | 1,915 | 174,568 | 166,315 | 8,253 |
| Dilutive impact of 5.7% convertible debentures | 12,273 | 12,273 | - | 12,273 | 9,227 | 3,046 |
| Weighted average number of units, diluted | 187,255 | 185,340 | 1,915 | 186,841 | 175,542 | 11,299 |

*(1) Includes Class B Units and units issued under LTIP, DTU and subscription receipts.*

## *Quarterly Financial Information*

The following table summarizes our quarterly unaudited financial information:

| | 2013 | | | 2012 (Restated) | | | | 2011 [1] |
|---|---|---|---|---|---|---|---|---|
| ($000s) | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Revenues | 218,600 | 212,716 | 208,953 | 210,849 | 205,059 | 200,564 | 193,719 | 199,530 |
| Direct operating expenses | (148,740) | (143,179) | (143,648) | (144,044) | (137,937) | (137,809) | (137,996) | (141,611) |
| G&A expenses | (6,800) | (7,793) | (7,876) | (7,190) | (5,847) | (6,766) | (6,363) | (6,198) |
| Income before the understated [2] | 63,060 | 61,744 | 57,429 | 59,615 | 61,275 | 55,989 | 49,360 | 51,721 |
| Finance costs | (28,176) | (27,800) | (27,820) | (28,511) | (28,378) | (31,200) | (31,001) | (27,194) |
| Property lease expense | (682) | (681) | (656) | (627) | (619) | (632) | (627) | (644) |
| Other income/(expense) | 286 | 527 | (414) | (11,117) | (714) | (6,300) | (2,084) | (2,538) |
| Depreciation and amortization | (40,611) | (37,636) | (39,309) | (58,856) | (47,316) | (48,868) | (42,140) | (52,032) |
| Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses) | 3,074 | 7,437 | (564) | (1,604) | (9,262) | (10,512) | (28,001) | (3,212) |
| Share of earnings (loss)/gain | 333 | 252 | 48,542 | 1,120 | 1,058 | 36 | (1,187) | - |
| Current income tax (expense)/recovery | (65) | (66) | (63) | (78) | (77) | (82) | (59) | (79) |
| Deferred income tax (expense)/recovery | - | - | - | 1,423 | 5,495 | 7,683 | 7,376 | 8,729 |
| Net income/(loss) for the period | (2,781) | 3,777 | 37,145 | (38,635) | (18,538) | (33,887) | (48,363) | (25,249) |
| FFO [3] | 36,577 | 35,302 | 31,147 | 33,421 | 35,432 | 29,793 | 25,512 | 24,792 |
| Diluted FFO | 38,516 | 37,220 | 33,044 | 44,780 | 37,366 | 31,711 | 25,512 | 24,792 |
| FFO per unit diluted | 0.21 | 0.20 | 0.18 | 0.19 | 0.20 | 0.17 | 0.17 | 0.17 |
| AFFO [3] | 32,569 | 32,254 | 27,625 | 30,104 | 31,409 | 27,825 | 22,217 | 22,036 |
| Diluted AFFO | 34,508 | 34,172 | 29,522 | 41,463 | 33,343 | 29,743 | 22,217 | 22,036 |
| AFFO per unit diluted | 0.18 | 0.18 | 0.16 | 0.17 | 0.18 | 0.16 | 0.15 | 0.15 |

*(1) 2011 results have not been restated for the impact of IFRS 11 and include our share of amounts from joint ventures.*
*(2) Refers to income before finance costs, property lease expense, other income/(expense), depreciation and amortization, changes in fair value of financial instruments and unrealized foreign exchange gains/(losses), and income tax.*
*(3) Q4 2012 amounts exclude the $9.4 million reversal of provision for impairment associated with the Spectrum settlement.*

Our results for the past eight quarters have been affected by the contribution of acquisitions and dispositions, including the acquisition of the Maestro Portfolio in Q2 2012 and the sale of the Bristal Portfolio in Q1 2013, lower mezzanine loan interest, changes in foreign exchange rates resulting in foreign exchange gains and losses on cross-border intercompany loans, and the issuance of Trust Units.

# Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments in Q3 2013.

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

## *Canadian Retirement Operations*

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

| | | Composition of Suites | | | |
|---|---|---|---|---|---|
| | **Properties** | **ISL** | **AL** | **LTC** | **Total** |
| **Same Property** | | | | | |
| 100% owned | 101 | 8,522 | 2,659 | 675 | 11,856 |
| Partially owned [1] | 7 | 848 | 37 | - | 885 |
| Total same property owned | 108 | 9,370 | 2,696 | 675 | 12,741 |
| **Acquisitions & Development** | | | | | |
| 100% owned: | | | | | |
| Operating | 5 | 348 | 11 | 182 | 541 |
| Development suites in lease-up | 2 | 163 | 49 | - | 212 |
| | 7 | 511 | 60 | 182 | 753 |
| 50% owned - operating | 40 | 7,254 | 434 | 58 | 7,746 |
| Total acquisitions & development | 47 | 7,765 | 494 | 240 | 8,499 |
| Total | 155 | 17,135 | 3,190 | 915 | 21,240 |

