2012 Management's Discussion and Analysis

For the Years Ended
December 31, 2012 and 2011

CHARTWELL
retirement residences

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Years Ended December 31, 2012 and 2011

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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 years ended December 31, 2012 and 2011. This MD&A should be read in conjunction with Chartwell's audited, consolidated financial statements for the years ended December 31, 2012 and 2011 and the notes thereto (the "Financial Statements"). 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 March 6, 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; "2011" refers to the calendar year 2011 and "YTD" means year-to-date.

Unless otherwise indicated, all comparisons of results for 2012 are in comparison to results from 2011 and all comparisons of results for Q4 2012 are in comparison to Q4 2011.

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"), Interest Coverage Ratio, Indebtedness Ratio and others. These key performance indicators are not defined by International Financial Reporting Standards ("IFRS") and may not be comparable to similar measures presented by other trusts or other companies. Please refer to the "Key Performance Indicators" section of this MD&A for details of each of these performance indicators.

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

Business Overview

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

Our Vision is… *making people's lives BETTER*

Our Mission is…

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

Our Values are…

Respect – We honour and celebrate seniors

Empathy – We believe compassion is contagious

Service Excellence – We believe in providing excellence in customer service

Performance – We believe in delivering and rewarding results

Education – We believe in lifelong learning

Commitment – We value commitment to the Chartwell family

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

At December 31, 2012, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 32,460 suites in 236 communities. At December 31, 2012, our portfolio of owned and leased communities consisted of interests in 31,213 suites in 227 communities.

The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at December 31, 2012:

	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	102	11,926	24	3,124	44	6,188	170	21,238
Development suites in lease-up	3	340	-	-	-	-	3	340
Total 100% Owned	105	12,266	24	3,124	44	6,188	173	21,578
Partially Owned [2] [3]								
Operating	47	8,634	-	-	5	768	52	9,402
Total Partially Owned	47	8,634	-	-	5	768	52	9,402
Total Owned	152	20,900	24	3,124	49	6,956	225	30,980
Properties under Operating Lease:								
100% Interest	-	-	-	-	2	233	2	233
Total Leased	-	-	-	-	2	233	2	233
Total Owned and Leased	152	20,900	24	3,124	51	7,189	227	31,213
Managed Properties	5	639	4	608	-	-	9	1,247
Total	157	21,539	28	3,732	51	7,189	236	32,460

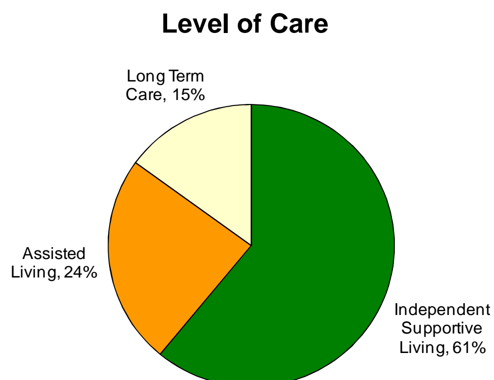
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.

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

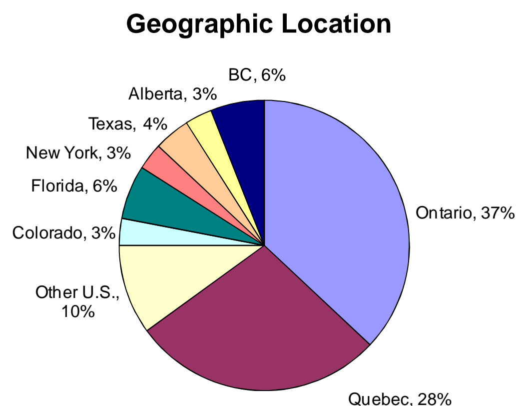
(3) Five partially-owned U.S. communities (768 suites) are classified as assets held for sale in our financial statements and were sold in February 2013.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Leased Interest, at December 31, 2012 by:

Level of Care



Geographic Location



Business Strategy

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

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

- Providing high quality and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Investing in innovative marketing and sales programs to increase customer traffic, 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.

Improve information management and operating processes by:

- Investing in market and customer research to support our investments in new properties and to better tailor service offerings to our residents.
- Implementing information technology ("IT") solutions to improve operating efficiencies and better communicate with our employees.
- 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 development program with up to five new development projects per year.
- Sourcing accretive acquisitions of newer properties in our existing markets.
- Divesting non-core assets.

Maintain a strong financial position by:

- Staggering debt maturities over time to reduce financing risks.
- Financing our properties with long-term debt, while managing interest costs.
- Gradually reducing our debt levels to our targeted range over time.

Successfully integrate the Maestro portfolio acquisition by:

- Hiring key management personnel.
- Executing on training and communication strategies.
- Consolidating and centralizing IT and financial processes.
- Capitalizing on synergies and economies of scale.
- Implementing our best practices while capturing benefits from select creative initiatives from the acquired portfolio.

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

Enhance the quality of our cash flows and grow core property AFFO	• AFFO increased by $25.0 million or $0.07 per unit diluted in 2012 compared to 2011. • Same property NOI improved by $10.4 million or 5.3% in 2012. • Same property occupancy improved to 90.3% in 2012 from 89.5% in 2011.
Improve information management and operating processes	• Completed implementation of a new financial consolidation system in July 2012. • Completed full centralization of accounting and finance functions in Mississauga support office in October 2012. • Completed the implementation of core financial system in January 2013.
Build value of our real estate portfolio	• Opened two new retirement residences (212 suites) in Ontario in March 2012 and one LTC community (128 suites) in British Columbia in November 2012. • Four development/redevelopment projects (354 suites) are in progress for completion in 2013. • Closed the Maestro portfolio acquisition in May 2012. • Divestiture of five U.S. properties closed in February 2013. • New, dedicated resources allocated to management of our commercial real estate, energy saving initiatives, and asset management and operational oversight of our U.S. portfolio.
Maintain a strong financial position	• Interest Coverage Ratio improved to 2.00 in 2012 from 1.91 in 2011. • Indebtedness Ratio improved to 57.9% at December 31, 2012, from 59.3% at December 31, 2011. • Completed the public offering of subscription receipts and convertible debentures for $339.3 million.
Integrate the Maestro portfolio acquisition	• Operating performance is ahead of expectations. • Significant new talent added to our management team. • Integration activities are largely completed.

2013 Outlook ♦

The following summarizes our outlook for 2013 for the markets in which we operate:

Canadian Retirement Operations

We anticipate generating moderate growth through rate and occupancy increases in our Canadian Retirement Operations segment, supported by improving economic conditions and slower supply growth. The potential slowdown in the Canadian housing market may have a temporary negative effect on our occupancies as our prospective residents would need to adjust to somewhat lower sale prices of their primary residences. However, we believe such negative impact, if any will be short term in nature. In the summer of 2012, we implemented a limited-time promotional campaign in some of our homes. This promotion impacted our revenue growth in Q4 2012 and will impact Q1 2013 revenues.

We expect that our innovative sales and marketing programs will continue to generate increased sales activities and as a result, increasing occupancy. We will also continue our focus on generating additional revenues by offering more care and other services to our residents. The following summarizes our expectations:

- In Ontario, we anticipate average rental rates to increase between 3.5% and 4.0% in 2013. Our Ontario same property portfolio occupancy grew to 90.0% in Q4 2012. Subject to seasonal fluctuations, we expect to see continuing positive occupancy trends in Ontario in 2013, driven by a slower pace of growth in inventory of seniors housing units, stable economic conditions and our continuing focus on sales, marketing and branding initiatives as well as our short-term stay programs.
- In Western Canada, we anticipate average rental rates to increase between 3.0% and 4.5% in 2013. In 2012, our Western Canada same property portfolio demonstrated consistent occupancy growth achieving 92.2% occupancy in Q4 2012. We expect to see continuing gradual occupancy growth in our Western Canada platform in 2013.
- In Quebec, we expect average rental rates to increase between 2.5% and 3.0% in 2013. Our Quebec same property portfolio occupancy achieved 88.3% in Q4 2012, a 2.2 percentage point growth from 86.1% in Q4 2011. Our properties in the competitive Aylmer and Gatineau/Hull markets contributed substantially to this growth. Subject to seasonal fluctuations we expect to see continuing gradual occupancy growth in our Quebec platform in 2013.

Canadian Long Term Care Operations

In 2012, our Canadian LTC same property portfolio NOI grew by 4.4%, driven by disciplined management of expenses and increases in government funding and resident rates for preferred accommodation. Our occupancies remain high at 98.6%. We expect occupancies to remain high in 2013 as there are approximately 19,800 people on the waiting list for LTC accommodation in Ontario.

U.S. Operations

Although uncertainties in the U.S. political environment and government fiscal constraints create certain risks, it appears that some economic recovery, including job creation and housing market improvements, is under way. We expect that favourable seniors housing supply-demand conditions will continue in 2013, as the pace of new construction remained slow over the past several years. Although new construction starts increased in 2012, the level of these increases is reasonable in light of the current demographic trends.

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

In the U.S., we anticipate average rental rates will increase between 3.0% and 3.5% in 2013. Continuing previous positive trends, occupancies in our U.S. same property portfolio improved in Q4 2012, to 91.2% from 90.0% in Q4 2011. Due to this occupancy growth and as a result of strong expense management practices and purchasing power of our manager, Brookdale Senior Living ("Brookdale"), our same property portfolio delivered a 10.0% same property NOI growth in 2012. We expect to see gradual occupancy and NOI growth in our U.S. portfolio in 2013.

General, Administrative and Trust Expenses

As a result of the significant increase in our property portfolio with the completion of the Maestro portfolio acquisition in 2012, we have been adding a number of management personnel and related costs to support such growth. We expect to complete this process in Q1 2013. We will also continue to invest in improvements to our information management systems. These increases in our general, administrative and trust ("G&A") expenses are more-than-offset by management fees from the acquired Maestro portfolio.

Development

The redevelopment of 35,000 LTC beds in Class B and Class C communities is required by the government of Ontario over the next 10 years, and capital funding program is available for this renewal initiative. We have 12 Class B and Class C communities in Ontario with a total of 1,166 LTC beds that will be able to access this redevelopment program. In 2013, we expect to complete redevelopment of three of these communities currently under construction. We intend to proceed with redevelopment of the remaining LTC communities subject to availability of sufficient funding to make such redevelopments economically viable.

In 2013 we expect to open a 119-suite retirement residence in Hamilton, Ontario which is presently under construction. We also identified a number of other development opportunities, including intensification of some of our existing sites, and expect to commence several of these projects in 2013 and in 2014. In addition, we continue to investigate a number of other opportunities to fill our pipeline of future development projects.

Acquisitions

In 2012 we acquired interests in 41 properties (7,829 suites). We are actively seeking opportunities to acquire newer properties on an accretive basis in geographic regions in which we already operate.

Dispositions

In Q1 2013, we completed the sale of our interest in a five-property portfolio (768 suites) located in New York State (the "Bristal Portfolio"). Our strategy continues to be to concentrate our U.S. holdings in the three core states of Florida, Texas and Colorado and, over time, sell our properties located in other states. We will continue to work to advance this program throughout 2013. In addition, as part of our asset review program, we may dispose of other select properties that do not fit into our long-term strategy.

