CHARTWELL SENIORS HOUSING REIT

09

2009 ANNUAL REPORT

PROFILE

Chartwell is a real estate investment trust which indirectly owns and operates a complete range of seniors housing communities from independent supportive living ("ISL") through assisted living ("AL") to long-term care ("LTC"). It is one of the largest participants in the seniors housing business in North America. Chartwell's aim is to capitalize on the strong demographic trends present in its markets to maximize the value of its existing portfolio of seniors housing communities, and prudently avail itself of opportunities to grow internally and through accretive acquisitions.

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We have built our foundation by honouring and celebrating seniors

OUR MISSION

- 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.
- To generate reliable, sustainable and growing distributions for our Unitholders.

OUR VISION

To create and operate seniors housing communities where our residents enjoy a lifestyle and quality of life exceeding their expectations.

Our Values

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 life long learning

Commitment

We value commitment to the Chartwell family

Trust

We believe in keeping our promises and doing the right thing

The Chartwell brand is recognized for providing the highest levels of care, service and respect for today's seniors and their families

OUR PEOPLE

Our top priority is providing the highest levels of care and service to our residents. Our people interact daily with our residents, and truly enjoy working with today's seniors.

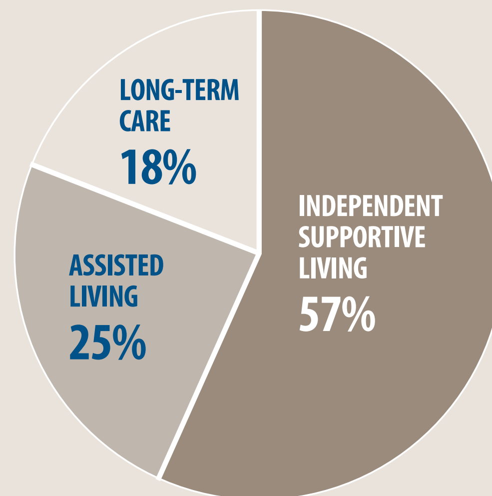
OUR COMMUNITIES

Our properties are well-maintained with continual upgrades and ongoing investments ensuring a modern, attractive and high-value portfolio.

OUR MANAGEMENT

Our senior management team has decades of experience in managing seniors housing communities, as well as in marketing, financing, acquisitions and development.

COMPOSITION OF PORTFOLIO OF OWNED AND LEASED SUITES*



* *At Chartwell's share, excluding discontinued operations, at December 31, 2009 by level of care.*

We are well-positioned to deliver value over the long term

In thousands of Canadian dollars, except per unit amounts and occupancy rates

Period ended December 31	**2009**	2008
Property revenue [1]	**653,749**	601,917
Total revenue [1]	**673,530**	630,393
Weighted average occupancy rate - same property portfolio	**91.6%**	93.3%
Net loss	**(71,245)**	(107,428)
Net loss per unit (basic and diluted)	**(0.70)**	(1.14)
Funds from operations ("FFO") excluding impairment provisions [2] [3]	**64,712**	89,530
FFO per unit diluted	**0.61**	0.88
Adjusted funds from operations ("AFFO") excluding impairment provisions [2] [3]	**73,303**	71,654
AFFO per unit diluted	**0.69**	0.71
Distributions declared	**69,106**	79,265
Distributions declared per unit	**0.66**	0.79
Weighted average units outstanding (diluted)	**106,140,729**	101,185,111

(1) Excludes the effects of discontinued operations. (2) Refer to the "Key Performance Indicators" section of the Management's Discussion and Analysis ("MD&A") for a discussion of the nature of various adjustments made in the calculation of FFO and AFFO. (3) Excludes mezzanine loans and accounts receivable impairment provisions of $30.7 million recorded in Q2 2009 and $6.4 million recorded in Q4 2008.

We are well-positioned to capitalize on continuing positive fundamentals in the North American seniors housing business

ACHIEVING OUR GOALS

We made solid progress on our key priorities in 2009 as we enhanced the contribution from our property portfolio, improved our financial position and liquidity, reduced our mezzanine loan exposure, and incrementally expanded our portfolio through accretive acquisitions and development. Going forward, we believe we are well-positioned to capitalize on continuing positive fundamentals in the North American seniors housing business.

With our initial public offering in November 2003, we embarked on an aggressive growth program to build a large and high-quality portfolio with sufficient size and critical mass to deliver value for our Unitholders over the long term. More than two billion dollars was invested in acquisitions and development over the following five years, transforming Chartwell into one of North America's largest owners and operators of seniors communities.

In 2008 we re-focused our efforts on capturing the available economies of scale and operating synergies that had resulted from our considerable portfolio expansion. Our primary goal going forward is to generate strong and sustainable growth in AFFO through the efficient management of our existing property portfolio. At the same time, we are prudently managing our liquidity and capital resources, while reducing our exposure to third-party developers. We are also focused on growth through acquisition and development, albeit at a more modest pace than in the past. In 2009 we made solid progress on all of these strategic priorities.

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

GROWING AFFO FROM OUR EXISTING PORTFOLIO

We were generally pleased with our operating performance in 2009. Despite the challenging economic environment, property revenues increased due to the contribution from recent acquisitions, annual rental rate increases, and the introduction of new products and services to our residents. However, reduced occupancy levels compared to the prior year, combined with higher property and commodity taxes and one-time increases in vacation and post-employment benefits, resulted in a slight decrease in same property net operating income in 2009.