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

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

| ($000s) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Same property | 93,335 | 91,135 | 2,200 | 276,976 | 270,766 | 6,210 |
| Acquisitions and development | 29,585 | 24,461 | 5,124 | 84,380 | 41,557 | 42,823 |
| Total revenue | 122,920 | 115,596 | 7,324 | 361,356 | 312,323 | 49,033 |
| **Direct Operating Expenses** | | | | | | |
| Same property | 59,521 | 56,447 | 3,074 | 178,847 | 171,886 | 6,961 |
| Acquisitions and development | 19,394 | 16,052 | 3,342 | 55,655 | 27,360 | 28,295 |
| Total direct operating expenses | 78,915 | 72,499 | 6,416 | 234,502 | 199,246 | 35,256 |
| **Net Operating Income** | | | | | | |
| Same property | 33,814 | 34,688 | (874) | 98,129 | 98,880 | (751) |
| Acquisitions and development [1] | 10,191 | 8,409 | 1,782 | 28,725 | 14,197 | 14,528 |
| Total net operating income | 44,005 | 43,097 | 908 | 126,854 | 113,077 | 13,777 |
| Weighted average occupancy rate - same property | 87.5% | 87.5% | - | 87.6% | 87.3% | 0.3pp |
| Weighted average occupancy rate – total portfolio | 87.0% | 87.0% | - | 87.0% | 86.7% | 0.3pp |

*(1) There was no negative NOI incurred on properties in lease-up in Q3 2013 or 2013 YTD as the properties delivered break-even results. 2012 amounts include $0.4 million and $1.1 million of negative NOI in Q3 2012 and 2012 YTD, respectively.*

Same property revenues increased 2.4% in Q3 2013 primarily due to higher ancillary revenues from enhanced services provided to our residents and regular annual rental rate increases in line with competitive market conditions.

Same property direct operating expenses increased 5.4% in Q3 2013 primarily due to higher staffing costs incurred to provide additional services to our residents and to comply with new regulatory requirements, as well as higher utilities, property taxes, marketing and food expenses.

Same property NOI decreased $0.9 million or 2.5% in Q3 2013 as follows:

- Our Ontario retirement platform same property NOI decreased $0.6 million or 3.5%. These results were impacted by lower occupancy, higher staffing costs, property taxes, marketing and food expenses, partially offset by regular annual rental rate increases in line with competitive market conditions.
- Our Western Canada platform same property NOI increased $0.7 million or 8.6% primarily due to strong improvements in occupancy and regular annual rental rate increases in line with competitive market conditions, partially offset by higher staffing costs.
- Our Quebec platform same property NOI decreased $0.9 million or 10.3%. These results were impacted by a $0.5 million retroactive revenue reduction to one of our long term care properties, higher staffing costs to comply with new regulatory requirements, higher utilities, marketing and food expenses, partially offset by improved occupancy, lower property taxes and supply expenses.

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

| | **Q3 2013** | Q3 2012 | Increase / (Decrease) | Q2 2013 | Increase / (Decrease) |
|---|---|---|---|---|---|
| Ontario | 87.1% | 88.2% | (1.1pp) | 87.2% | (0.1pp) |
| Western Canada | 92.9% | 91.7% | 1.2pp | 92.4% | 0.5pp |
| Quebec | 85.7% | 84.9% | 0.8pp | 85.3% | 0.4pp |
| Combined | 87.5% | 87.5% | - | 87.3% | 0.2pp |

In Q3 2013, occupancies in our Canadian retirement same property portfolio remained consistent with Q3 2012 at 87.5%. The strong occupancy growth in Western Canada and Quebec has been offset by a 1.1 percentage point decline in Ontario. We continue seeing higher-than-historical attrition rates in Ontario in Q3 2013 and although leasing activity has improved since the beginning of 2013, occupancy has declined slightly from Q2 2013 levels. With further improvements in leasing activity since September 30, 2013, we expect to see occupancy growth in Ontario in Q4 2013.

## Canadian Long Term Care Operations

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

| | | Composition of Suites | | | |
|---|---|---|---|---|---|
| | **Properties** | **ISL** | **AL** | **LTC** | **Total** |
| Same Property – 100% owned | 21 | - | 124 | 2,782 | 2,906 |
| **Acquisitions & Development** | | | | | |
| 100% owned: | | | | | |
| Operating | 1 | - | - | 64 | 64 |
| Development | 2 | - | 11 | 155 | 166 |
| Total | 24 | - | 135 | 3,001 | 3,136 |

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

| ($000s, except occupancy rates) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Same property | 49,170 | 47,912 | 1,258 | 143,765 | 142,408 | 1,357 |
| Acquisitions and development | 3,719 | 3,637 | 82 | 10,818 | 10,619 | 199 |
| Total revenue | 52,889 | 51,549 | 1,340 | 154,583 | 153,027 | 1,556 |
| **Direct Operating Expenses** | | | | | | |
| Same property | 42,462 | 41,284 | 1,178 | 124,022 | 123,564 | 458 |
| Acquisitions and development | 3,402 | 3,213 | 189 | 9,909 | 9,559 | 350 |
| Total direct operating expenses | 45,864 | 44,497 | 1,367 | 133,931 | 133,123 | 808 |
| **Net Operating Income** | | | | | | |
| Same property | 6,708 | 6,628 | 80 | 19,743 | 18,844 | 899 |
| Acquisitions and development | 317 | 424 | (107) | 909 | 1,060 | (151) |
| Total net operating income | 7,025 | 7,052 | (27) | 20,652 | 19,904 | 748 |
| Weighted average occupancy rate - same property | 99.0% | 99.0% | - | 98.6% | 98.5% | 0.1pp |
| Weighted average occupancy rate – total portfolio | 98.7% | 99.0% | (0.3pp) | 98.3% | 98.4% | (0.1pp) |

Same property NOI increased slightly in Q3 2013, primarily due to higher government funding and increased preferred accommodation rates.

Weighted average occupancies in the same property portfolio remained high at 99.0% in Q3 2013.