Taxation

In 2012 we completed the Maestro portfolio acquisition, implemented an internal reorganization to simplify our corporate structure and settled with Spectrum Seniors Holdings LP ("Spectrum") on certain mezzanine loans and other amounts due. As a result, in 2012 the taxable portion of our distributions to unitholders was higher than in prior years. In 2012, 83.2% of our distributions were classified as return of capital, 3.8% as foreign-source interest income and 13.0% as other income. We were not subject to cash SIFT taxes in 2012 and based on our forecasts, we do not expect to be subject to cash SIFT taxes in 2013 and 2014.

Significant Events

The following events have had a significant effect on our financial results in 2012 and may be expected to affect our results in the future.

Public Offering of Trust Units and Convertible Debentures

On March 9, 2012, we completed the offering (the "Offering") of $135.0 million aggregate principal amount of 5.7% convertible debentures, maturing on March 31, 2018, and 24,913,125 subscription receipts at $8.20 per subscription receipt. The net proceeds of the Offering, after underwriters' commissions and other offering costs, was $325.3 million and was used to repay amounts outstanding on our secured revolving operating credit facility ("Credit Facility"), to redeem all of the issued and outstanding $75.0 million aggregate principal amount of 5.9% convertible debentures which occurred on March 16, 2012, and to fund our share of the net purchase price of the Maestro portfolio acquisition, including acquisition related expenses. Upon closing of the Maestro portfolio acquisition on May 1, 2012, the subscription receipts were converted into Trust Units.

Acquisitions in 2012

During Q1 2012, we purchased the 70-suite Chartwell Select Georgian Traditions Retirement Residence in Collingwood, Ontario from Spectrum and their joint-venture partner. The purchase price was $15.5 million, not including closing costs, and was settled through the assumption of debt of $11.4 million, settlement of an outstanding mezzanine loan of $0.9 million, settlement of outstanding accounts receivable of $0.9 million, with the remaining balance, net of working capital adjustments, paid in cash.

During Q2 2012, we acquired a 50% interest in the 97-suite Renaissance Retirement Residence in Kamloops, British Columbia, from Spectrum. The purchase price was $7.5 million and was settled through the assumption of debt of $4.7 million, settlement of the mezzanine loan of $0.7 million, settlement of accounts receivable of $0.8 million, and the balance, net of working capital adjustments, paid in cash.

On May 1, 2012, we completed the Maestro portfolio acquisition in co-ownership with Health Care REIT, Inc. ("HCN"). Chartwell and HCN each acquired a 50% undivided interest in 39 properties with 7,662 suites (the "Chartwell-HCN Properties"). HCN acquired 100% interest in three additional properties with 525 suites. We retain an option to acquire a 50% interest in these three properties at the amount equal to the higher of fair market value or HCN's investment in these properties. We manage all 42 properties. The aggregate purchase price for the Chartwell-HCN Properties was $843.8 million before mark-to-market adjustments, and was settled by Chartwell and HCN through the assumption of debt of $449.8 million with the balance, net of working capital adjustments, paid in cash.

The following tables summarize acquisitions completed in 2012:

($millions, except communities and suites/beds)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012
Number of communities	1	40 [2]	-	-	41
Number of suites/beds	70	7,759 [2]	-	-	7,829
Purchase price (including closing costs)	15.8	440.8	-	-	456.6
Financed as follows:					
Mortgage debt assumed	11.4	229.6	-	-	241.0
Discharge of mezzanine loans receivable	0.9	0.7	-	-	1.6
Settlement of accounts receivable	0.9	0.8	-	-	1.7
Cash	2.3	198.3	-	-	200.6
Acquisition costs [1]	0.3	11.4	-	-	11.7
Total	15.8	440.8	-	-	456.6

(1) Under IFRS, these costs are expensed as incurred.
(2) We have a 50% ownership interest in these properties.

Dispositions

During Q2 2012, we entered into an agreement, along with our joint-venture partner, to sell the Bristal Portfolio, which closed in February 2013. The sale price for 100% of the Bristal Portfolio was U.S.$290.0 million and was partially settled through 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.

Development Activities

In March 2012, we opened two new retirement residences in Kitchener and Oshawa, Ontario (212 suites) and lease-up is progressing well.

In November 2012, we substantially completed redevelopment of the Carlton Gardens LTC community in Burnaby, British Columbia with 128 beds.

Our goal is to maintain an active development program by commencing up to five new projects per year. The following projects are now in progress:

Project	Location	Suites / Beds	Development Costs [1] ($millions)	Estimated Construction Completion Date	Details
Chateau Gardens Aylmer LTC	Aylmer, ON	64	9.5	Q2 2013	Redevelopment of an existing 60-bed Class C LTC property into a 64-bed Class A LTC property.
Chateau Gardens Parkhill LTC	Parkhill, ON	64	10.7	Q3 2013	Redevelopment of an existing 59-bed Class C LTC property into a 64-bed Class A LTC property.
Pine Grove LTC	Woodbridge, ON	107	13.6	Q4 2013	Redevelopment of an existing 100-bed Class C LTC and 40-suite retirement residence into a 96-bed Class A LTC and 11-suite retirement residence.
Deerview Crossing	Hamilton, ON	119	32.3	Q4 2013	New retirement residence with a 28-suite dedicated AL area.
		354	66.1		

(1) Includes estimated results of operations during lease-up period which are recorded in profit and loss as incurred under IFRS.

Spectrum Settlement

In October 2012, we received a payment of $16.6 million from Spectrum in full settlement of its obligations to Chartwell (the "Spectrum Settlement"). Upon receipt of this payment, the development agreement between Spectrum and Chartwell was terminated and the parties provided full and final releases to each other with respect to their obligations under various settlements, mezzanine loans and management and development agreements. As a result of this transaction, in Q4 2012, we recorded a reduction in carrying balances of mezzanine loans receivable of $4.4 million, a reversal of previously-recorded impairment provisions of $9.4 million and mezzanine loan interest, management fee income, settlement fee income and reimbursement of certain expenses of $2.8 million.

Highlights of Consolidated Results of Operations

The following table summarizes selected financial and operating performance measures:

($000s, except occupancy rates, per unit amounts and number of units)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Property revenue	230,393	198,274	32,119	874,503	750,634	123,869
Weighted average occupancy rate - same property portfolio [1]	91.5%	90.3%	1.2pp	90.3%	89.5%	0.8pp
Same property NOI [2]	51,615	49,809	1,806	208,057	197,625	10,432
AFFO [3] [4] [5]	30,104	22,036	8,068	111,554	86,530	25,024
AFFO per unit basic	0.17	0.15	0.02	0.66	0.59	0.07
AFFO per unit diluted [6]	0.17	0.15	0.02	0.66	0.59	0.07
FFO [5] [7]	33,421	24,792	8,629	124,157	96,447	27,710
FFO per unit basic	0.19	0.17	0.02	0.74	0.66	0.08
FFO per unit diluted [6]	0.19	0.17	0.02	0.73	0.66	0.07
Distributions declared [8]	23,329	19,714	3,615	90,700	78,446	12,254
Distributions declared per unit [9]	0.14	0.14	-	0.54	0.54	-
Distributions declared as a percentage of AFFO	77.5%	89.5%	(12.0pp)	81.3%	90.7%	(9.4pp)
Net loss for the period	(38,554)	(25,249)	(13,305)	(139,342)	(63,331)	(76,011)

(1) pp = percentage points.
(2) Excludes the effects of foreign exchange on U.S. dollar revenue.
(3) 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.
(4) Includes $0.5 million and $2.8 million in negative AFFO incurred on properties in lease-up in Q4 2012 and 2012, respectively ($0.3 million and $0.5 million in Q4 2011 and 2011, respectively).
(5) Excludes the reversal of provisions for impairment of mezzanine loans and accounts receivable of $9.4 million recorded in Q4 2012.
(6) Includes dilutive impact of conversion of convertible debentures into Trust Units.
(7) Refer to the “Non-IFRS Measures – Funds from Operations” section of this MD&A for the reconciliation of FFO to net loss and calculations of FFO per unit diluted.
(8) 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.
(9) 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.

In 2012, AFFO excluding the reversal of a provision for impairment of mezzanine loans and accounts receivable, was $111.6 million or $0.66 per unit diluted. This represents an increase of $25.0 million or 28.9% compared to 2011 AFFO of $86.5 million or $0.59 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from our property portfolio of $40.7 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of $4.6 million, primarily due to fees generated from the Maestro properties acquired in 2012, and higher fees collected as a result of the Spectrum Settlement;

Offset by:

- Higher G&A expenses of $1.4 million incurred to support significant growth in our property portfolio;
- Higher interest expense of $16.6 million, primarily due to acquisitions in 2011 and 2012; and
- Higher negative AFFO on properties in lease-up of $2.3 million.

Per unit amounts were also impacted by dilution from the issuance of Trust Units in connection with the Offering and the dilutive effect of the $135.0 million aggregate principal amount of 5.7% convertible debentures.

Fourth Quarter: In Q4 2012, AFFO was $30.1 million or $0.17 per unit diluted. This represents an increase of $8.1 million or 36.6% compared to Q4 2011 AFFO of $22.0 million or $0.15 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from our property portfolio of $9.5 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of $2.7 million, primarily due to fees generated from the Maestro properties acquired in 2012, and higher fees collected as a result of the Spectrum Settlement;

Offset by:

- Higher capital funding, mezzanine loan interest income and other items combined contributed $0.6 million;
- Higher G&A expenses of $1.0 million incurred to support significant growth in our property portfolio;
- Higher interest expense of $3.5 million, primarily due to acquisitions in 2011 and 2012; and
- Higher negative AFFO on properties in lease-up of $0.2 million.

Per unit amounts were also impacted by dilution from the issuance of Trust Units in connection with the Offering and the dilutive effect of the $135.0 million aggregate principal amount of 5.7% convertible debentures.

In 2012, FFO increased by $27.7 million or 28.7% to $124.2 million or $0.73 per unit diluted compared to 2011 FFO of $96.4 million or $0.66 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 Q4 2012, FFO was $33.4 million or $0.19 per unit diluted compared to Q4 2011 of $24.8 million or $0.17 per unit diluted.

Net loss in 2012 was $139.3 million compared to a net loss in 2011 of $63.3 million. In addition to items which impacted AFFO and FFO as discussed above, net loss amounts were also impacted by depreciation of properties, amortization of limited life intangibles totalling $203.9 million combined, impairment of property, plant and equipment ("PP&E") of $21.2 million, transaction costs on acquisitions and dispositions of $13.0 million, issuance costs of convertible debentures of $5.4 million, changes in fair value of financial instruments of $49.4 million, deferred tax benefit of $22.0 million and other items.

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

($000s, except occupancy rates)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Canadian retirement:						
NOI	31,109	30,939	170	128,108	123,678	4,430
Occupancy	89.7%	88.3%	1.4pp	88.3%	87.6%	0.7pp
Canadian LTC:						
NOI	6,598	6,230	368	25,441	24,379	1,062
Occupancy	98.9%	98.8%	0.1pp	98.6%	98.5%	0.1pp
U.S.:						
NOI (U.S.$)	13,908	12,640	1,268	54,508	49,568	4,940
Occupancy	91.2%	90.0%	1.2pp	90.1%	88.5%	1.6pp
Combined:						
NOI (1)	51,615	49,809	1,806	208,057	197,625	10,432
Occupancy	91.5%	90.3%	1.2pp	90.3%	89.5%	0.8pp

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

For 2012, combined same property occupancy improved to 90.3% with same property NOI increasing $10.4 million or 5.3% as follows:

- In our Canadian retirement portfolio, same property NOI increased 3.6%, primarily as a result of occupancy improvements, increased ancillary revenues, rental rate increases in line with competitive market conditions and strong expense controls, offset by higher move-in incentives. 2012 occupancy improved to 88.3% compared to 87.6% in 2011.
- In our Canadian LTC portfolio, same property NOI improved $1.1 million or 4.4% primarily due to higher government funding, preferred resident accommodation rate increases and strong expense controls. Occupancy remained high at 98.6% compared to 98.5% in 2011.
- In our U.S. portfolio, same property NOI increased 10.0%, primarily due to higher revenues as a result of improved occupancy and expense savings. Occupancy improved to 90.1% in 2012 from 88.5% in 2011.