We were encouraged by positive trends in occupancies and net operating income through the last half of the year. Our sales and marketing strategies, innovative pricing programs, enhanced payment flexibility for our residents, and new social marketing initiatives should continue to contribute to improved occupancies going forward. Most importantly, we will continue to provide the highest levels of care and service for our residents, ensuring that seniors and their families look to Chartwell as the destination of choice for comfortable, convenient and safe communities.

Karen Sullivan	Jonathan Boulakia	Richard Noonan	W. Brent Binions	Vlad Volodarski	Terry Whalen	Sheri Annable	Phil McKenzie
Executive Vice President, People	Executive Vice President and General Counsel	Chief Operating Officer	President and Chief Executive Officer	Chief Financial Officer	Chief Investment Officer	Executive Vice President, Finance and Administration	Executive Vice President, Marketing and Public Relations

We are rigorously examining all opportunities to capitalize on our size and scale while ensuring we maintain our high standards of care and service. We continue to carefully manage our general, administrative and trust expenses and we remain confident we can consistently maintain these costs below 3% of revenues on an annualized basis. All of these initiatives will help to grow AFFO over time.

In 2009 we also rolled out our new asset management program with the goal of reviewing each one of our assets for the highest and best use every two years.

Another important achievement in 2009 was the restructuring and streamlining of our relationship with our U.S. property management partners. As a result, we no longer have an ownership interest in twenty-five leased properties and eight third-party management contracts. This simplification eliminates exposure to negative cash flows and future obligations under lease agreements, thus reducing risk in our U.S. portfolio. The restructuring should also result in an increase in annualized AFFO from our U.S. platform of approximately $2 million going forward.

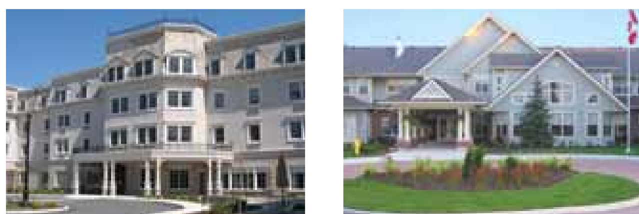
CHARTWELL'S MANAGEMENT TEAM

We believe we have one of the best teams in the business, with significant depth and experience in all aspects of the seniors housing industry.

MANAGING LIQUIDITY AND CAPITAL RESOURCES

Our second priority is to preserve and enhance our liquidity and capital resources. To this end, we continue to capitalize on the current low interest rate environment to reduce interest costs and ensure we maintain a balanced maturity profile for our mortgages. Our revolving operating credit facility provides additional liquidity with available borrowing capacity at December 31, 2009, of $61.9 million. During the year we also successfully completed two public offerings of Trust Units, raising gross proceeds of approximately $166.8 million to further strengthen our balance sheet and provide funds to act on committed and potential acquisition opportunities.

As of December 31, 2009, our financial position remained stable with a leverage ratio of 53.4%, or 59.9% including our convertible debentures. The weighted average interest rate of our mortgage portfolio was 5.42% with an average term to maturity of 7.9 years. We ended the year with financing capacity of approximately $168.8 million, including cash on hand and available credit facilities.



Looking ahead, our mortgage renewals remain very manageable and we continue to access low-cost CMHC-insured debt for the majority of our new financings and renewals. Importantly, we have no U.S. debt maturing until 2013.

Effective with the August 2009 payment to Unitholders, monthly cash distributions were reduced to $0.54 per unit on an annualized basis. The Board of Trustees and management believe that this reduction was in the best interests of all Unitholders to improve the REIT's financial position and create a stable and sustainable level of cash distributions going forward.

REDUCING MEZZANINE LOAN EXPOSURE

Our third priority is to effectively end our relationship with our main third-party development partners and reduce our mezzanine loan exposure. During and subsequent to the year end, we acquired varying interests in nine properties in lease-up from our third-party development partners, as well as three parcels of land for future development, adding 1,223 brand-new, state-of-the-art suites to our portfolio in key geographic regions. As a result of these acquisitions, approximately $22.1 million in outstanding mezzanine loans were settled. In 2009 we also collected $8.0 million of mezzanine loans in cash on the sale or refinancing of the underlying properties by our third-party development partners.

Going forward, we will continue to prudently examine potential property acquisitions as repayment of our mezzanine loans as long as such properties meet our strict criteria. We will also continue working with our third-party development partners on the settlement arrangements for the remaining loans.

INTERNAL GROWTH PROGRAMS

Our fourth priority is to leverage the significant experience and expertise at Chartwell to develop a limited number of properties in markets in which we already operate. Adjacent to or near a number of our current locations, we own vacant land on which we can build new communities to capture increased market share and additional operating synergies. We will carefully and prudently examine these opportunities going forward.

We will also continue to add suites to current properties as well as upgrade common elements and other areas to enhance the character and appeal of our communities. During 2009 we added 132 suites to our portfolio and expect to add an additional 71 suites at one of our properties in 2010, as well as commence development of 212 retirement suites adjacent to two of our LTC communities.