## U.S. Operations

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

| | | Composition of Suites | | | |
|---|---|---|---|---|---|
| | **Properties** | **ISL** | **AL** | **LTC** | **Total** |
| Same property - 100% owned | 44 | 3,391 | 2,612 | 190 | 6,192 |
| Properties under operating lease – 100% interest | 2 | 42 | 191 | - | 233 |
| Total | 46 | 3,433 | 2,803 | 190 | 6,425 |

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

| (U.S.$000s, except as noted otherwise) | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Same property | 55,654 | 53,213 | 2,441 | 165,639 | 159,246 | 6,393 |
| Acquisitions and other [1] | 9 | 6,588 | (6,579) | 3,291 | 19,154 | (15,863) |
| Total revenue | 55,663 | 59,801 | (4,138) | 168,930 | 178,400 | (9,470) |
| **Direct Operating Expenses** | | | | | | |
| Same property | 37,923 | 36,396 | 1,527 | 111,056 | 107,316 | 3,740 |
| Acquisitions and other [1] | 55 | 4,025 | (3,970) | 2,328 | 11,458 | (9,130) |
| Total direct operating expenses | 37,978 | 40,421 | (2,443) | 113,384 | 118,774 | (5,390) |
| **Net Operating Income** | | | | | | |
| Same property | 17,731 | 16,817 | 914 | 54,583 | 51,930 | 2,653 |
| Acquisitions and other [1] | (46) | 2,563 | (2,609) | 963 | 7,696 | (6,733) |
| Total net operating income | 17,685 | 19,380 | (1,695) | 55,546 | 59,626 | (4,080) |
| Foreign exchange in CDN | 680 | (105) | 785 | 1,280 | 133 | 1,147 |
| Total net operating income in CDN | 18,365 | 19,275 | (910) | 56,826 | 59,759 | (2,933) |
| Weighted average occupancy rate – same property | 90.4% | 88.2% | 2.2pp | 89.4% | 87.9% | 1.5pp |
| Weighted average occupancy rate – total portfolio | 90.4% | 88.6% | 1.8pp | 89.8% | 88.3% | 1.5pp |

*(1) Represents results of the Bristal Portfolio which was sold in February 2013.*

Same property revenue increased U.S.$2.4 million or 4.6% in Q3 2013 primarily due to improved occupancies and rental rate increases in line with competitive market conditions, partially offset by higher resident move-in incentives.

Weighted average occupancy rate in our same property U.S operating segment improved by 2.2 percentage points to 90.4% in Q3 2013 from 88.2% in Q3 2012.

Same property direct operating expenses increased U.S.$1.5 million or 4.2% in Q3 2013, primarily due to higher staffing, bad debt, utility and insurance costs, as well as higher management fees, partially offset by lower property taxes.

As a result of the above, same property NOI increased U.S.$0.9 million or 5.4% in Q3 2013.

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

| | **Q3 2013** | Q3 2012 | Increase / (Decrease) | **2013 YTD** | 2012 YTD | Increase / (Decrease) |
|---|---|---|---|---|---|---|
| Weighted average exchange rate for U.S.$1.00 to CDN | 1.04 | 1.00 | 0.04 | 1.02 | 1.00 | 0.02 |

A $0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar would impact AFFO by approximately $0.3 million in 2013.

# Financial Position

## Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and unitholders' equity for September 30, 2013 compared to December 31, 2012.

| | Increase / (Decrease) ($millions) | Explanation |
|---|---|---|
| **Total assets** | **(5.7)** | The decrease in total assets is primarily due to the following: |
| Assets held for sale | 63.6 | Assets held for sale increased due the sale of the seven U.S. non-core properties which closed on October 1, 2013. |
| PP&E | (81.9) | PP&E decreased primarily due to items reclassified to assets held for sale of $62.1 million, depreciation of $116.0 million, capital funding of $12.4 million and disposals of $0.7 million. These were partially offset by additions of $42.8 million, additions due to acquisitions of $40.5 million and foreign exchange translation of $26.0 million. |
| **Total liabilities** | **8.7** | The increase in total liabilities is primarily due to the following: |
| Credit Facility | (30.0) | Credit Facility decreased primarily due to repayments from the net proceeds of sale from the Bristal Portfolio in Q1 2013. |
| Accounts payable and other liabilities | (8.5) | Accounts payable and other liabilities decreased primarily due to the timing of interest payments and settlement of liabilities. |
| Liabilities related to assets held for sale | 63.8 | Liabilities related to assets held for sale increased due to the sale of the seven U.S. non-core properties which closed on October 1, 2013. |
| **Unitholders' equity** | **(14.4)** | The decrease in unitholders' equity is primarily due to cash distributions, which was partially offset by the allocation of net income to the Trust's unitholders. |

## Outstanding Units Data

The following table summarizes changes in the number of outstanding units during Q3 2013:

| | Trust Units | Trust Units issued under LTIP | Class B Units | Deferred Trust Units | Total |
|---|---|---|---|---|---|
| Balance December 31, 2012 | 169,441,855 | 2,207,464 | 1,679,128 | 485,505 | 173,813,952 |
| Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP") | 1,475,034 | - | - | - | 1,475,034 |
| Trust Units issued under LTIP | - | 296,023 | - | - | 296,023 |
| Trust Units surrendered for cancellation under LTIP | - | (329,321) | - | - | (329,321) |
| Trust Units released on settlement of LTIP receivable | 8,768 | (8,768) | - | - | - |
| DTUs issued | - | - | - | 72,669 | 72,669 |
| DTU distributions | - | - | - | 20,198 | 20,198 |
| Exchange of Class B Units | 20,816 | - | (20,816) | - | - |
| Balance September 30, 2013 | 170,946,473 | 2,165,398 | 1,658,312 | 578,372 | 175,348,555 |

# Liquidity and Capital Commitments

## *Liquidity*

Our cash commitments include payments related to mortgages and convertible debentures, contractual purchase obligations, obligations under operating leases as well as cash distributions to unitholders.