Fourth Quarter: For Q4 2012, combined same property occupancy improved to 91.5% with same property NOI increasing $1.8 million or 3.6% as follows:

- In our Canadian retirement portfolio, same property NOI increased 0.5%, primarily as a result of strong occupancy improvements and increased ancillary revenues, offset by higher move-in incentives. These incentives will continue impacting our revenues in Q1 2013.
- In our Canadian LTC portfolio, same property NOI increased 5.9%, primarily due to higher government funding and strong expense controls. Occupancy improved slightly to 98.9% in Q4 2012 compared to 98.8% in Q4 2011.
- In our U.S. portfolio, same property NOI increased 10.0%, primarily due to higher revenues as a result of improved occupancy and savings in controllable expenses. Occupancy improved to 91.2% in Q4 2012 from 90.0% in Q4 2011.

Consolidated Results of Operations

Summary of Property Revenue

($000s, except occupancy rates)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Same property[1]	176,134	171,687	4,447	690,838	668,335	22,503
Acquisitions and other[1]	54,788	25,618	29,170	183,834	84,412	99,422
Foreign exchange on U.S. dollar revenue	(529)	969	(1,498)	(169)	(2,113)	1,944
Total property revenue	230,393	198,274	32,119	874,503	750,634	123,869
Weighted average occupancy rate - same property portfolio	91.5%	90.3%	1.2pp	90.3%	89.5%	0.8pp
Weighted average occupancy rate - total portfolio	89.5%	89.7%	(0.2pp)	88.6%	88.8%	(0.2pp)

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

Total property revenue grew 16.5% in 2012 through increased revenue from our same property and acquisitions portfolios.

Same property revenue increased $22.5 million or 3.4% for 2012. We continue to drive revenue growth by offering new additional services for our residents, improving occupancies through investments in innovative sales and marketing initiatives and implementing rental rate increases that are competitive to local market conditions.

Fourth Quarter: Total property revenue grew 16.2% in Q4 2012, through increased revenue from our same property and acquisitions portfolios.

Same property revenue increased $4.4 million or 2.6% for Q4 2012 primarily as a result of occupancy improvements, higher ancillary services revenue and increased government funding of our LTC communities, offset by higher move-in incentives in our Canadian retirement portfolio.

Summary of Direct Operating Expenses

($000s)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Same property [1]	124,519	121,877	2,642	482,779	470,710	12,069
Acquisitions and other [1]	39,781	19,080	20,701	132,663	62,821	69,842
Foreign exchange on U.S. dollar expenses	(356)	654	(1,010)	(128)	(1,399)	1,271
Total direct operating expenses	163,944	141,611	22,333	615,314	532,132	83,182

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

Total direct operating expenses increased $83.2 million or 15.6% in 2012 primarily due to additional expenses for acquisitions and modest growth in same property direct operating expenses.
Same property direct operating expenses increased $12.1 million or 2.6% for 2012 primarily due to additional staffing costs required to provide new services to our residents and to respond to new regulatory requirements in certain jurisdictions, combined with investments in targeted sales and marketing initiatives designed to drive occupancy. We strive to mitigate the inflationary increases in our direct operating expenses by capitalizing on our improved economies of scale and active management of our vendor relationships.

Fourth Quarter: Total direct operating expenses increased $22.3 million or 15.8% in Q4 2012 primarily due to additional expenses for acquisitions and modest growth in same property direct operating expenses. Same property direct operating expenses increased $2.6 million or 2.2% for Q4 2012.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
G&A expenses	6,385	5,331	1,054	25,361	22,494	2,867
Severance costs	805	867	(62)	805	2,264	(1,459)
Total G&A	7,190	6,198	992	26,166	24,758	1,408
As % of revenue (excluding severance costs)	2.7%	2.7%	-	2.9%	3.0%	(0.1pp)

G&A expenses, excluding severance costs, increased $2.9 million or 12.7% in 2012. Growth in G&A expenses is primarily related to costs incurred to support significant growth in our Canadian property portfolio in 2012.

In 2012 we incurred severance costs of $0.8 million primarily related to the departure of certain executives and the restructuring of our operations support functions, including centralization of accounting and finance in our Mississauga office.

In 2011, severance costs related to the departure of two senior executives and a result of the decision to contract out certain services at one of our properties.

G&A expenses, excluding severance costs, as a percentage of revenue, were 2.9% in 2012.

Fourth Quarter: G&A expenses, excluding severance costs, increased $1.1 million or 19.8% in Q4 2012 primarily due to costs incurred to support significant growth in our Canadian property portfolio.

G&A expenses, as a percentage of revenue, were 2.7% in both Q4 2012 and Q4 2011.

Management Fee Revenue

($000s)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
HCN	1,327	-	1,327	3,519	-	3,519
Spectrum	1,655	240	1,415	1,976	702	1,274
ING	26	23	3	122	234	(112)
Other	521	546	(25)	2,108	2,201	(93)
Total management fee revenue	3,529	809	2,720	7,725	3,137	4,588

Management fee revenue increased $4.6 million in 2012, of which $3.5 million represents HCN's share of management fees related to the Maestro portfolio acquired in 2012. Under our management agreement for these newly-acquired properties, 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 exceedance or failure to achieve 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.

As discussed under the "Significant Events" section of this MD&A, in October 2012 we entered into the Settlement Agreement with Spectrum and therefore, we no longer manage any Spectrum properties.

Fees from ING relate to the jointly-owned Bristal Portfolio, which was sold in Q1 2013.

Fourth Quarter: Management fee revenue increased $2.7 million in Q4 2012 primarily due to HCN's share of management fees related to the Maestro portfolio acquired in 2012, and the collection of fees from Spectrum in connection with entering into the Settlement Agreement.

Mezzanine Loans

The following table summarizes the changes in our investments in mezzanine loans for 2012 and 2011:

($millions)	**2012**	2011
Gross mezzanine loans outstanding (beginning of the period)	23.2	44.2
Discharge of mezzanine loans on acquisition of properties	(1.6)	(2.1)
Repayments of mezzanine loans in cash	(15.2)	(8.2)
Written off	-	(10.7)
Gross mezzanine loans outstanding (end of the period)	6.4	23.2
Fees recorded as a reduction of mezzanine loan balances	(0.4)	(0.5)
Impairment provision	(6.0)	(13.1)
Total carrying value	-	9.6

As discussed under the "Significant Events" section of this MD&A, in October 2012 we entered into the Settlement Agreement with Spectrum and as a result, our mezzanine loans are now limited to loans on three properties totalling $6.4 million, with the carrying balance of nil.

In 2012, mezzanine loan interest income amounted to $1.5 million compared to $1.6 million in 2011.

Finance Costs

($000s)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Mortgages and loans payable						
Same property [(1)]	19,670	20,795	(1,125)	80,479	81,918	(1,439)
Acquisitions and other [(1)(2)]	8,211	4,104	4,107	28,354	13,277	15,077
Foreign exchange on U.S. dollar expenses	(104)	181	(285)	(32)	(430)	398
	27,777	25,080	2,697	108,801	94,765	14,036
Convertible debentures	1,961	1,106	855	7,193	4,425	2,768
Credit Facility and other interest [(3)]	672	397	275	2,863	1,499	1,364
	30,410	26,583	3,827	118,857	100,689	18,168
Amortization of financing costs and debt mark-to-market adjustments [(4)]	247	720	(473)	1,639	3,037	(1,398)
	30,657	27,303	3,354	120,496	103,726	16,770
Interest capitalized to properties under development	(366)	(336)	(30)	(1,843)	(1,303)	(540)
Distributions on Class B Units recorded as interest expense	227	227	-	909	908	1
Distributions on subscription receipts recorded as interest expense	-	-	-	2,242	-	2,242
Convertible debenture issuance costs	-	-	-	5,363	-	5,363
Total finance costs	30,518	27,194	3,324	127,167	103,331	23,836

(1) Excludes the effects of foreign exchange on U.S. dollar expenses.
(2) Includes $0.5 million and $1.7 million related to properties in lease-up in Q4 2012 and 2012, respectively ($0.2 million and $0.3 million in Q4 2011 and 2011, respectively).
(3) 2012 amounts include $0.4 million relating to a penalty on early extinguishment of a mortgage incurred in Q3 2012.
(4) 2012 amounts include $0.1 million and $0.3 million in Q4 2012 and 2012, respectively, relating to amortization of renewal costs of our Credit Facility.

Interest expense on the same property portfolio decreased by $1.4 million in 2012 due to repayments of certain mortgages during 2012 and lower interest rates achieved on mortgage renewals. Acquisitions

added incremental interest expense of $15.1 million in 2012 as a result of mortgages assumed on acquisitions completed in 2011 and 2012.

Interest expense on our convertible debentures increased $2.8 million in 2012. 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.

During 2012, we capitalized interest of $1.8 million which relates to our development projects under construction. Interest capitalization stops once a development project becomes available for use.

Under IFRS, distributions paid on subscription receipts upon their conversion to Trust Units, are classified as interest expense. As a result, in Q2 2012, we recorded interest expense of $2.2 million.

Under IFRS, we have elected to carry our convertible debentures at fair value and as a result, the issuance costs of $5.4 million relating to the issuance of the $135.0 million aggregate principal amount of 5.7% debentures were expensed in Q1 2012.

Fourth Quarter: Interest expense on the same property portfolio decreased by $1.1 million in Q4 2012 due to principal repayments that occurred during the year and lower interest rates achieved on mortgage renewals.

Other (Expense)/Income

($000s)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Transaction costs arising on business acquisitions and dispositions	(325)	(653)	328	(12,995)	(1,280)	(11,715)
Interest income on capital funding receivable and bank balances	1,213	962	251	4,180	3,817	363
Gain on sale of assets	37	228	(191)	325	7,556	(7,231)
Impairment of PP&E	(21,203)	(4,580)	(16,623)	(21,203)	(13,080)	(8,123)
Gain on remeasurement of previously-held equity interest on acquisition	-	1,505	(1,505)	-	3,595	(3,595)
Reversal of previously-recorded impairment provisions	9,399	-	9,399	9,399	-	9,399
Total other (expense)/income	(10,879)	(2,538)	(8,341)	(20,294)	608	(20,902)

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

Interest income on capital funding receivable and bank balances increased in 2012 primarily due to new capital funding related to completed phases in the three Ontario LTC communities in redevelopment.

In 2012, the gain on sale of assets primarily relates to the sale of a parcel of land in Quebec for $0.6 million.

The gain on disposal of properties for 2011 primarily resulted from a gain realized on the disposition of one retirement property in Quebec of $5.9 million and the net gain arising from the disposal of ownership interest in Horizon Bay Chartwell LLC and Horizon Bay Chartwell II, LLC, and the signing of new management contracts realized on the transition of the management of our U.S. properties to Brookdale, of $1.8 million.

In 2012, the impairment on PP&E primarily relates to three properties in our Quebec portfolio, whose carrying values exceeded estimated recoverable amounts.