In addition, we intend to re-develop three of our LTC communities in Ontario during 2010. There is significant pent-up demand in the Ontario LTC market, and with recent government announcements to rebuild 35,000 Class B and Class C beds over the next ten years, we are well-positioned to participate in this program.

ACQUISITIONS AND PORTFOLIO MANAGEMENT OPPORTUNITIES

We will continue to grow through acquisition, although at a more moderate pace than in the past. Any potential acquisition will generally be located in an existing market where we are already operating, and we will generally purchase only newer, state-of-the-art communities that have the flexibility to provide the high level of services demanded by today's seniors.

Acquisitions completed and committed to in 2009 fit well within this criteria. As a component of this growth initiative, in December we agreed to acquire the remaining 50% interest in eight LTC communities in Ontario and six retirement properties in the U.S. from ING Real Estate Investment Management Australia PTY ("ING") and its affiliates. We have managed these properties since their original acquisition with ING, a key component of our acquisition criteria.

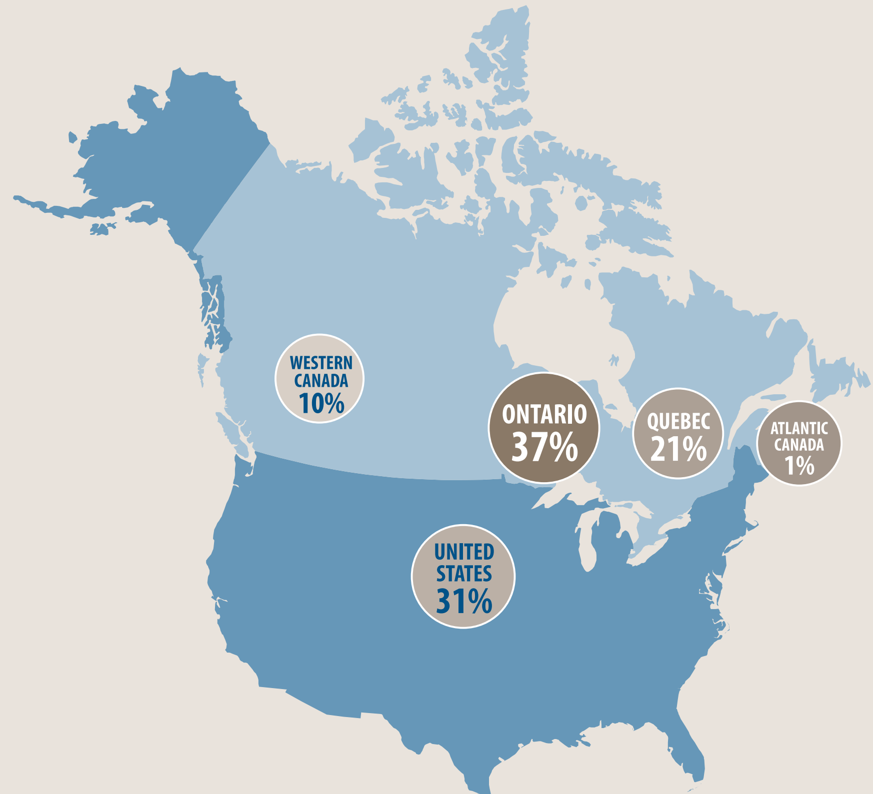
Most importantly, we will continue to provide the highest levels of care and service for our residents, ensuring that seniors and their families across North America look to Chartwell as the destination of choice for comfortable, convenient and safe communities.

A STRONG NORTH AMERICAN PORTFOLIO

Our high-quality portfolio is well-positioned in strong retirement markets across Canada and the United States.

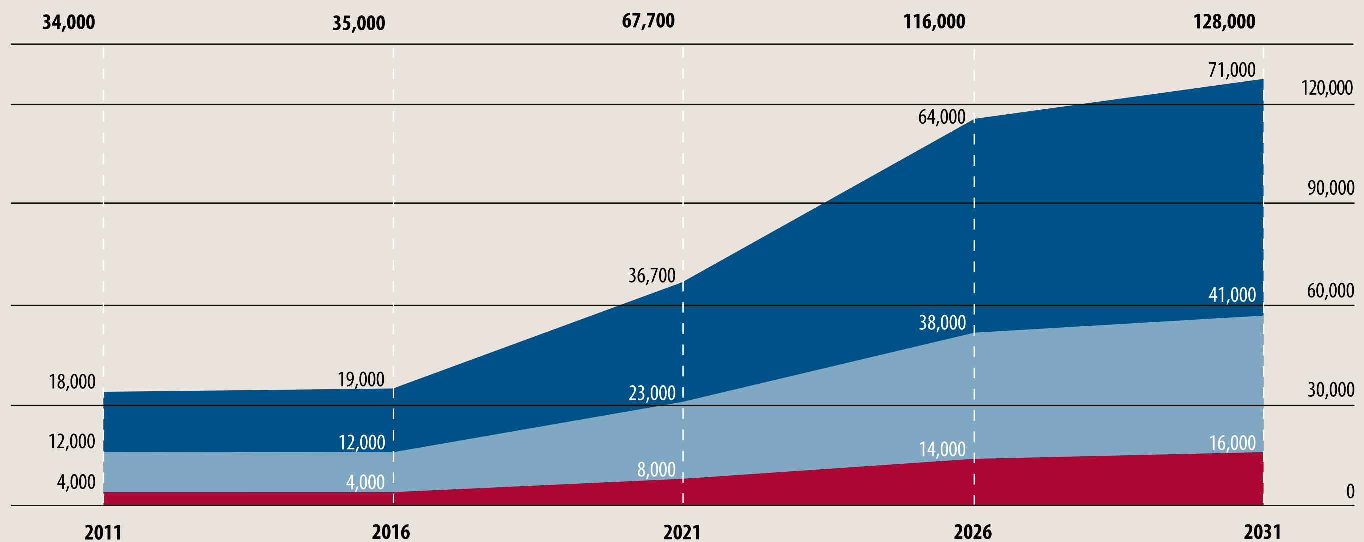
CANADA	SUITES
Owned	15,859
Managed / Mezzanine Loans	6,077
Total Canadian	21,936
UNITED STATES	
Owned	7,071
Leased	237
Total United States	7,308
Total	**29,244**