Our principal source of liquidity is cash flow from operations. At September 30, 2013, we had cash on hand in the amount of $6.6 million, including our share of joint-venture cash of $5.0 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 put a Credit Facility in place.

On June 22, 2013, we renewed our Credit Facility for a two-year term, expiring on June 22, 2015 and increased our borrowing capacity to $95.0 million. Under the renewal terms, the Credit Facility bears interest at the bank's prime rate plus 0.95%, or the applicable borrower's acceptance rate plus 1.95%. The Credit Facility is secured by charges on certain of our properties and includes minimum equity requirements and covenants requiring limitations on the amounts of distributions that can be paid to unitholders. At September 30, 2013, the maximum available borrowing capacity under the Credit Facility was $95.0 million, based on security provided, of which $2.7 million was utilized to support outstanding letters of credit and $47.0 million was drawn, leaving available borrowing capacity at $45.3 million.

Indebtedness Ratio:

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

The following table presents the calculation of our Indebtedness Ratio, including our share of amounts from joint ventures and excluding assets and liabilities related to assets held for sale:

| ($000s) | **September 30, 2013** | December 31, 2012 |
|---|---|---|
| Mortgages payable (contractual amount) | 1,977,226 | 1,975,625 |
| Credit Facility | 47,000 | 77,000 |
| Total Indebtedness excluding convertible debentures | 2,024,226 | 2,052,625 |
| Convertible debentures (at face value) | 135,000 | 135,000 |
| Total Indebtedness | 2,159,226 | 2,187,625 |
| Total assets | 2,842,952 | 2,907,884 |
| Accumulated depreciation and amortization | 587,265 | 489,761 |
| Cumulative transaction costs on business combinations | 16,878 | 16,129 |
| Change in GBV on transition to IFRS | 361,994 | 365,314 |
| GBV of assets | 3,809,089 | 3,779,088 |
| Less: Assets financed by deferred purchase consideration on acquisition properties | - | 520 |
| GBV of assets (net of deferred consideration) | 3,809,089 | 3,778,568 |
| Indebtedness Ratio before convertible debentures [1] | 53.1% | 54.3% |
| Indebtedness Ratio including convertible debentures [1] | 56.7% | 57.9% |

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

If assets and liabilities held for sale were included in the table above, our Indebtedness Ratio would have been 53.6% excluding and 57.1% including convertible debentures.

In addition to the Indebtedness Ratio restrictions under our Declaration of Trust, we employ supplemental targets for managing our debt portfolio and monitor our Interest Coverage Ratio and Net Debt to Adjusted EBITDA Ratio.

Interest Coverage Ratio:

We target to maintain our Interest Coverage Ratio above 1.65. Refer to the "Key Performance Indicators – Interest Coverage Ratio" section of this MD&A for a discussion of Interest Coverage Ratio.

The following table summarizes our Interest Coverage Ratio, including our share of amounts from joint ventures and assets held for sale:

| ($000s, except Interest Coverage Ratio) | **Q3 2013** | Q3 2012 | **2013 YTD** | 2012 YTD |
|---|---|---|---|---|
| Interest expense including capitalized interest | 28,850 | 30,596 | 86,201 | 89,839 |
| Property lease expense | 682 | 620 | 2,019 | 1,879 |
| | 29,532 | 31,216 | 88,220 | 91,718 |
| Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") [(1)] | 66,945 | 67,380 | 194,288 | 184,415 |
| Interest Coverage Ratio [(2)] | 2.27 | 2.16 | 2.20 | 2.01 |
| Target Interest Coverage Ratio | | >1.65 | | |

*(1) In Q1 2013, we changed our definition of Adjusted EBITDA; refer to the "Key Performance Indicators – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.*

*(2) Refer to the "Key Performance Indicators – Interest Coverage Ratio" section of this MD&A for a discussion of Interest Coverage Ratio.*

If we excluded interest expense, property lease expense and Adjusted EBITDA related to assets held for sale, our Interest Coverage Ratio would have been 2.28 for Q2 2013 and 2.21 for 2013 YTD.

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

| ($000s) | **Q3 2013** | Q3 2012 | **2013 YTD** | 2012 YTD |
|---|---|---|---|---|
| Net income/(loss) for the period | (2,781) | (18,538) | 38,141 | (100,788) |
| *Add (Subtract):* | | | | |
| Current income tax | 65 | 77 | 194 | 218 |
| Deferred income tax | - | (5,495) | - | (20,554) |
| Transaction costs arising on business acquisitions and dispositions | 902 | 1,621 | 3,500 | 12,670 |
| Finance costs | 28,510 | 30,393 | 85,828 | 96,649 |
| Property lease expense | 682 | 620 | 2,019 | 1,879 |
| Depreciation of PP&E | 41,126 | 47,700 | 118,839 | 141,201 |
| Amortization of intangible assets | 514 | 807 | 1,575 | 2,866 |
| Loss/(gain) on sale of assets | (105) | (9) | (49,052) | (288) |
| Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain) | (3,074) | 9,262 | (9,947) | 47,775 |
| Principal portion of capital funding receivable from Health Authorities [(1)] | 1,106 | 942 | 3,191 | 2,787 |
| Adjusted EBITDA | 66,945 | 67,380 | 194,288 | 184,415 |