The impairment on non-current assets in 2011 primarily relates to our original 50% interest in a 15-property portfolio in the U.S, of which we acquired the remaining 50% interest in Q4 2011. The purchase price of the second 50% was lower than the carrying value of our original 50% interest and as a result, in Q2 2011, we recorded an impairment provision of $8.5 million related to our original 50% interest in these properties. In addition, in Q4 2011, we recorded an impairment of approximately $4.6 million for two properties and certain development projects whose carrying values exceeded estimated recoverable amounts.

In 2011, the gain on the remeasurement of previously-held equity interest on acquisition relates to a remeasurement gain of $2.1 million on the original 50% interest in Chatsworth Retirement Suites, recorded when the second 50% interest was acquired in Q2 2011. Since this was a step acquisition, we were required to remeasure the original 50% interest to fair value upon acquisition of the second 50% interest. In Q4 2011, the purchase of ING's 50% interest in a 15-property portfolio resulted in a gain on remeasurement of $1.5 million.

In October 2012, in connection with entering into the Settlement Agreement with Spectrum, we reversed previously-recorded provisions for impairment of mezzanine loans and accounts receivable in the amount of $9.4 million.

Other Items

($000s)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Property lease expense	625	644	(19)	2,504	2,420	84
Depreciation of PP&E	59,182	50,790	8,392	200,383	170,844	29,539
Amortization of limited life intangible assets	671	1,242	(571)	3,537	2,555	982
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	1,605	3,212	(1,607)	49,379	(2,932)	52,311
Current income tax expense/(benefit)	78	79	(1)	296	330	(34)
Deferred income tax expense/(benefit)	(1,423)	(8,729)	7,306	(21,977)	(14,127)	(7,850)

Depreciation of PP&E increased primarily due to acquisitions completed in 2011 and 2012.

Amortization of limited life intangible assets increased due to acquisitions completed in 2011 and 2012. In Q4 2012, amortization of limited life intangible assets decreased by $0.6 million as certain intangible assets were fully amortized in prior periods.

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. The following table provides a breakdown of these amounts:

($000s)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Changes in fair value of convertible debentures	-	1,035	(1,035)	10,725	(450)	11,175
Changes in fair value of interest rate swap	(109)	(143)	34	(456)	(171)	(285)
Unrealized foreign exchange (gain)/loss	(757)	1,004	(1,761)	1,710	(1,322)	3,032
Changes in fair value of LTIP option component	941	(585)	1,526	2,701	(1,981)	4,682
Changes in fair value of Class B Units	1,199	1,597	(398)	4,034	537	3,497
Changes in fair value of DTUs	331	304	27	1,018	455	563
Changes in fair value of subscription receipts	-	-	-	29,647	-	29,647
Loss on exchange of Class B Units	-	-	-	-	-	-
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	1,605	3,212	(1,607)	49,379	(2,932)	52,311

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 2012 we recorded a $29.6 million loss related to the change in fair value of these subscription receipts.

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

Non-IFRS Measures

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

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

Funds from Operations (FFO)

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

($000s, except per unit amounts)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Net loss for the period	(38,554)	(25,249)	(13,305)	(139,342)	(63,331)	(76,011)
Add (Subtract):						
Depreciation of PP&E	59,182	50,790	8,392	200,383	170,844	29,539
Amortization of limited life intangible assets	671	1,242	(571)	3,537	2,555	982
Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above	(379)	(201)	(178)	(811)	(679)	(132)
Loss/(gain) on disposal of assets	(37)	(228)	191	(325)	(7,556)	7,231
Impairment of PP&E	21,203	4,580	16,623	21,203	13,080	8,123
Gain on remeasurement of previously-held equity interest on acquisition	-	(1,505)	1,505	-	(3,595)	3,595
Transaction costs arising on business acquisitions and dispositions	325	653	(328)	12,995	1,280	11,715
Deferred income taxes	(1,423)	(8,729)	7,306	(21,977)	(14,127)	(7,850)
Distributions on Class B Units recorded as interest expense	227	227	-	909	908	1
Distributions on subscription receipts	-	-	-	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	1,605	3,212	(1,607)	49,379	(2,932)	52,311
FFO [1]	42,820	24,792	18,028	133,556	96,447	37,109
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
FFO excluding reversal of provision for impairment	33,421	24,792	8,629	124,157	96,447	27,710
FFO	42,820	24,792	18,028	133,556	96,447	37,109
Interest expense on 5.7% convertible debentures	1,960	-	1,960	6,282	-	6,282
Diluted FFO	44,780	24,792	19,988	139,838	96,447	43,391
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
Diluted FFO excluding reversal of provision for impairment	35,381	24,792	10,589	130,439	96,447	33,992
FFO per unit						
Basic	0.25	0.17	0.08	0.79	0.66	0.13
Diluted [2]	0.24	0.17	0.07	0.79	0.66	0.13
FFO per unit excluding reversal of impairment provision						
Basic	0.19	0.17	0.02	0.74	0.66	0.08
Diluted [2]	0.19	0.17	0.02	0.73	0.66	0.07

(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) Includes dilutive impact of 5.7% convertible debentures.

Excluding the reversal of provision for impairment of mezzanine loans and accounts receivable, FFO increased by $27.7 million or 28.7% in 2012 compared to 2011, and by $8.6 million or 34.8% in Q4 2012 compared to Q4 2011. The increases are primarily due to higher contribution from the property portfolio and higher management fees, offset by higher G&A and financing costs as a result of the significant growth in our property portfolio.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

($000s, except per unit amounts)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
FFO [1]	42,820	24,792	18,028	133,556	96,447	37,109
Add (Subtract):						
Principal portion of capital subsidy receivable from Health Authorities	1,024	903	121	3,812	3,537	275
Amounts received under income guarantees	552	-	552	1,639	-	1,639
Amortization of financing costs and debt mark-to-market adjustments [2]	197	720	(523)	1,301	3,037	(1,736)
Financing cost reserve [3]	(482)	(413)	(69)	(1,865)	(1,478)	(387)
AFFO before capex reserve	44,111	26,002	18,109	138,443	101,543	36,900
Maintenance capex reserve - 2% of property revenue	(4,608)	(3.966)	(642)	(17,490)	(15,013)	(2,477)
AFFO [4]	39,503	22,036	17,467	120,953	86,530	34,423
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
AFFO excluding reversal of provision for impairment	30,104	22,036	8,068	111,554	86,530	25,024
AFFO	39,503	22,036	17,467	120,953	86,530	34,423
Interest expense on 5.7% convertible debentures	1,960	-	1,960	6,282	-	6,282
Diluted AFFO	41,463	22,036	19,427	127,235	86,530	40,705
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
Diluted AFFO excluding reversal of provision for impairment	32,064	22,036	10,028	117,836	86,530	31,306
AFFO per unit						
Basic	0.23	0.15	0.08	0.72	0.59	0.13
Diluted [5]	0.22	0.15	0.07	0.71	0.59	0.12
AFFO per unit excluding reversal of provision for impairment						
Basic	0.17	0.15	0.02	0.66	0.59	0.07
Diluted [5]	0.17	0.15	0.02	0.66	0.59	0.07

(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) 2012 amounts exclude $0.1 million and $0.3 million in Q4 2012 and 2012, respectively, relating to amortization of renewal costs 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 "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.
(5) Includes the dilutive impact of 5.7% convertible debentures.

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

Weighted Average Number of Units

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

(000s)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Weighted average number of units [1]	173,529	146,662	26,867	168,142	145,846	22,296
Dilutive impact of 5.7% convertible debentures	12,273	-	12,273	9,993	-	9,993
Weighted average number of units, diluted	185,802	146,662	39,140	178,135	145,846	32,289

(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:

	2012				2011			
($000s)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues	234,714	228,620	218,739	201,648	199,530	187,293	185,047	183,502
Direct operating expenses	(163,944)	(157,203)	(151,598)	(142,569)	(141,611)	(131,652)	(129,406)	(129,463)
G&A expenses	(7,190)	(5,847)	(6,766)	(6,363)	(6,198)	(6,018)	(6,381)	(6,161)
Income before the understated [1]	63,580	65,570	60,375	52,716	51,721	49,623	49,260	47,878
Finance costs	(30,518)	(30,393)	(33,236)	(33,020)	(27,194)	(25,114)	(25,561)	(25,463)
Property lease expense	(625)	(620)	(632)	(627)	(644)	(632)	(492)	(651)
Other income/(expense)	(10,879)	(744)	(6,494)	(2,177)	(2,538)	8,102	(5,896)	940
Depreciation and amortization	(59,852)	(48,507)	(50,989)	(44,571)	(52,032)	(39,350)	(41,244)	(40,773)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(1,605)	(9,262)	(10,512)	(28,001)	(3,212)	8,753	1,755	(4,364)
Current income tax (expense)/recovery	(78)	(77)	(82)	(59)	(79)	(80)	(95)	(76)
Deferred income tax (expense)/recovery	1,423	5,495	7,683	7,376	8,729	(2,072)	3,425	4,045
Net loss for the period	(38,554)	(18,538)	(33,887)	(48,363)	(25,249)	(770)	(18,848)	(18,464)
FFO [2]	33,421	35,432	29,793	25,512	24,792	24,958	24,047	22,650
FFO per unit	0.19	0.20	0.17	0.17	0.17	0.17	0.17	0.16
FFO per unit diluted	0.19	0.20	0.17	0.17	0.17	0.17	0.17	0.16
AFFO [2]	30,104	31,409	27,825	22,217	22,036	22,368	21,876	20,250
AFFO per unit	0.17	0.18	0.16	0.15	0.15	0.15	0.15	0.14
AFFO per unit diluted	0.17	0.18	0.16	0.15	0.15	0.15	0.15	0.14

(1) *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.*
(2) *Q4 2012 amounts exclude the reversal of provision for impairment associated with the Spectrum settlement of $9.4 million.*

Our results for the past eight quarters have been affected by the contribution of acquisitions, our decision in 2008 to reduce our exposure to third-party developers and related mezzanine loans which resulted in declining mezzanine loan interest and management fee income, changes in foreign exchange rates resulting in foreign exchange gains and losses on cross-border intercompany loans, and the issuance of Trust Units. Beginning in Q2 2012, our results were also affected by the Maestro portfolio acquisition.

Selected Annual Financial Information

The following table summarizes selected annual financial information for each of the past three years ended December 31:

($000s, except per unit amounts)	2012	2011	2010
Property revenues	874,503	750,634	707,166
Total revenues	883,721	755,372	717,260
Direct operating expenses	615,314	532,132	496,525
Net loss	(139,342)	(63,331)	(61,948)
Total assets	3,005,288	2,706,521	2,679,096
Total liabilities	2,451,163	2,170,729	2,020,597
Distributions declared per unit	0.5400	0.5400	0.5400

Our annual results for the past three years have been primarily affected by the acquisitions of new seniors housing communities and in 2012, by the acquisition of the Maestro portfolio.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments in 2012 and Q4 2012.

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 - Owned					
100%	98	8,429	2,491	488	11,408
50%	6	730	37	-	767
Total same property owned	104	9,159	2,528	488	12,175
Acquisitions & Development					
100% owned:					
Operating	4	173	157	188	518
Development suites in lease-up	3	163	60	117	340
	7	336	217	305	858
Partially owned [(1)]	41	7,379	428	60	7,867
Total acquisitions & development	48	7,715	645	365	8,725
Total	152	16,874	3,173	853	20,900

(1) Includes a 50% ownership interest in 40 properties and a 33.3% ownership interest in one property.