GEOGRAPHIC DISTRIBUTION OF PROPERTIES



SIGNIFICANT FUTURE DEMAND IN CANADA

The seniors population is growing at a rate three to four times faster than the general population.



Source: Care Planning Partners Inc. and Statistics Canada

A Positive Outlook

Over the near term, we will continue to drive toward our goal of increasing AFFO from our property operations through improved occupancies, managing our rents effectively, and generating savings through our various cost-saving initiatives. Our Canadian operations should continue to deliver stable and improving performance as occupancies strengthen and our annual rental rate increases of between 2% and 3.5% take effect. In the U.S., we are cautiously optimistic that we are moving into a gradual recovery in our markets, while cash flows will benefit from our annual rental rate increases of between 3.5% and 4.5% in 2010. In addition, our long-term care portfolio continues to attract strong occupancies and generate stable performance.

Longer term, we believe our prospects are very positive. Demand continues to exceed supply in most of our markets, and with the North American seniors' population growing at three to four times faster than the overall population, we don't see this demand slowing down. The interruption in the development of new seniors housing communities, as a result of the past two years of tight credit conditions, has increased this supply/demand imbalance. Combining these improving industry fundamentals, our strong presence in most major North American markets, and our stable financial position, we are well-positioned to capitalize on significant increases in demand in the coming years for the benefit of our Unitholders.

W. Brent Binions, *President and Chief Executive Officer*

Vlad Volodarski, *Chief Financial Officer*

Trustees, Directors and Officers

TRUSTEES AND/OR DIRECTORS

Michael D. Harris, Chair (2)
Corporate Director and Consultant
Senior Business Advisor,
Cassels Brock and Blackwell LLP

Charles Moses C.A. (1)
Private Consultant and Chairman
Canadian Depository for
Securities Ltd.

Sidney P.H. Robinson LL.B. (1) (2)
Corporate Director and Consultant

Thomas Schwartz C.A. (2) (3)
President and Chief Executive Officer
Canadian Apartment Properties REIT

André R. Kuzmicki (3)
Executive Director, Program in Real
Property, Schulich School of Business
York University

Lise Bastarache (1) (3)
Corporate Director

W. Brent Binions LL.B.
President and Chief Executive
Officer of Chartwell

(1) Audit Committee
(2) Compensation, Governance and Nominating Committee
(3) Investment and Environmental Committee

OFFICERS AND SENIOR MANAGEMENT

W. Brent Binions LL.B.
President and Chief Executive Officer

Richard Noonan
Chief Operating Officer

Vlad Volodarski C.A.
Chief Financial Officer

Terry M. Whalen
Chief Investment Officer

Jonathan Boulakia LL.B.
Executive Vice President
and General Counsel

Karen Sullivan
Executive Vice President, People

Sheri Annable C.A.
Executive Vice President, Finance
and Administration

Phil McKenzie M.B.A.
Executive Vice President, Marketing
and Public Relations

Unitholder Information

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STOCK EXCHANGE LISTING
Toronto Stock Exchange
(Symbol: CSH.UN)

UNITHOLDER AND INVESTOR CONTACT
Mr. Vlad Volodarski
Chief Financial Officer
Website: www.chartwellreit.ca

ANNUAL MEETING OF UNITHOLDERS
4:30pm ET
Thursday, May 20, 2010
St. Andrew's Club and
Conference Centre
150 King Street West
Toronto, Ontario

Distribution Reinvestment Plan

Chartwell REIT's Distribution Reinvestment Plan ("DRIP") allows Unitholders to use their monthly cash distributions to steadily increase ownership in Chartwell without incurring any commission or brokerage fees.

To encourage participation, eligible investors registered in the DRIP will receive additional bonus units in an amount equal to 3% of their cash distributions. The right to receive the bonus units is being provided for no additional consideration.

Unitholders who are Canadian residents and beneficial holders of 1,000 units or more are eligible to participate.