*(1) In Q1 2013, we changed our definition of Adjusted EBITDA to include principal portion of capital funding receivable; refer to the "Key Performance Indicators – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.*

Net Debt to Adjusted EBITDA Ratio:

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

The following table summarizes our Net Debt to Adjusted EBITDA Ratio at September 30, 2013 and 2012, including our share of amounts from joint ventures and excluding assets held for sale and related liabilities:

| ($000s, except Net Debt to Adjusted EBITDA Ratio) | **September 30, 2013** | September 30, 2012 |
|---|---|---|
| Trailing 12-month Adjusted EBITDA | 260,106 | 238,001 |
| *Add (Subtract):* | | |
| Adjustment for part-year acquisitions | 1,601 | 21,795 |
| Adjustment for part-year dispositions | (10,547) | (23,066) |
| Trailing12-month Adjusted EBITDA (net of part-year acquisitions and dispositions) | 251,160 | 236,730 |
| Indebtedness | 2,159,226 | 2,079,612 |
| *Less:* Cash and cash equivalents | 6,616 | 16,895 |
| Net debt | 2,152,610 | 2,062,717 |
| Net Debt to Adjusted EBITDA Ratio [1] | 8.6 | 8.7 |

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

The following table presents the calculation of trailing 12-month Adjusted EBITDA for the 12 months ended September 30, 2013:

| ($000s) | 2012 | *Subtract:* 2012 YTD | *Add:* 2013 YTD | **12 months ended September 30, 2013** |
|---|---|---|---|---|
| Adjusted EBITDA as previously reported | 246,421 | 181,628 | 191,097 | 255,890 |
| *Add:* | | | | |
| Principal portion of capital funding receivable from Health Authorities | 3,812 | 2,787 | 3,191 | 4,216 |
| Adjusted EBITDA | 250,233 | 184,415 | 194,288 | 260,106 |

## Debt Strategy

We currently employ the following sources of debt financing: property-specific secured mortgages; unsecured convertible subordinated debentures; and the Credit Facility. Our debt management objectives are to:

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

## Mortgage Debt

At September 30, 2013, excluding mortgages related to assets held for sale, we had $1,977.2 million of mortgages payable of which $1,390.5 million related to our Canadian properties and $586.7 million (U.S.$569.4 million) related to our U.S. properties. Our Canadian properties balance includes $29.8 million representing our share of joint-venture balances. We monitor our mortgage portfolio on a line-by-line consolidation basis and, as such, this section includes our share of mortgages from joint ventures.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at September 30, 2013.

| ($000s)<br>Year | Regular Principal Payments | Principal Due at Maturity | Total | % of Total Debt | Weighted Average Interest Rate on Maturing Debt |
|---|---|---|---|---|---|
| Remainder of 2013 | 12,814 | 117,665 | 130,479 | 7% | 4.40% |
| 2014 | 57,708 | 239,587 | 297,295 | 15% | 4.41% |
| 2015 | 43,314 | 311,504 | 354,818 | 18% | 4.83% |
| 2016 | 37,793 | 309,243 | 347,036 | 18% | 6.06% |
| 2017 | 28,321 | 209,447 | 237,768 | 12% | 5.64% |
| 2018 | 29,215 | 54,996 | 84,211 | 4% | 4.89% |
| 2019 | 29,026 | 10,591 | 39,617 | 2% | 4.53% |
| 2020 | 29,186 | 48,899 | 78,085 | 4% | 4.35% |
| 2021 | 27,128 | 50,150 | 77,278 | 4% | 4.59% |
| 2022 | 23,490 | 62,200 | 85,690 | 4% | 3.54% |
| 2023 | 18,832 | 34,088 | 52,920 | 3% | 4.71% |
| 2024 | 13,611 | 18,042 | 31,653 | 1% | 7.09% |
| Thereafter | 135,245 | 25,131 | 160,376 | 8% | 4.82% |
| Total | 485,683 | 1,491,543 | 1,977,226 | 100% | |
| Mark-to-market adjustments arising on acquisition | | | 17,891 | | |
| Less: Financing costs | | | (16,602) | | |
| Total Mortgage Debt | | | 1,978,515 | | |

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

| | At September 30, 2013 | | | | | At December 31, 2012 |
|---|---|---|---|---|---|---|
| | Canadian Debt | | U.S. Debt | | Combined | Combined |
| | Fixed Rate | Variable Rate | Fixed Rate | Variable Rate | | |
| Amount ($millions) | 1,237.0 | 153.5 | 562.9 | 23.8 | 1,977.2 | 1,975.6 |
| Weighted average interest rate | 4.85% | 4.42% | 5.92% | 2.57% | 5.10% | 5.23% |
| Average term to maturity (years) | 7.8 | 1.0 | 2.7 | 0.2 | 5.7 | 6.0 |

In Canada, we generally have access to low-cost mortgage financing insured by Canada Mortgage and Housing Corporation ("CMHC"). All of our Canadian properties are eligible for CMHC financing and as of September 30, 2013, approximately 65% of our total Canadian mortgage debt was CMHC insured. We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt upon renewal.

In the U.S., approximately 72% of our mortgages are with the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae"). Both of these entities are government-sponsored enterprises which provide access to competitive financing for seniors housing properties.

In 2013 YTD, on six of our properties, we refinanced $21.8 million of maturing mortgages bearing a weighted average interest rate of 4.45%, with $21.8 million of new mortgages bearing a weighted average interest rate of 2.74% and a weighted average term to maturity of 10.6 years. In addition, on seven of our

properties, we arranged $44.5 million of new or increased mortgage financing bearing a weighted average interest rate of 3.87% and a weighted average term to maturity of 17.4 years.