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

($000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Revenue						
Same property	87,576	85,647	1,929	345,973	335,063	10,910
Acquisitions and development	29,709	4,248	25,461	83,636	20,660	62,976
Total revenue	117,285	89,895	27,390	429,609	355,723	73,886
Direct Operating Expenses						
Same property	56,467	54,708	1,759	217,865	211,385	6,480
Acquisitions and development	20,961	3,622	17,339	58,808	16,489	42,319
Total direct operating expenses	77,428	58,330	19,098	276,673	227,874	48,799
Net Operating Income						
Same property	31,109	30,939	170	128,108	123,678	4,430
Acquisitions and development (1)	8,748	626	8,122	24,828	4,171	20,657
Total net operating income	39,857	31,565	8,292	152,936	127,849	25,087
Weighted average occupancy rate - same property	89.7%	88.3%	1.4pp	88.3%	87.6%	0.7pp
Weighted average occupancy rate – total portfolio	87.9%	87.7%	0.2pp	86.7%	87.0%	(0.3pp)

(1) 2012 amounts include $1.0 million of negative NOI in 2012 and $0.1 million of NOI in Q4 2012, related to two development projects in Ontario that commenced operations in March 2012, and one development project in British Columbia that commenced operations in November 2012.

Same property revenues increased 3.3% in 2012 primarily due to higher ancillary revenues from enhanced services provided to our residents, higher occupancies and rental rate increases in line with competitive market conditions.

Same property direct operating expenses increased 3.1% in 2012 as increases in compensation, staff benefits, liabilities and administration costs and repairs and maintenance, were offset by lower utility costs and higher purchasing volume incentives.

Same property NOI increased $4.4 million or 3.6% in 2012 as follows:

- Our Ontario retirement platform same property NOI increased $1.4 million or 2.2%, primarily due to higher resident revenue from additional services provided to our residents, rental rate growth, improved occupancies as well as higher purchasing volume incentives, lower utility costs and strong expense controls, offset by higher move-in incentives.
- Our Western Canada platform same property NOI increased $2.0 million or 7.4%, primarily due to higher resident revenue from additional care services provided to our residents, rental rate growth, improved occupancies and strong expense controls.
- Our Quebec platform same property NOI increased $1.0 million or 3.2%, also due to higher revenues from occupancy improvements, lower utility costs and strong expense controls, offset by higher move-in incentives.

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

	2012	2011	Increase / (Decrease)
Ontario	88.7%	88.4%	0.3pp
Western Canada	91.4%	90.3%	1.1pp
Quebec	86.5%	85.4%	1.1pp
Combined	88.3%	87.6%	0.7pp

Fourth Quarter: Same property NOI increased $0.2 million or 1.0% in Q4 2012 as follows:

- Our Ontario retirement platform same property NOI decreased $0.5 million primarily as a result of the increased short-term move-in incentives.
- Our Western Canada platform same property NOI increased $0.7 million or 10.8% primarily due to improved occupancies offset by higher short-term move-in incentives.
- Our Quebec platform same property NOI decreased $0.1 million or 1.0% primarily due to the increased short-term move-in incentives.

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

	Q4 2012	Q4 2011	Increase / (Decrease)	Q3 2012	Increase / (Decrease)
Ontario	90.0%	89.1%	0.9pp	88.4%	1.6pp
Western Canada	92.2%	91.0%	1.2pp	91.2%	1.0pp
Quebec	88.3%	86.1%	2.2pp	86.8%	1.5pp
Total	89.7%	88.3%	1.4pp	88.3%	1.4pp

In Q4 2012, occupancies in our Canadian retirement same property portfolio increased to 89.7%, a 1.4 percentage point increase from Q4 2011 and a 1.4 percentage point increase from Q3 2012.

In 2012, the results from the Chartwell-HCN properties were ahead of our expectations.

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	-	123	2,782	2,905
Development - 100% owned [(1)]	3	-	-	219	219
Total	24	-	123	3,001	3,124

(1) Represents three Ontario LTC communities which are in redevelopment. Operations in these properties continue during the redevelopment process.

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

($000s, except occupancy rates)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Revenue						
Same property	49,485	48,698	787	191,892	186,394	5,498
Acquisitions and development	3,655	3,642	13	14,274	13,827	447
Total revenue	53,140	52,340	800	206,166	200,221	5,945
Direct Operating Expenses						
Same property	42,887	42,467	420	166,451	162,015	4,436
Acquisitions and development	3,297	3,357	(60)	12,856	12,607	249
Total direct operating expenses	46,184	45,824	360	179,307	174,622	4,685
Net Operating Income						
Same property	6,598	6,230	368	25,441	24,379	1,062
Acquisitions and development	358	286	72	1,418	1,220	198
Total net operating income	6,956	6,516	440	26,859	25,599	1,260
Weighted average occupancy rate - same property	98.9%	98.8%	0.1pp	98.6%	98.5%	0.1pp
Weighted average occupancy rate – total portfolio	99.0%	98.8%	0.2pp	98.6%	98.5%	0.1pp

Same property NOI increased $1.1 million or 4.4% in 2012, primarily due to higher government funding, increased preferred accommodation rates and strong expense controls.

Weighted average occupancies in the same property portfolio remained high at 98.6% in 2012.

Fourth Quarter: Same property NOI increased $0.4 million or 5.9% in Q4 2012 primarily due to higher government funding, increased preferred accommodation rates and strong expense controls.

Weighted average occupancies in the same property portfolio were at 98.9% for Q4 2012 compared to 98.8% for Q4 2011.

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 - Owned					
100%	29	1,540	1,576	190	3,306
50%	5	-	768	-	768
Total same property owned	34	1,540	2,344	190	4,074
Properties under Operating Lease					
100% Interest	2	42	191	-	233
Total same property owned and leased	36	1,582	2,535	190	4,307
Acquisitions					
100% owned - operating	15	1,848	1,034	-	2,882
Total acquisitions	15	1,848	1,034	-	2,882
Total	51	3,430	3,569	190	7,189

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

(U.S.$000s, except as noted otherwise)	**Q4 2012**	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Revenue						
Same property	39,074	37,342	1,732	152,972	146,879	6,093
Acquisitions and other [1]	21,423	17,728	3,695	85,924	49,931	35,993
Total revenue	60,497	55,070	5,427	238,896	196,810	42,086
Direct Operating Expenses						
Same property	25,166	24,702	464	98,464	97,311	1,153
Acquisitions and other [1]	15,521	12,101	3,420	60,996	33,729	27,267
Total direct operating expenses	40,687	36,803	3,884	159,460	131,040	28,420
Net Operating Income						
Same property	13,908	12,640	1,268	54,508	49,568	4,940
Acquisitions and other [1]	5,902	5,627	275	24,928	16,202	8,726
Total net operating income	19,810	18,267	1,543	79,436	65,770	13,666
Foreign exchange in CDN	(174)	315	(489)	(41)	(716)	675
Total net operating income in CDN	19,636	18,582	1,054	79,395	65,054	14,341
Weighted average occupancy rate – same property	91.2%	90.0%	1.2pp	90.1%	88.5%	1.6pp
Weighted average occupancy rate – total portfolio	89.3%	89.0%	0.3pp	88.6%	87.6%	1.0pp

(1) Includes the results of the 15-property ING portfolio, the remaining 50% interest of which was acquired in Q4 2011, as well as the results of our U.S. management operations, which were divested in Q3 2011.

Same property revenue increased U.S.$6.1 million or 4.1% in 2012 primarily due to improved occupancies and rental rate increases in line with competitive market conditions.

Weighted average occupancy rate in our same property U.S operating segment improved by 1.6 percentage points to 90.1% in 2012 from 88.5% in 2011. Total portfolio occupancy was 88.6% in 2012 compared to 87.6% in 2011.

Same property direct operating expenses increased U.S.$1.2 million or 1.2% in 2012, as higher compensation costs were partially offset by savings in purchased goods and services and lower utilities and property taxes.

As a result of the above, same property NOI increased U.S.$4.9 million or 10.0% in 2012.

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:

	Q4 2012	Q4 2011	Increase / (Decrease)	**2012**	2011	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	0.99	1.02	(0.03)	1.00	0.99	0.01

A $0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar would impact AFFO by approximately $0.2 million in 2012.

Fourth Quarter: Same property NOI increased U.S.$1.3 million or 10.0% in Q4 2012.

Same property revenue increased U.S.$1.7 million or 4.6% in Q4 2012, primarily due to improved occupancies, regular annual rental rate increases and an increased number of residents purchasing assisted living and care services.

Weighted average occupancy rate in our U.S operating segment improved by 0.3 percentage points to 89.3% in Q4 2012. The occupancy in the same property portfolio increased 1.2 percentage points to 91.2%. This also represents a 1.3 percentage point growth from Q3 2012 occupancy of 89.9%.

Same property direct operating expenses increased U.S.$0.5 million or 1.9% in Q4 2012. Increased costs required to provide additional care and services to our residents were offset by lower utilities and administration costs. Upon transition of management of 45 of our U.S properties to Brookdale, we have benefited from Brookdale's strong cost management practices and from their economies of scale.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and unitholders' equity for December 31, 2012 compared to December 31, 2011:

	Increase / (Decrease) ($millions)	Explanation
Total assets	**298.8**	The increase in total assets is primarily due to the following:
PP&E	208.4	PP&E increased due to acquisitions of $455.2 million, building improvements and other capital expenditures of $90.3 million. This was offset by amounts transferred to assets held for sale of $96.1 million, depreciation of $200.4 million, impairment of $21.2 million, the disposal of land held for development of $0.3 million and foreign exchange translation of $19.1 million.
Capital funding receivable	1.9	In 2012 we increased capital funding receivable by $5.7 million as a result of improvements made to two LTC properties. This was partially offset by $3.8 million from the regular reduction of the receivable due to capital funding collected during the year.
Intangible assets	(2.1)	Intangible assets decreased primarily due to amortization of $3.5 million, offset by additions of $1.6 million.
Assets held for sale	97.4	Represents assets related to five properties in the U.S. which were sold in February 2013.
Total liabilities	**280.4**	The increase in total liabilities is primarily due to the following:
Mortgages payable	103.1	Mortgages payable increased as a result of net new mortgage financings of $16.1 million and assumed mortgages on acquired properties of $251.3 million. This was offset by regular amortizing principal repayments of $47.0 million, amounts transferred to liabilities held for sale of $97.7 million, foreign exchange translation of $18.0 million and net financing costs and mark-to-market amortization of $1.6 million.
Convertible debentures	70.7	Convertible debentures increased due to the issue of a new series of debentures with a face value of $135.0 million and a mark-to-market adjustment of $12.1 million. This increase was offset by a decrease of $76.4 million due to the redemption of debentures.
Accounts payable and other liabilities	8.6	Accounts payable and other liabilities increased primarily due to increases in the DTU balance, deferred revenue and the fair value of the LTIP option component.
Credit Facility	24.0	Credit Facility increased primarily due to the settlement of various liabilities during the period.
Liabilities related to assets held for sale	100.0	Represents liabilities related to five properties in the U.S. which are expected to be sold in Q1 2013.
Unitholders' equity	**18.3**	The increase in unitholders' equity is primarily due to the issuance of new Trust Units, valued at $229.5 million, net of issue costs and tax adjustments. This was offset by cash distributions and the allocation of net loss to the Trust's unitholders.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2012:

	Trust Units	Trust Units issued under LTIP	Class B Units	Deferred Trust Units	Total
Balance December 31, 2011	142,691,626	2,192,845	1,681,525	354,550	146,920,546
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	1,703,174	-	-	-	1,703,174
Trust Units issued under LTIP	-	293,042	-	-	293,042
Trust Units surrendered for cancellation under LTIP	-	(146,890)	-	-	(146,890)
Trust Units released on settlement of LTIP receivable	131,533	(131,533)	-	-	-
DTUs issued	-	-	-	107,668	107,668
DTU distributions	-	-	-	23,287	23,287
Exchange of Class B Units	2,397	-	(2,397)	-	-
Trust Units issued upon conversion of subscription receipts	24,913,125	-	-	-	24,913,125
Balance December 31, 2012	169,441,855	2,207,464	1,679,128	485,505	173,813,952

Liquidity and Capital Commitments

Liquidity

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

Our principal source of liquidity is cash flow from operations. At December 31, 2012, we had cash on hand in the amount of $5.3 million. In order to provide for our operating and capital requirements, we also raise funds through the capital markets, arrange mortgage debt financing and have a Credit Facility with a maximum committed capacity of $85.0 million. Our Credit Facility matures on June 22, 2013. Under the terms of the Credit Facility, outstanding balances bear interest at the rate equal to bank's prime rate plus 1.25% or the applicable banker's acceptance rate plus 2.25%. 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 December 31, 2012, the maximum available borrowing capacity under the Credit Facility was $85.0 million, based on security provided, of which $2.8 million was utilized to support outstanding letters of credit and $77.0 million was drawn, leaving available borrowing capacity at $5.2 million.