The DRIP became effective with the March 2004 cash distribution. To register for the DRIP, please contact your investment advisor. More information is available on Chartwell's website at www.chartwellreit.ca

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CHARTWELL SENIORS HOUSING REIT

09

FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 & 2008

FINANCIAL REPORT 09

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Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its current and prospective investors' understanding of the financial results for the year ended December 31, 2009. This MD&A should be read in conjunction with Chartwell's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and the notes thereto (the "Financial Statements"). This material is available on Chartwell's website at www.chartwellreit.ca. Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of March 4, 2010.

All references to "Chartwell", "we", "our", "us" or "Trust", unless the context indicates otherwise, refer to Chartwell Seniors Housing Real Estate Investment Trust and its subsidiaries. For ease of reference "Chartwell" and the "Trust" are used in reference to ownership of seniors housing communities and the operation of the seniors housing communities and the third-party management business. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust.

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; "Q4" refers to the three-month period ended December 31; "2009" refers to the calendar year 2009; "2008" refers to the calendar year 2008 and "YTD" means year to date.

Unless otherwise indicated, all comparisons of results for 2009 are in comparison to results from 2008 and all comparisons of results for Q4 2009 are in comparison to Q4 2008.

In this document we use a number of key performance indicators for monitoring and analyzing our financial results such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI") and others. These key performance measures are not defined by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other income trusts or other companies. Please refer to the "Key Performance Indicators" section of 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 spectrum of care from independent supportive living ("ISL") communities, through assisted living ("AL") communities, to long-term care ("LTC") communities, which are located in Canada and the United States ("U.S.").

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

Our Mission is…

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

Our Values are…

Respect – We honour and celebrate seniors
Empathy – We believe compassion is contagious
Service Excellence – We believe in providing excellence in customer service
Performance – We believe in delivering and rewarding results
Education – We believe in lifelong learning
Commitment – We value commitment to the Chartwell family
Trust – We believe in keeping our promises and doing the right thing

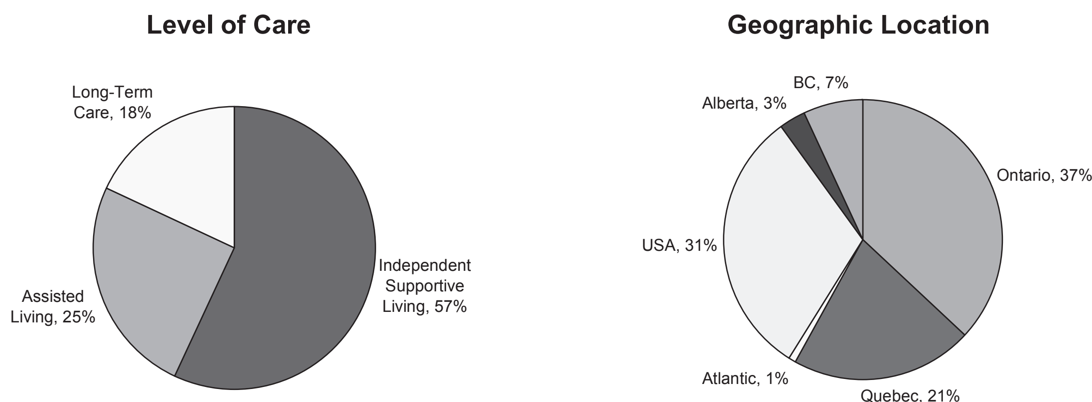
As of December 31, 2009, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 29,244 suites in 229 communities which are operating, under construction or in various stages of development. As of December 31, 2009, our portfolio of owned and leased communities consisted of interests in 23,167 suites in 181 communities.

The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our four operating segments at December 31, 2009:

	Canadian Retirement Operations		Canadian Long-Term Care Operations		United States Operations		Canadian Management Operations		Total	
	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds
Owned Properties: [1]										
100% Owned										
Operating	98	11,409	16	1,779	23	2,311	-	-	137	15,499
Internal Growth	-	419	-	-	-	-	-	-	-	419
Total 100% Owned	98	11,828	16	1,779	23	2,311	-	-	137	15,918
50% Owned										
Operating	8	867	8	1,385	26	4,760	-	-	42	7,012
Total 50% Owned	8	867	8	1,385	26	4,760	-	-	42	7,012
Total Owned	106	12,695	24	3,164	49	7,071	-	-	179	22,930
Properties under Operating Lease:										
100% Interest	-	-	-	-	2	237	-	-	2	237
Total Leased	-	-	-	-	2	237	-	-	2	237
Total Owned and Leased	106	12,695	24	3,164	51	7,308	-	-	181	23,167
Other:										
Managed Properties							39[3]	4,577	39	4,577
Mezzanine Loans [2]	-	-	-	-	-	-	9	1,500	9	1,500
Total Other	-	-	-	-	-	-	48	6,077	48	6,077
Total	106	12,695	24	3,164	51	7,308	48	6,077	229	29,244

(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Includes communities on which we have mezzanine loans outstanding and retain purchase options.
(3) We hold purchase options on 18 of these communities.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Interest, Excluding Discontinued Operations, at December 31, 2009 by:



Business Strategy and 2010 Outlook ♣

Over the past six years we have achieved an enviable presence in the North American seniors housing market. We have acquired a portfolio of properties with significant competitive advantages: our portfolio is relatively new and well maintained; our portfolio is diversified geographically; and a large portion of our assets are independent supportive living, appealing to the leading edge of baby boomers that require supportive services.