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

The following table summarizes our variable-rate mortgages as at September 30, 2013:

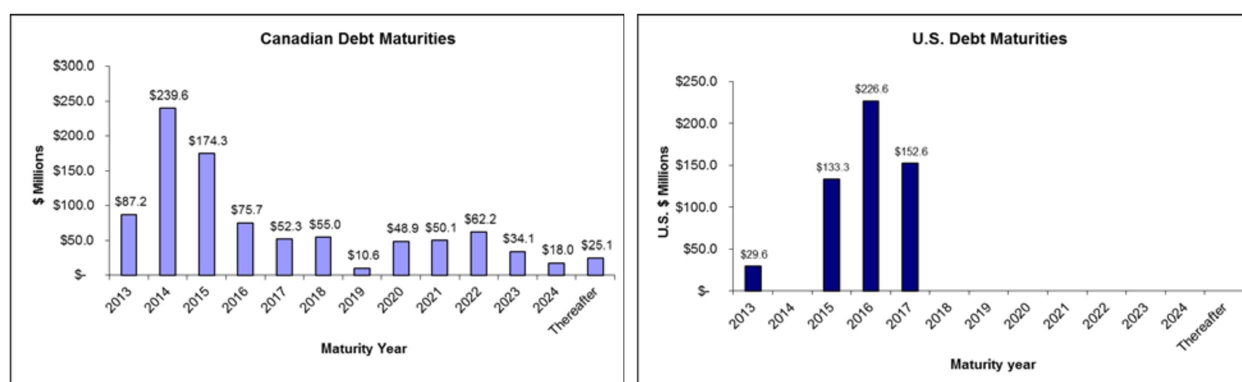
| ($000s, except number of projects) | Number of Projects | **September 30, 2013** | Number of Projects | **December 31, 2012** |
|---|---|---|---|---|
| Mortgages on properties under construction | 2 | 11,626 | 3 | 13,452 |
| Mortgages on properties in lease-up [(1)] | 11 | 136,915 | 11 | 145,939 |
| Mortgages on stabilized properties | 5 | 28,728 | 3 | 8,249 |
| Total | 18 | 177,269 | 17 | 167,640 |

*(1) Includes our share of one joint-venture variable-rate mortgage of $12.8 million.*

In the first nine months of 2013, we converted two $26.8 million variable-rate mortgages to two $22.9 million short-term fixed-rate mortgages, arranged a new $16.8 million variable-rate mortgage on another property in lease-up, and completed final progress draws on three recently-completed developments.

In addition, we refinanced one $5.3 million variable-rate mortgage on a stabilized property with a new $7.9 million 10-year CMHC-insured mortgage bearing interest at 3.03%. We also refinanced one variable-term mortgage with a $14.4 million 10-year CMHC-insured mortgage bearing interest at 3.93%. Mortgages on two of our stabilized properties in the U.S. in the amount of U.S.$24.0 million, came due in Q1 2013 and we exercised our right to extend these mortgages to the end of 2013 at variable rates.

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




Subsequent to September 30, 2013, we refinanced $142.5 million of 2013 and 2014 maturing mortgages bearing a weighted average interest rate of 4.36%, with new mortgages bearing a weighted average interest rate of 3.86% and a weighted average term to maturity of 13 years. Defeasance costs of approximately $2.2 million were incurred as a result of these early debt repayments.

## *Convertible Debentures*

At September 30, 2013, we have $135.0 million of 5.7% convertible debentures that mature on March 31, 2018. Each debenture is convertible into freely tradeable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of March 31, 2018 and the last business day immediately preceding the date specified by Chartwell for the redemption of the debentures, at a conversion price of $11.00 per Trust Unit.

## *Capital Expenditures*

We classify our property capital expenditures in the following main categories:

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

The following table summarizes additions to properties, including our share of joint venture properties, during Q3 2013 and 2013 YTD:

| ($000s) | **Q3 2013** | 2013 YTD |
|---|---|---|
| Development | 5,780 | 15,152 |
| Acquisition | 1,760 | 4,885 |
| Revenue enhancing and repositioning | 3,048 | 3,441 |
| Maintenance | 9,456 | 19,666 |
| Total [(1)] | 20,044 | 43,144 |

*(1) 2013 YTD amount excludes $1.0 million in capital additions relating to corporate office leasehold improvements and corporate office information technology assets.*

## *Contractual Obligations and Guarantees*

Details of our contractual obligations and guarantees are disclosed in our 2012 MD&A. There were no significant changes in our contractual obligations and guarantees in Q3 2013 which are outside of the ordinary course of business.

## Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q3 2013 and Q3 2012 using the statements of cash flows prepared in accordance with IFRS 11:

| Cash Provided by (Used in): | Increase / (Decrease) ($millions) | Explanation |
|---|---|---|
| Operating activities | 0.3 | Cash flows from operating activities increased due to increases in net operating income, partially offset by negative net changes in working capital balances. |
| Financing activities | 19.5 | Cash flows from financing activities increased primarily due to higher proceeds from mortgage financing, net of repayments. |
| Investing activities | (27.4) | Cash flows from investing activities decreased primarily due to acquisitions that occurred in Q3 2013 and higher PP&E additions. |

## Distributions

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

Unitholders who are Canadian residents are eligible to participate in our Distribution Reinvestment Plan ("DRIP"), which allows unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Participating investors registered in the DRIP receive additional bonus units in an amount equal to 3% of the distributions which they have elected to reinvest. In Q3 2013, our average DRIP participation was 24.7% compared to 14.8% participation in Q2 2013. In Q1 2013, we eliminated the 1,000-unit participation threshold.