Subsequent to December 31, 2012, we completed mortgage financing on six of our properties for the aggregate proceeds of $37.8 million. A portion of these proceeds was used to repay amounts outstanding on our Credit Facility. In addition, we used a portion of the proceeds from the sale of the Bristal Portfolio to further reduce balances outstanding on our Credit Facility.

Debt Strategy

At the present time we employ the following sources of debt financing: property-specific secured mortgages; unsecured convertible 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; and
- 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.

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").

At December 31, 2012, our Indebtedness Ratio was 54.3% excluding, and 57.9% including convertible debentures, respectively.

Indebtedness Ratio: The following table presents the calculation of our Indebtedness Ratio, excluding assets and liabilities held for sale:

($000s)	**2012**	2011
Mortgages payable (contractual amount)	1,975,625	1,880,533
Credit Facility	77,000	53,000
Total Indebtedness excluding convertible debentures	2,052,625	1,933,533
Convertible debentures (at face value)	135,000	75,000
Total Indebtedness	2,187,625	2,008,533
Total assets	2,907,884	2,706,521
Accumulated depreciation and amortization	489,761	304,019
Cumulative transaction costs on business combinations	16,129	4,326
Change in GBV on transition to IFRS	365,314	379,670
GBV of assets	3,779,088	3,394,536
Less: Assets financed by deferred purchase consideration on acquisition properties	520	5,328
GBV of assets (net of deferred consideration)	3,778,568	3,389,208
Indebtedness Ratio before convertible debentures (1)	54.3%	57.0%
Indebtedness Ratio including convertible debentures (1)	57.9%	59.3%

(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 above table, our Indebtedness Ratio would be 54.9% excluding, and 58.4% including convertible debentures.

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

Interest Coverage Ratio: Effective December 31, 2010, we adopted an interest coverage guideline. We target to maintain our Interest Coverage Ratio above 1.65 times. 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:

($000s, except Interest Coverage Ratio)	**Q4 2012**	Q4 2011	**2012**	2011
Interest expense including capitalized interest	30,657	27,303	120,496	103,726
Property lease expense	625	644	2,504	2,420
	31,282	27,947	123,000	106,146
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") (1)	64,794	52,683	246,421	202,299
Interest Coverage Ratio (2)	2.07	1.89	2.00	1.91
Target Interest Coverage Ratio		>1.65		

(1) 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.

The following table presents the calculation of Adjusted EBITDA:

($000s)	**Q4 2012**	Q4 2011	**2012**	2011
Net loss for the period	(38,554)	(25,249)	(139,342)	(63,331)
Add (Subtract):				
Current income tax	78	79	296	330
Deferred income tax	(1,423)	(8,729)	(21,977)	(14,127)
Gain on sale of assets	(37)	(228)	(325)	(7,556)
Reversal of previously-recorded impairment provision	(9,399)	-	(9,399)	-
Writedown of carrying value of assets	21,203	4,580	21,203	13,080
Transaction costs arising on business acquisitions and dispositions	325	653	12,995	1,280
(Gain) on remeasurement of previously-held equity interest on acquisition	-	(1,505)	-	(3,595)
Finance costs	30,518	27,194	127,167	103,331
Property lease expense	625	644	2,504	2,420
Depreciation of PP&E	59,182	50,790	200,383	170,844
Amortization of intangible assets	671	1,242	3,537	2,555
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	1,605	3,212	49,379	(2,932)
Adjusted EBITDA	64,794	52,683	246,421	202,299

Mortgage Debt

At December 31, 2012, we had $1,975.6 million of mortgages payable of which $1,341.3 million related to our Canadian properties and $634.3 million (U.S.$637.6 million) related to our U.S. properties.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2012, excluding the related mortgages on the U.S. properties held for sale.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Debt	Weighted Average Interest Rate on Maturing Debt
2013	48,385	236,463	284,848	14%	4.83%
2014	42,895	215,496	258,391	13%	4.44%
2015	40,292	263,113	303,405	15%	4.85%
2016	34,982	290,389	325,371	16%	6.12%
2017	25,464	253,722	279,186	14%	5.64%
2018	26,147	41,359	67,506	3%	5.43%
2019	26,184	10,591	36,775	2%	6.07%
2020	26,227	48,899	75,126	4%	4.35%
2021	24,076	50,150	74,226	4%	4.59%
2022	20,388	54,567	74,955	4%	3.61%
2023	16,402	14,224	30,626	2%	6.07%
2024	12,277	17,394	29,671	2%	7.13%
Thereafter	114,155	21,384	135,539	7%	4.97%
Total	457,874	1,517,751	1,975,625	100%	
Mark-to-market adjustments arising on acquisition			20,477		
Less: Financing costs			(16,752)		
Total Mortgage Debt			1,979,350		

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

	At December 31, 2012				At December 31, 2011
	Canadian Debt		U.S. Debt	Combined	Combined
	Fixed Rate	Variable Rate	Fixed Rate		
Amount ($millions)	1,173.7	167.6	634.3	1,975.6	1,880.5
Weighted average rate	4.99%	4.42%	5.90%	5.23%	5.48%
Average term to maturity (years)	8.0	1.2	3.4	6.0	6.8

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 December 31, 2012, 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 on renewal.

Subsequent to December 31, 2012, in line with our financing strategy, we completed CMHC mortgage financing on six of our properties for the aggregate proceeds of $37.8 million. A portion of these proceeds was used to repay amounts outstanding on our Credit Facility. Five of these mortgages, totalling $30.0 million, have term-to-maturity of 20 years and bear interest at 3.95%. The other $7.8 million mortgage has a 10-year term and bears interest at 3.03%.

In the U.S., approximately 75% of our mortgages, excluding the mortgages on our U.S. properties held for sale, 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, mortgages on four

of our non-core properties in the U.S. in the amount of U.S.$37.5 million are coming due. We expect to repay some or all of this maturing debt from the proceeds of sales of the U.S. non-core assets. The remaining U.S. loans mature between 2015 and 2017.

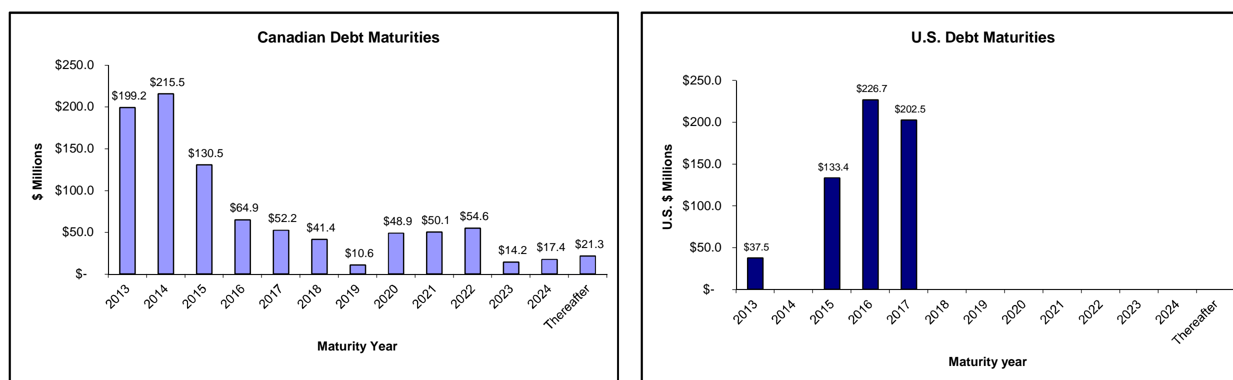
Our variable-rate mortgages primarily relate to recently acquired communities in lease-up and our development projects in Canada. Variable-rate loans are expected to be refinanced with fixed-rate, CMHC-insured debt upon completion and stabilization of the development properties and acquired properties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

The following table summarizes our variable-rate mortgages as at December 31, 2012:

($000s, except number of projects)	Number of Projects	**December 31, 2012**	Number of Projects	December 31, 2011
Mortgages on properties under construction	3	13,452	4	27,276
Mortgages on properties in lease-up	11	145,939	8	62,274
Mortgages on stabilized properties	3	8,249	1	6,148
Total	17	167,640	13	95,698

Subsequent to December 31, 2012, one of the mortgages on a stabilized property, with the outstanding balance of $5.3 million, was refinanced with a $7.8 million, 10-year, CMHC-insured mortgage, bearing interest at 3.03%.

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



Convertible Debentures

During Q1 2012, we issued a new series of $135.0 million aggregate principal amount of 5.7% convertible debentures and fully-redeemed the existing $75.0 million aggregate principal amount of 5.9% convertible debentures, plus accrued interest.

The new series have a face value of $135.0 million, bear interest at 5.7% and 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. The net proceeds from the issuance of the debentures, after underwriting fees and other offering costs, was $129.6 million. The proceeds were used to redeem the $75.0 million aggregate principal amount of 5.9% convertible debentures, and to partially repay the balances outstanding on the Credit Facility.

Capital Expenditures

We classify our capital expenditures in the following main categories:

- Development – capital expenditures in respect of our development projects in progress.
- Acquisition – capital expenditures which were identified during acquisition due diligence for newly acquired assets.
- Revenue enhancing and repositioning – capital expenditures that improve the revenue generating potential of our properties.
- Maintenance – capital expenditures incurred to maintain existing revenue generating potential of our properties, such as routine replacement of building components, furniture, fixtures and equipment. We generally 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 during 2012 and 2011:

($000s)	**2012**	2011
Development	46,704	35,741
Acquisition	8,914	10,251
Revenue enhancing and repositioning	6,979	3,654
Maintenance	24,765	21,727
Total [1]	87,362	71,373

(1) Excludes $4.4 million in capital additions relating to land held for development, corporate office leasehold improvements and corporate office IT assets.