Our growth has also been based on the strong fundamentals present in the North American seniors housing market. Significant demand is driven by strong demographic trends that are resulting in the seniors population growing at approximately three to four times the general population.

During 2008 and 2009, the Canadian and U.S. economies moved into a recession. The recession in Canada and particularly in the U.S. was deeper and lasted longer than expected and has had an impact on our occupancies in 2009. In addition, these conditions and tight credit markets affected our development partners. There are signs of improvements in the North American economic climate but it remains difficult to predict the strength and sustainability of economic recovery. In the second half of 2009 we experienced occupancy improvements in most of the markets in which we operate. We expect that this recovery will continue in 2010 and 2011, driven by the stabilization of the housing markets and continued growth in demand for seniors housing accommodation resulting from growth in the seniors population. In addition, a decrease in new construction starts in 2008 and 2009, due to tight credit markets, will result in less new supply coming to market in the next 2-3 years.

Our business strategy remains principally focused on initiatives to increase the percentage of our AFFO that is derived from the ownership and operation of seniors housing properties. The following summarizes our strategic objectives:

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

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

Property Operations

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

Canadian Operations

We expect to see a slow recovery in our Canadian Retirement Operations in 2010 and anticipate generating moderate growth with expectations for occupancy trends as follows:

- In Ontario, occupancies softened in the first half of 2009. However, since August 2009 we have been achieving steady occupancy gains. We continue to see improvements in customer traffic (inquiries and property tours) and our current statistics show increases in expected future arrivals. We expect that this increased traffic, combined with a substantial waiting list for Ontario LTC accommodation that is currently in excess of 25,000 people that creates a spillover effect and helps to support occupancies in retirement properties, should result in continued improvements in occupancies. We anticipate average rental rates will increase by 3.25% to 3.5% in 2010.
- In Alberta, occupancy levels are projected to continue to remain high and we anticipate average rental rates will increase by 3.25% to 3.5% in 2010.
- In British Columbia, temporary oversupply conditions in two regional markets, combined with reduced occupancies in one LTC property, have resulted in reduced occupancy in 2009. Our current statistics show slightly positive future arrivals. We anticipate that with the absorption of new supply and improved economic conditions we will begin to see growth in occupancies in mid-2010. We expect to achieve average rental rate increases of 3.25% to 3.5% in 2010. We will continue to closely manage costs to mitigate the impact of reduced occupancies on NOI.
- As a result of obtaining full control of our properties in Quebec, and the initiatives to reposition and renew many of these properties, we realized improved occupancy in our Quebec platform through 2009 and we anticipate this growth will continue in 2010. We expect to achieve an average rental rate increase of 2.0%in 2010.

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

Our Canadian Long-Term Care Operations have achieved same property NOI growth of 3.5% this year. We do not anticipate that this will continue into 2010 as the impact of provincial government deficits is expected to contain revenue growth. In addition, at this time, the government of Ontario has not yet committed to renew the other accommodation funding increase of $1.55 per resident day beyond March 31, 2010.

In Ontario and British Columbia, operations are expected to be affected by the implementation of harmonization of provincial sales taxes with the federal Goods and Services Tax ("GST") on July 1, 2010. Harmonization with the GST will result in Ontario and British Columbia increasing the tax burden in the seniors housing sector by broadening the scope of their current sales taxes to include items such as utilities and contracted services, including maintenance contracts. We are expecting that in the case of our Long-Term Care Operations, provincial governments will not adversely affect the health services provided to seniors with this additional new tax and are optimistic that we will recover these costs through additional funding from the provincial governments. In respect of our Retirement Operations in Ontario and British Columbia, we anticipate that most markets will bear rental rate increases to absorb the new costs beginning in 2011. The additional cost in 2010 is estimated to be approximately $1.2 million.

U.S. Operations

In mid-2008, in some of our U.S. properties we began to find it more difficult than it had been in the past to replace residents on turnover and this trend continued through to July 2009. In late Q2 2009 we began to see stabilization in occupancies and in Q3 and Q4 2009 have achieved growth. We are cautiously optimistic that continued increases in inquiries and tours across our U.S. portfolio, combined with some improvements in the U.S. housing market and limited new product expected to come to market in the near to mid-term, will begin to improve occupancies later in 2010 and will result in occupancy growth over the longer term. We anticipate that average rental rates will increase by 3.5% to 4.5% in 2010. We are continuing with our expense reduction initiatives to mitigate the effects of lower occupancies on NOI.

Management of General, Administrative and Trust Expenses

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

Canadian Management Operations

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

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

Mezzanine Loan Interest Income

As discussed under the "Consolidated Results of Operations" section of this MD&A, as of December 31, 2009, we recorded a cumulative provision for mezzanine loan impairment of $30.5 million. We continue working with the borrowers in order to collect amounts due from them. As a result of this work, it is possible that we may acquire or receive in payment, a limited number of their properties with their remaining properties being re-financed or sold to third parties. As a result, we expect mezzanine loan interest income to decline in 2010.