The following table summarizes distributions made in Q3 2013, 2013 YTD, 2012 and 2011:

| ($000s) | Q3 2013 | 2013 YTD | 2012 | 2011 |
|---|---|---|---|---|
| Distributions declared on Trust Units [1] | 23,292 | 69,706 | 89,791 | 77,538 |
| Distributions on Class B Units | 224 | 672 | 909 | 908 |
| Distributions reinvested under DRIP | (5,677) | (14,776) | (15,791) | (15,075) |
| Distributions applied against LTIP receivable | (289) | (897) | (1,200) | (1,230) |
| Distributions paid or payable in cash | 17,550 | 54,705 | 73,709 | 62,141 |

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

The following table summarizes cash distributions made in Q3 2013, 2013 YTD, 2012 and 2011 in relation to net income/(loss) and cash flows from operating activities:

| ($000s) | **Q3 2013** [(1)] | **2013 YTD** [(1)] | 2012 [(1)] | 2011 [(1)] |
|---|---|---|---|---|
| Cash flows from operating activities | 34,563 | 87,002 | 102,840 | 110,998 |
| Net income/(loss) | (2,781) | 38,141 | (139,342) | (63,331) |
| Distributions paid or payable in cash [(2) (3)] | 17,550 | 54,705 | 73,709 | 62,141 |
| Excess/(shortfall) of cash flows from operating activities over cash distributions paid | 17,013 | 32,297 | 29,131 | 48,857 |
| Excess/(shortfall) of net income/(loss) over cash distributions paid | (20,331) | (16,564) | (213,051) | (125,472) |

*(1) Q3 2013 and 2013 YTD amounts are disclosed using equity accounting in accordance with IFRS 11. Amounts for 2012 and 2011 are disclosed as previously reported prior to the adoption of IFRS 11.*
*(2) Cash distributions do not include distributions satisfied through issuance of units under DRIP or distributions applied against the LTIP receivable.*
*(3) 2012 amount includes $2.2 million distributions on subscription receipts recorded as interest expense for accounting purposes.*

We distributed cash to our unitholders while recording net losses in each of 2012 and 2011 and in Q3 2013. We do not use net loss as determined in accordance with IFRS as the basis for establishing the level of distributions to unitholders, as net loss includes, among other items, non-cash depreciation and amortization and changes in fair values of certain liabilities. We do not consider non-cash depreciation and amortization and fluctuations in fair values of certain liabilities in establishing our distribution levels as we believe that, with the appropriate level of capital reinvestment in our properties, their income-generating potential does not generally diminish over time. We also give consideration to our capital expenditure requirements in establishing the level of annual distributions to unitholders. We believe that our current distribution level is sustainable.

# Key Performance Indicators

We use a number of key performance indicators ("KPIs") for monitoring and analyzing our financial results as outlined in this section. These KPIs do not have any standardized meaning prescribed by IFRS and therefore, are unlikely to be comparable to similar measures presented by other income trusts or other companies. We monitor our KPIs on a line-by-line consolidation basis and, as such, we include our share of joint ventures. KPIs are described below:

## *Funds from Operations*

FFO should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO substantially consistent with the definition adopted by the Real Property Association of Canada ("REALpac") with the exception of the following where, in our FFO calculation, we add back:

- Issue costs of convertible debentures expensed for the period under IFRS to improve comparability to the reported FFO in prior periods; and
- Transaction costs related to the disposition of properties

According to REALpac guidance, FFO is defined as follows: Profit or loss per IFRS Statement of Comprehensive Income adjusted for:

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

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

In our opinion, the use of FFO, combined with the required primary IFRS presentations, is fundamentally beneficial to the users of the financial information, improving their understanding of our operating results. We generally consider FFO to be a meaningful measure for reviewing our operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), transaction costs arising on business acquisitions and dispositions, impairment of PP&E, distributions on Class B Units recorded as interest expense, convertible debenture issue costs, changes in fair value of financial instruments, unrealized foreign exchange gains/losses, and adjustments for equity-accounted entities, FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

For the purpose of per unit calculations, to the extent that our convertible debentures are dilutive to FFO per unit, convertible debenture interest is added back to calculate a diluted FFO for the sole purpose of calculating the FFO per unit diluted. The tables presented under the "Consolidated Results of Operations – Non-IFRS Measures" section of this MD&A provide a reconciliation of net loss to FFO, as reported in our Financial Statements.

## Adjusted Funds from Operations

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

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

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

***Amortization of financing costs and fair value adjustments on mortgages payable:*** Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

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

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

For the purpose of per unit calculations, to the extent that our convertible debentures are dilutive to AFFO per unit, convertible debenture interest is added back to calculate a diluted AFFO for the sole purpose of calculating the AFFO per unit diluted. The tables presented under the "Consolidated Results of Operations – Non-IFRS Measures" section of this MD&A provide details of AFFO calculations and a reconciliation to FFO.

## Net Operating Income

NOI should not be construed as an alternative to other IFRS metrics. We define NOI as the difference between property revenue and property direct operating expenses. We believe that the use of NOI combined with primary IFRS measures is beneficial to the users of the financial information in understanding operating performance of our operating segments and platforms. We monitor NOI on a line-by-line consolidated basis and as such, we include our share of NOI from joint ventures.