Contractual Obligations and Guarantees

Contractual Obligations

The following table summarizes the major contractual obligations as at December 31, 2012:

($000s)	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Mortgages payable	1,975,625	284,848	258,391	303,405	325,371	279,186	524,424
Accounts payable and other liabilities	121,072	121,072	-	-	-	-	-
Distributions payable	7,800	7,800	-	-	-	-	-
Convertible debentures	135,000	-	-	-	-	-	135,000
Credit Facility	77,000	77,000	-	-	-	-	-
Purchase obligations	20,296	20,296	-	-	-	-	-
Property operating leases	7,945	1,589	1,589	1,589	1,589	1,589	-
Other operating leases	11,222	1,125	1,321	1,306	1,164	1,129	5,177
Land leases	15,665	395	395	395	395	395	13,690
Total contractual obligations	2,371,625	514,125	261,696	306,695	328,519	282,299	678,291

Purchase obligations relate primarily to construction contracts and deferred purchase considerations.

Property operating leases relate to our 100% leased interests in two seniors housing communities.

Other operating leases relate to the agreements we entered into for office space in Ontario, Quebec, and British Columbia.

Land leases relate to three properties and expire between 2044 and 2061.

Other Contracts

45 of our U.S. properties are managed by Brookdale. The management agreements are for a term of approximately 10 years, maturing on December 31, 2021, and call for payment of a base management fee of 5% of gross revenue. Such management agreements also provide for an incentive fee of up to 2% of gross revenue and for a reduction of fee of up to 1% of gross revenue based on achievement of certain operating targets.

Guarantees

As of December 31, 2012, together with our joint venture partners, we have jointly and severally guaranteed CMHC-insured loans on three properties. The maximum amount of these guarantees is $52.3 million. As at December 31, 2012, the outstanding balance of these loans was $48.8 million.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between 2012 and 2011:

Cash Provided by (Used in):	**Increase / (Decrease)** ($millions)	**Explanation**
Operating activities	(8.2)	Cash flows from operating activities decreased primarily due to changes in working capital balances and was partially offset by the net change in non-cash items.
Financing activities	204.7	Cash flows from financing activities increased primarily due to public offering of Trust Units and the issuance of the 5.7% convertible debentures. This was partially offset by the redemption of the 5.9% convertible debentures and higher scheduled mortgage principal repayments.
Investing activities	(197.0)	Cash flows from investing activities decreased primarily due to the purchase of the Maestro portfolio and higher additions to PP&E and intangible assets, and was partially offset by higher mezzanine loan repayments.

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 2012 and Q4 2012, our average DRIP participation was 18.5% and 21.1%, respectively, compared to 19.8% participation in 2011 and 6.7% in 2010.

The following table summarizes distributions made in 2012, 2011 and 2010:

($000s)	**Q4 2012**	**2012**	2011	2010
Distributions declared on Trust Units [(1)]	23,102	89,791	77,538	71,144
Distributions on Class B Units	227	909	908	989
Distributions reinvested under DRIP	(4,814)	(15,791)	(15,075)	(4,795)
Distributions applied against LTIP receivable	(301)	(1,200)	(1,230)	(1,235)
Distributions paid or payable in cash	18,214	73,709	62,141	66,103

(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 2012, 2011 and 2010 in relation to net loss and cash flows from operating activities:

($000s)	**Q4 2012**	**2012**	2011	2010
Cash flows from operating activities	43,550	102,840	110,998	88,861
Net loss	(38,554)	(139,342)	(63,331)	(61,948)
Distributions paid or payable in cash [(1) (2)]	18,214	73,709	62,141	66,103
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	25,336	29,131	48,857	22,758
Shortfall of net loss over cash distributions paid	(56,768)	(213,051)	(125,472)	(128,051)

(1) Cash distributions do not include distributions satisfied through issuance of units under DRIP or distributions applied against the LTIP receivable.
(2) 2012 amount includes $2.2 million distributions on subscription receipts recorded as interest expense for accounting purposes.

We distributed cash to our unitholders despite recording net losses in each of 2012, 2011 and 2010. 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 the value of our real estate investments generally does not diminish over time and as we give consideration to maintenance capital expenditures in establishing the level of annual distributions to unitholders. We believe that our current distribution level is sustainable.

Related-Party Transactions

In Q2 2012, we acquired two parcels of land from a company controlled by one of the senior executives of Chartwell. These acquisitions were completed to facilitate potential future redevelopment of two of our LTC communities. The total consideration was $0.5 million and the executive was not involved in the approval process of these acquisitions.

Key Performance Indicators

We use a number of key performance indicators ("KPIs") for monitoring and analyzing our financial results. These KPIs are not defined by IFRS and may not be comparable to similar measures presented by other income trusts or other companies. KPIs are described below:

Funds from Operations

FFO does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO substantially consistent with the definition adopted by the Real Property Association of Canada ("REALpac") with the exception of the following where, in our 2012 FFO calculation, we added back:

- Issue costs of convertible debentures expensed for the period under IFRS to improve comparability to the reported FFO in prior periods;
- Distributions on subscription receipts recorded as interest expense under IFRS and costs related to asset divestitures. We view these subscription receipts as equity instruments and included them in our calculation of weighted average units outstanding from the date of issuance; 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 and changes in fair value of financial instruments and unrealized foreign exchange gains/losses, FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

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

Adjusted Funds from Operations

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

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

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

Amortization of 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.

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

Net Operating Income

NOI does not have a standardized meaning prescribed by IFRS and 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.

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 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 2012:

	Properties	Suites/Beds
Canadian Retirement Operations	104	12,175
Canadian Long Term Care Operations	21	2,905
U.S. Operations (owned and leased)	36	4,307
Total Same Property Portfolio	161	19,387

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.

Adjusted EBITDA

EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization. In our calculation of the adjusted EBITDA, we exclude 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.

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.

Critical Accounting Policies and Estimates

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

Valuation of PP&E

PP&E makes up approximately 91% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the recoverable amount of a cash generating unit ("CGU") exceeds its carrying amount. Factors which could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for our overall business. In some cases, these events are clear, however, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events may occur over a period of time leading to an indication that an asset may be impaired. As a result, events occurring in these situations may not be known until a date subsequent to their occurrence.

Our business, markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a) fair value less costs to sell, and b) the value in use calculated on a discounted cash flow basis. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgment.

The assessment of asset impairment requires management to make significant assumptions about future revenues including assumptions about rates and occupancies, labour and other supply rates, and utility costs over the life of the PP&E. Actual results can, and often do, differ from these estimates, and can have either a positive or negative impact on the estimate and whether an impairment situation exists. In addition, when impairment tests are performed, the estimated useful lives of the properties are reassessed, with any change accounted for prospectively.

Useful Life of PP&E

PP&E is depreciated over the estimated useful life of their components. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset components. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as discussed previously.

Guarantees

We continually review our contingent liabilities relating to guarantees we have provided on behalf of third parties. Our guarantees remain in place for certain debts assumed by purchasers in connection with property dispositions, and will remain until such debts are extinguished or lenders agree to release our covenants. Recourse would be available to us under these guarantees in the event of a default by the borrowers, in which case we would have a claim against the underlying real estate investments. We would record a provision for a liability when the carrying values of the related real estate investments are not recovered either as a result of the inability of the underlying assets' performance to meet the

contractual debt service terms of the underlying debt and/or the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the normal course of business. Our estimates of future cash flow (which amongst others, involve assumptions of estimated occupancy, rental rates and residual value) and fair value could vary and result in a significantly different assessment of such contingent liability.

Income taxes

In accordance with IFRS, we use the asset and liability method of accounting for deferred income taxes and provide for deferred income taxes for all significant temporary differences between the carrying amounts of associated liabilities for financial reporting purposes and the amounts used for taxation purposes.

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes along with the expected reversal pattern of these temporary differences. These differences result in deferred tax assets and liabilities which are included in our balance sheet, calculated based on the estimated tax rate in effect at the time these differences reverse.

Judgment is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets are realizable. The impact of different interpretations and applications could potentially be material.

An assessment must also be made to determine the likelihood that the Trust's deferred tax assets will be recovered from future taxable income. To the extent that recovery is considered less rather than more likely, deferred tax assets are not recognized. Judgment is required in determining the provision for income taxes, and deferred income tax assets and liabilities. To the extent the recognition of deferred tax assets is revised, current period earnings would be affected.

Fair value

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties (that is, other than in a forced or liquidation sale) in an arm's length transaction under no compulsion to act. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. We assess fair value based on estimated discounted cash flow projections and available market information. Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates (including the historical operating results and anticipated trends, local markets and economic conditions).

Our financial statements are affected by fair value measures, the most significant areas affected are as follows:

- Upon acquisition of properties we estimate the fair value of acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (above and below-market leases representing the value of the differential between contractual and market rents, in-place leases, customer relationships, and licenses) and the value of the differential between stated and market interest rates on long term liabilities assumed at acquisition.

- Fair value forms the basis for allocating consideration to each unit of accounting for revenues from contracts with multiple deliverables that meet the criteria for separate unit of accounting revenue recognition.
- As discussed in valuation of properties above, an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of carrying value over its recoverable amount.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing the recoverable amount to carrying value to determine if an impairment loss is required to be recognized.
- In assessing our potential exposure relating to third party guarantees we evaluate the fair value of the borrower's interests in the underlying real estate investments compared to the liability for which we have provided a guarantee.
- All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods may be at fair value depending on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.
- We disclose in our financial statements the fair value of our mortgages based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks, or market quotes where applicable.
- Class B Units of Master LP and convertible debentures are recorded at fair value based on listed prices of the debentures and of Trust Units.

Property Revenue

Revenue is recognized when services are provided to residents. In Canada, the provinces regulate fees charged to residents of long term care homes and provincial or regional programs fund a substantial portion of these fees. We receive reimbursements from these funding authorities for services rendered to residents covered by these programs. Preparation of the financial statements requires an estimate of the amounts recoverable and earned from the various funding authorities in the jurisdictions in which we operate. Judgment is required to assess amounts recoverable under the various funding agreements, and related regulations and legislation, which are continually changing. The impact of different interpretations and applications of these agreements could change revenues.

New Accounting Standards

Recent Accounting Pronouncements

IFRS 9, Financial Instruments ("IFRS 9")

In November 2009, the International Accounting Standards Board (“IASB’) issued IFRS 9 and in October 2010, the IASB published amendments to IFRS 9. In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 replaces the guidance in IAS 39 and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flow. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 10, Consolidated Financial Statements ("IFRS 10")

In May 2011, the IASB issued IFRS 10, with further amendments issued in June and October 2012. IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities ("SIC-12"). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

IFRS 11, Joint Arrangements ("IFRS 11")

In May 2011, the IASB issued IFRS 11, with further amendments issued in June 2012. IFRS 11 replaces the guidance in IAS 31, Interests in Joint Ventures ("IAS 31") and focuses on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring interests in jointly-controlled entities to be accounted for under the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. It is expected that IFRS 11, when initially adopted, will have a significant impact on our financial statements as we had previously accounted for our interest in several properties using proportionate consolidation. However, we are not able, at this time, to estimate reasonably the impact that IFRS 11 will have on the financial statements.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

In May 2011, the IASB issued IFRS 12, with further amendments issued in June 2012. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. When applied, it is expected that IFRS 12 will increase the current level of disclosure of interests in other entities.

IFRS 13, Fair Value Measurement ("IFRS 13")

In May 2011, the IASB published IFRS 13. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to

develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

In May 2011, the IASB issued amendments to IAS 28. IAS 28 requires any retained portion of an investment in an associate or joint venture that has been classified as held for sale to be measured using the equity method, until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires for it to be continued to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. This amended standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 28 has not yet been determined.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

In June 2011, the IASB amended IAS 1. This amendment requires that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. This amended standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 1 has not yet been determined.