Development

We have one internal growth project (71 suites) in progress which is expected to open for occupancy in Q1 2010. We continue to evaluate other opportunities for on balance sheet greenfield and internal growth development on a limited scale. In 2010 we anticipate commencement of development of two retirement residences adjacent to our existing LTC properties in Kitchener and Oshawa, Ontario. These developments will add 212 retirement suites at a total development cost of approximately $47.8 million. In addition, we anticipate redeveloping, subject to successful negotiations with the funding authority, one LTC community in British Columbia with 142 suites. We also anticipate beginning a staged program to redevelop our 12 Class B and C LTC properties with a total of 1,166 beds. The redevelopment of 35,000 LTC beds in Class B and C homes is required by the government of Ontario over the next 10 years with

capital funding provided for this renewal initiative. In 2010 we will continue our analysis and anticipate commencing redevelopment of three of our LTC properties.

Acquisitions

We expect to complete foreclosure of three Le Groupe Melior ("Melior") operating properties and one parcel of vacant land in Q1 2010 and to complete transactions with ING in the spring of 2010 as discussed under the "Significant Events" section of this MD&A. We will continue working with Spectrum, Melior and their joint venture partners to collect the remaining outstanding mezzanine loans or, where appropriate, convert them into equity in the properties. We also remain open to opportunities to acquire newer properties on an accretive basis in geographic regions where we are already operating.

Liquidity and Debt Profile

During Q4 2009, we successfully raised $166.8 million by issuing 27.4 million Trust Units through two public offerings through a syndicate of investment dealers. The net proceeds from the offerings will be used to complete the acquisition of the remaining 50% interest in the Meridian and Regency properties from ING and its affiliates (see "Transactions with ING" section in this MD&A), and to take advantage of certain restructuring opportunities relating to our mezzanine financing investments with Spectrum, Melior and others, with the remaining proceeds expected to be used for general Trust purposes. Initially, we have deployed the net proceeds to repay amounts outstanding under our secured revolving operating facility ("Credit Facility") and have repaid certain mortgages, with the balance invested in short-term interest-bearing deposits. At December 31, 2009 we had cash on hand in the amount of $106.9 million and available borrowing capacity of $61.9 million under our Credit Facility.

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

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

Subsequent to December 31, 2009 we paid down $31.2 million of debt bearing a weighted average interest rate of 4.46% to partially mitigate a temporary dilution from the equity offerings completed in Q4 2009. We expect to renew 2010 maturing debt in due course.

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

Taxation

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

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

A flow-through subsidiary of Chartwell was considered a SIFT prior to December 31, 2008. This entity has been restructured such that it is not subject to SIFT tax in 2009.

Summary

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

Significant Events

The following events have had a significant effect on our financial results in 2009 or may be expected to affect our results in the future.

Acquisitions

In line with our strategy to reduce our exposure to third-party developers, and to acquire newer properties in geographic regions where we are already operating, in 2009 we acquired six properties from Spectrum and its joint venture partners where applicable. As part of these acquisitions, $9.3 million of mezzanine loans receivable and $10.5 million of accounts receivable due from Spectrum were settled.

The following table summarizes acquisitions completed in 2009:

($millions)	First nine months of 2009	Q4 2009	2009
Number of communities	4 [1]	2	6
Number of suites	455	164	619
Purchase price (including closing costs)	50.7	32.4	83.1
Financed as follows:			
Mortgage debt assumed	35.7	24.4	60.1
Discharge of mezzanine loans receivable	5.7	3.6	9.3
Settlement of receivables from Spectrum	7.5	3.0	10.5
Cash	0.5	0.8	1.3
Acquisition costs	1.3	0.6	1.9
Total	50.7	32.4	83.1

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

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
2009 Acquisitions:					
1.	Chatsworth Suites and Bungalows [1]	Kelowna, BC	Retirement	February 1, 2009	103
2.	Churchill House Retirement Community [1]	North Vancouver, BC	Retirement	February 1, 2009	97
3.	Riverside Retirement Residence [1]	London, ON	Retirement	March 1, 2009	138
4.	Pickering City Centre [1]	Pickering, ON	Retirement	March 1, 2009	117
5.	Chartwell Select Thunder Bay	Thunder Bay, ON	Retirement	October 1, 2009	109
6.	Carrington Suites	Mission, BC	Retirement	December 1, 2009	55
Total 2009 Acquisitions					619
2008 Acquisitions:					
1.	Cite-Jardin IIIA	Gatineau, QC	Retirement	January 9, 2008	173
2.	Chateau Gardens Elmira	Elmira, ON	Retirement	April 24, 2008	64
3.	Chartwell Kanata [2]	Kanata, ON	Retirement	May 29, 2008	80
4.	Residences St-Pierre [3]	Rouyn-Noranda, QC	Retirement	October 27, 2008	121
5.	Le Monastere d'Aylmer [3]	Aylmer, QC	Retirement	October 27, 2008	273
6.	Residence Principale [3]	Cowansville, QC	Retirement	October 27, 2008	197
7.	Residence Notre-Dame de Hull [3]	Hull, QC	Retirement	October 27, 2008	224
8.	Le Domaine de Chateau de Bordeaux [3]	Sillery, QC	Retirement	October 27, 2008	153
9.	Marquis de Tracy II [3]	Sorel, QC	Retirement	October 27, 2008	137
10.	Marquis de Tracy I [3]	Sorel, QC	Retirement	October 27, 2008	125
Total 2008 Acquisitions					1,547

(1) We acquired a 50% interest in these communities.
(2) We acquired the remaining 50% interest in this community.
(3) We acquired the remaining 50% interest in these communities and CM Management LP, the management entity that provided management services to these communities as well as our other Quebec communities.