## Per Unit Amounts

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

## Same Property Performance

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

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

The following table summarizes the same property portfolio for Q3 2013:

| | Properties | Suites/Beds |
|---|---|---|
| Canadian Retirement Operations | 108 | 12,741 |
| Canadian Long Term Care Operations | 21 | 2,906 |
| U.S. Operations (owned and leased) | 46 | 6,425 |
| Total same property portfolio | 175 | 22,072 |

Same Property Revenue, Same Property Direct Operating Expenses, Same Property NOI

Key metrics used to evaluate same property performance are same property revenue, same property direct operating expenses and same property NOI. These metrics exclude the effects of foreign exchange to enhance comparability between periods and to eliminate the volatility in the Canadian / U.S. dollar exchange rate.

Our same property metrics, as defined above, should not be construed as alternatives to other IFRS metrics. We define same property NOI as the difference between same property revenue and same property direct operating expenses. We believe that the use of these metrics combined with primary IFRS measures is beneficial to users of the financial information in understanding the operating performance of our operating segments and platforms. We monitor our same property metrics on a line-by-line consolidated basis and as such include our share of joint ventures.

Refer to the “Consolidated Results of Operations – Summary of Net Operating Income” section of this MD&A for a reconciliation of these items.

## *Indebtedness Ratio*

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 60% of GBV, excluding convertible debentures, or 65% of GBV including convertible debentures. Under the Declaration of Trust, total indebtedness includes any obligation for borrowed money, any obligation incurred in connection with the acquisition of property, assets or business, other than deferred income tax liability, any capital lease obligation and any guaranteed obligations of third parties to the extent included in our consolidated balance sheet. We monitor the Indebtedness Ratio on a line-by-line consolidated basis, and as such, we include our share of assets and liabilities of joint ventures.

## *Interest Coverage Ratio*

The interest coverage guideline provides an indication of an entity’s ability to service or pay the interest charges relating to the underlying debt and have generally been used by debt rating agencies to test an entity’s ability to service its debt. Generally, the higher the ratio, the lower the risk of default on debt. We monitor the Interest Coverage Ratio on a line-by-line consolidated basis, and as such, we include our share of amounts from joint ventures.

## *Adjusted EBITDA*

EBITDA should not be construed as an alternative to net earnings as determined by IFRS. EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization. Our calculation of Adjusted EBITDA excludes transaction costs arising on business acquisitions and dispositions, which are expensed as incurred, gains/losses on disposition of properties, changes in fair value of financial instruments, unrealized foreign exchange gains/losses, and non-recurring items such as asset impairment provisions or reversal of such provisions, or debenture issuance costs. In Q1 2013, we changed our definition of Adjusted EBITDA to also include the principal

portion of the capital funding receivable from MOHLTC. This long-term cash flow stream forms part of the business value considered by lenders in financing LTC properties. We use Adjusted EBITDA in our calculations of Net Debt to Adjusted EBITDA and Interest Coverage Ratios and therefore, we believe it is appropriate to include the full amount of capital funding in the Adjusted EBITDA definition. This change is made for all periods presented in this MD&A. We monitor Adjusted EBITDA on a line-by-line consolidated basis, and as such, we include our share of amounts from joint ventures.

### *Net Debt to Adjusted EBITDA Ratio*

Net Debt to Adjusted EBITDA should not be construed as an alternative to other IFRS metrics. The Net Debt to Adjusted EBITDA Ratio provides an approximation of the number of years required for current cash flows to cover or repay all indebtedness and is commonly used by investors to evaluate the level of an entity's debt in relation to its operating cash flows. Net Debt and Adjusted EBITDA are not susceptible to short-term changes in market values and are not prone to subjective assessments surrounding asset valuations. We monitor our net debt on a line-by-line consolidated basis, and as such, we include our share of amounts from joint ventures.

### *G&A Expenses as a percentage of Revenue*

G&A as a percentage of revenue should not be construed as an alternative to other IFRS metrics. We believe that G&A as a percentage of revenue is useful as a benchmark to evaluate the required resource level to support our operating business. This percentage is calculated as total G&A expenses divided by the sum of property revenue, management and other fee revenue and, mezzanine loan interest income. We monitor this metric on a line-by-line consolidated basis, and as such, we include our share of revenue from joint ventures.

## Critical Accounting Policies and Estimates

### *Critical Accounting Judgements, Estimates and Assumptions in Applying Accounting Policies*

We monitor and assess all accounting pronouncements. In our Q3 2013 Financial Statements as well as in our 2012 MD&A, we identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations.

### *Changes in Accounting Estimates and Changes in Accounting Policies*

Future Accounting Policy Changes

Future accounting policy changes are described in note 1 of our Financial Statements.

## Controls and Procedures

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. We continue to make significant investments in improvements to our information systems and financial processes to further strengthen our internal controls. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls

can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; and (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

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

The President and Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision of, the design of the Trust's disclosure controls and procedures and internal control over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30, 2013. Based on this evaluation, we have concluded that we have a) designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to Chartwell is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared and (ii) information required to be disclosed by Chartwell in its various reports filed or submitted under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation; and b) designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no material changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2013, that have significantly affected or are reasonably likely to significantly affect the our 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;

- 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;
- our ability to renew maturing debt and to obtain new financings, in due course;
- our ability to access low-cost mortgage financing insured by CMHC;
- our expectations regarding achievement of certain occupancy levels at our LTC and retirement communities;
- certain assumptions relating to the debentures, including, credit risk in respect of the debentures, prior ranking indebtedness and absence of covenant protection, structural subordination of debentures, conversion of debentures following certain transactions, value of conversion privilege of the debentures, debentures redemption prior to maturity, inability of Chartwell to purchase debentures on a change of control and dilution;

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

## *Risks and Uncertainties*

Our Annual Information Form dated March 6, 2013 and our 2012 MD&A contain a detailed discussion of risk factors and uncertainties facing Chartwell.

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