Amendments to IAS 19, Employee Benefits ("IAS 19")

In June 2011, the IASB amended IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. This amendment eliminated the use of the 'corridor' approach and mandates that all remeasurement impacts be recognized in other comprehensive income. It also enhances the disclosure requirements, providing better information about the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This amendment clarifies when a company should recognize a liability and an expense for termination benefits. This amended standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 19 has not yet been determined.

Amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"), and IFRS 7, Financial Instruments: Disclosures ("IFRS 7"):

In December 2011, the IASB amended IAS 32 to clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The IASB also amended IFRS 7 to include new disclosure requirements for financial assets and liabilities that are offset in the consolidated balance sheets or subject to master netting arrangements or similar arrangements.

The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014, and the amendments to IFRS 7 are effective for fiscal periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments to IAS 32 and IFRS 7 has not yet been determined.

Annual Improvements to IFRSs 2009-2011 Cycle - Various Standards

The IASB issued its Annual Improvements to IFRSs - 2009-2011 Cycle, part of the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2013, with retrospective application. The new cycle of

improvements contains amendments to the several standards including: IAS 1, IAS 16, IAS 32, and IAS 34. The amendments to the standards are effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

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.

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2012, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of Chartwell's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Chartwell's disclosure controls and procedures were effective as at December 31, 2012.

Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate 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. The President and Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting as at December 31, 2012, and based on that assessment determined that our internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the COSO framework, published by the Committee of Sponsoring Organizations of the Treadway Commission.

During 2012, we performed phase-in upgrades to our existing Yardi system (full conversion effective January 2, 2013) and implemented the Hyperion Financial Management Consolidation system. In addition, we transitioned accounting and finance support of our Quebec portfolio from our Montreal office

to our Mississauga office. Effective May 1, 2012, we entered into an agreement with a subsidiary of HCN to purchase a portfolio of 39 retirement communities with each holding a 50% undivided interest. The results of the joint venture operations are included in our Financial Statements at our proportionate share.

We have considered the corresponding control risks and have performed procedures to obtain reasonable assurance on the design and operating effectiveness of internal controls over financial reporting that are new or are significantly modified.

Other than the above mentioned items, there were no material changes in our internal controls over financial reporting that occurred during the year ended December 31, 2012, 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;
- growth, or lack thereof, of G&A expenses, which is subject to the risk and uncertainty that economic conditions may result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase;
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks;
- our ability to predict seasonal increases in occupancy rates due to uncertain economic conditions;
- our ability to renew maturing debt, including our Credit Facility and to obtain new financings, in due

course;

- timing of closing of acquisitions or dispositions which are subject to legal, regulatory and lenders' approvals which may not be received as currently expected;
- our expectations regarding achievement of certain occupancy levels at our LTC and retirement communities;
- our ability to successfully complete announced acquisitions, dispositions and assume the associated secured debt in the manner currently contemplated, including those acquisitions and dispositions described in this MD&A;
- 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;
- the expected return to be realized by Chartwell as a result of the acquisition of the Maestro portfolio, including the degree to which such acquisition may be accretive;
- the effect of the acquisition of the Maestro portfolio on the financial performance of Chartwell; and
- Chartwell will maintain good relations with HCN and receive the expected benefits associated with the co-ownership.

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 ♦

(a) **Business Risks**: Chartwell is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.

(b) **Taxation**: We currently qualify as a mutual fund trust for Canadian income tax purposes.

♦ *For a complete description of the Risks and Uncertainties, please refer to our most recent AIF.*

With the enactment of the SIFT Rules and the issuance of equity capital in excess of the normal growth guidelines established by the Department of Finance, we were subject to SIFT tax effective January 1, 2007.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to unitholders but serve to reduce the adjusted cost base of a unitholder's units. In 2012 we completed the Maestro portfolio acquisition, implemented an internal reorganization to simplify our corporate structure and settled with Spectrum on certain mezzanine loans and other amounts due. As a result, in 2012 the taxable portion of our distributions to unitholders was higher than in prior years. In 2012, 83.2% of our distributions were classified as return of capital, 3.8% as foreign-source interest income and 13.0% as other income. We were not subject to cash SIFT taxes in 2012 and now, based on our forecasts, we do not expect to be subject to cash SIFT taxes in 2013 and 2014.

(c) **Geographic Concentration**: Our business and operations are conducted in the United States and Canada, and within Canada primarily in Ontario and Quebec. A geographic concentration of our owned and leased suites, at our percentage share of ownership or leasehold interest, is described under the "Business Overview" section of this MD&A. The market value of these properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.

(d) **Maintenance of Assets**: We are committed to keep our communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio, the annual capital maintenance requirements are approximately 2% of annual gross property revenues. In addition to recurring maintenance capital projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the recurring maintenance capital requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in recurring maintenance capital requirements of our communities could adversely impact cash available to us. The details of our actual capital asset spending for 2012 can be found in the "Capital Expenditures" section of this MD&A.

(e) **Acquisition, Development**: Our external growth prospects depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. If we are unable to manage our growth, integrate our acquisitions effectively and achieve expected returns on acquisitions and development projects, our business, operating results and financial condition could be adversely affected.

Dispositions: From time to time we may dispose of certain assets which are considered non-strategic or non-core to our portfolio. Failure to dispose of such assets at a reasonable price may negatively impact our ability to deliver on our corporate strategies.

(f) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with us in seeking residents. The existence of competing owners, managers and developers and competition for our residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents which may be charged, and could adversely affect our revenues and, consequently, our ability to meet debt obligations. An increased supply of suites in the regions in which we own seniors housing may have an impact on the demand for retirement community suites.

(g) **Government Regulation**: Healthcare in Canada and in the U.S. is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory

changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect us. In addition, new regulatory standards and requirements are being considered in a number of jurisdictions which may affect all types of seniors housing communities. Further, aspects of new legislation that was proclaimed into force in Ontario on July 1, 2010, have affected our LTC communities, including: new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of replacement licenses to be based on a home's structural classification that will be issued for a maximum of 25 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of community staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes.

(h) **Personnel Costs**: We compete with other healthcare providers with respect to attracting and retaining qualified personnel. We are also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.

(i) **Labour Relations**: In Canada we employ or supervise over 13,500 persons, of whom approximately 70% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that we will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on our business, operating results and financial condition. Most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply which ensure the continuation of resident care and most services. Non-unionized seniors housing communities may become unionized in the event they are targeted for certification by a trade union. There can be no assurance that the seniors housing communities we own that are not currently unionized will not, in the future, be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing communities' employees.

(j) **Debt Financing**: We have and will continue to have substantial outstanding consolidated indebtedness comprised primarily of mortgages on our retirement and LTC communities.

We may not be able to renegotiate the terms of renewal of our debt at favourable rates. To the extent that any financing requiring CMHC consent or approval is not obtained, or such consent or approval is only available on unfavourable terms, we may be required to finance a conventional mortgage which may be less favourable to us than a CMHC-insured mortgage. In addition, the terms of our indebtedness generally contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the distributions that may be made by the Trust. Therefore, upon an event of default under such indebtedness, our ability to make distributions will be adversely affected.

A portion of our cash flow is devoted to servicing our debt, and there can be no assurance that we will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If we were unable to meet interest or principal payments, we could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. We are also subject to the risk that any of our existing indebtedness may not be able

to be refinanced upon maturity or that the terms of such refinancing may not be as favourable as the terms of our existing indebtedness.

(k) **U.S./Canadian Exchange Rate Fluctuations**: We have interests in seniors housing communities located in the U.S. We will, therefore, be subject to foreign currency fluctuations which may, from time to time, have an impact upon our financial position and results. We may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging agreements, if any, would be sufficient to protect against currency exchange rate losses that could adversely affect cash available to us.

(l) **Environmental Liabilities**: Under various environmental laws and regulations, we, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in our properties or disposed of at other locations sometimes regardless of whether or not we knew of or were responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, our management is not aware of any material non-compliance, liability or other claim in connection with any of our owned properties and properties in respect of which mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that it believes would involve material expenditure by the Trust. It is our operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring or financing any property. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted. They are intrusive investigations that involve soil, groundwater or other sampling to confirm the absence or presence and extent of an environmental concern.

Environmental laws and regulation may change and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on our business, financial condition or results of operation and distributions.

(m) **Liability and Insurance**: The businesses, which are carried on, directly or indirectly, by us, entail an inherent risk of liability. Management expects that from time to time we may be subject to such lawsuits as a result of the nature of its businesses. The Trust maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against us not covered by, or in excess of, our insurance could have a material adverse effect on our business, operating results and financial condition. Claims against us, regardless of their merit or eventual outcome, also may have a material adverse effect on our ability to attract residents or expand their businesses, and will require management to devote time to matters unrelated to the operation of the business.

(n) **Joint-Venture Interests**: We have entered into joint-venture arrangements in respect of certain of our seniors housing operations. These joint-venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing properties including those risks described above. However, we may be exposed to adverse developments, including a possible change in control, in the business and affairs of our joint-venture partners which could have a significant impact on, or termination of, our interests in our joint ventures and could affect the value of the joint ventures to us and/or cause us to incur additional costs if we were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint-venture arrangements themselves, including: the risk that the other joint-venture partner may exercise buy-sell, put or other sale or purchase rights which could obligate

us to sell our interest or buy the other joint-venture partner's interest at a price which may not be favourable to us or at a time which may not be advantageous to us, the effect of which could be materially adverse to our financial position or resources.

(o) **Economic and Financial Conditions**: Adverse changes to the economic and financial conditions in Canada, the U.S. and globally could impact our ability to execute upon our operating, investing and financing strategies which, in turn, could have a material adverse impact on our business, sales, profitability and financial position. General uncertainty on the timing of a recovery from recent financial market volatility may continue to create a challenging operating environment for us.

(p) **Growth:** The ability to grow may require the issuance of additional units and the ability to do so may not always be a viable capital-raising option. Furthermore, timing differences may occur between the issuance of additional units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive. Additionally, growth may be limited by the properties being owned in a different structure (i.e., a real estate investment trust compared with a corporation) and possibly a different economic environment. We expect that we will have opportunities to acquire properties which will be accretive and enable us to increase cash flow through improved management, but there can be no assurance that will be the case.

(q) **Distributions:** Currently, our distributions are determined in relation to AFFO. While we intend for such distributions to be at least equal to 70% of our AFFO for a specified year, items such as principal repayments, capital expenditures, variances in operating results and redemption of units, if any, or the failure of CSH Trust or Master LP to make distributions, may affect AFFO and, therefore, distributions. We may be required to decrease our distributions in order to accommodate such items. Under the terms of our Credit Facility, distributions to unitholders are limited to 100% of our AFFO.

(r) **U.S. Disposition Program:** As part of our previously-announced property disposition program in the United States, we are considering the disposition of certain of our properties located in the United States (the "U.S. Disposition Program"). The U.S. Disposition Program consists of the potential disposition of approximately 2,400 suites in 10 states. We believe our increased focus on Canadian markets will enhance the stability of our earnings, provide further economies of scale and operating synergies and reduce the operating and foreign exchange risks associated with our U.S. portfolio. There can be no assurance that we will be able to complete a disposition of any of our properties in the United States, or that if completed, the anticipated benefits of the U.S. Disposition Program will be realized in a manner consistent with our current expectations. Accordingly, there should be no assumption that we will be able to successfully complete the U.S. Disposition Program or that we will be able to realize the anticipated benefits associated with the U.S. Disposition Program.