Transactions with Spectrum

During Q2 2009, Stephen A. Suske, who held a significant interest in Spectrum, left his position as Chief Executive Officer and Vice-Chair of Chartwell. In addition, during Q2 2009, Brent Binions, President and Chief Executive Officer of Chartwell made arrangements with respect to his holdings in Spectrum such that the Trustees of Chartwell are satisfied that no conflict exists between him and Chartwell. At December 31, 2009, Richard Noonan, Chief Operating Officer of Chartwell owned a minority interest (less than 2%) in Spectrum.

In 2009, we worked closely with Spectrum to collect our mezzanine loans and accounts receivable as well as improve security on the remaining loans.

In addition to settlement of $9.3 million of mezzanine loans and $10.5 million of accounts receivable on acquisition of Spectrum's interest in six seniors housing communities in 2009, we collected a further $5.6 million of mezzanine loans and $1.8 million of accounts receivable in Q4 2009, as Spectrum sold its interests in two operating properties and two properties in construction to third parties.

On December 8, 2009 (the "Spectrum Settlement Effective Date"), Chartwell and Spectrum agreed, among other things, that we would: (a) waive our entitlement to 5% of the purchase price, net of transaction costs, of any properties sold by Spectrum to third parties; and (b) limit our purchase rights of Spectrum's development properties to properties on which mezzanine loans remain outstanding as well as three Spectrum properties located in Mississauga, Ontario, Kamloops, British Columbia, and Huntsville, Ontario (the "Three Purchase Rights") so long as the following conditions (the "Settlement Conditions") are satisfied no later than August 16, 2010: (i) all mezzanine loans then due and other amounts owing by Spectrum to Chartwell are repaid in full (including interest thereon); and (ii) Spectrum has made a $5 million payment to Chartwell. Until such time, our purchase rights with respect to Spectrum's development properties will remain in effect with compressed notice periods and interest on overdue unsecured accounts receivables from Spectrum will be charged at 12% per annum, so long as Spectrum remains current on its obligations from the Spectrum Settlement Effective Date, on new accounts receivable and interest on mezzanine loans. Upon the Settlement Conditions being fulfilled, Chartwell and Spectrum will sever all agreements, obligations and rights between one another except for the Three Purchase Rights in our favour and purchase rights on properties for which mezzanine loans remain outstanding. The properties which are subject to the Three Purchase Rights were selected by Chartwell as they fit within our strategic objectives relating to property acquisitions.

During Q2 2009, Spectrum sold its interest in eight development properties and agreed to sell one additional development property upon receipt of the regulatory approvals to limited partnerships controlled by an institutional investor (collectively "Seasons"). As part of this transaction, we agreed to Seasons assuming mezzanine loans on six of the acquired properties totalling $8.2 million. In addition, upon receipt of the regulatory approvals, Spectrum agreed to sell one additional property to Seasons. The mezzanine loan of $2.6 million on that property will also be assumed by Seasons on closing.[*]

At December 31, 2009, our exposure to Spectrum was limited to $3.7 million of accounts receivable, against which an impairment provision of $3.5 million was recorded, and $27.7 million of mezzanine loans on 18 projects (including $7.4 million of mezzanine loans on five projects in Quebec) against which an impairment provision of $4.2 million was recorded. We continue working with Spectrum to collect the remaining amounts due to us.

Further details of 2009 transactions with Spectrum are disclosed in note 17 to the Financial Statements.

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

Agreements with Melior

In August 2009, Chartwell and certain subsidiaries, affiliates and joint venture partners of Le Groupe Melior Inc. (the "Melior Debtors") entered into a settlement agreement (the "Melior Settlement") in order to address certain issues relating to the performance by the Melior Debtors of their obligations under certain mezzanine loans.

In mid-November 2009, further to certain conditions of the Melior Settlement being satisfied or waived, a prior notice of exercise by Chartwell of the equivalent to a foreclosure right was registered in respect of three operating properties in Gatineau, Sillery and Sherbrooke, Quebec and one parcel of vacant land in Magog, Quebec against the Melior Debtors. In mid-November 2009, we took possession of the aforesaid three operating properties and assumed the administration thereof. On February 2, 2010, we received court judgments approving foreclosures of the three operating properties and one parcel of vacant land. The closing of this acquisition is expected in Q1 2010. The acquisition of these properties and vacant land will result in our assuming approximately $67.7 million of outstanding mortgages payable and approximately $5.7 million of other liabilities and estimated closing costs. Outstanding mezzanine loans in the amount of $21.6 million (net of fees recorded as a reduction of the mezzanine loans balance of $1.0 million), against which an impairment provision of $8.8 million has previously been recorded, will be discharged on closing.[*]

In December 2009, pursuant to the Melior Settlement, we acquired one parcel of land adjacent to our property in Coaticook, Quebec. As part of this acquisition, one mezzanine loan in the amount of $0.5 million (net of fees recorded as a reduction of the mezzanine loan balance of $0.5 million), against which an impairment provision of $0.4 million had previously been recorded, was discharged.

In January 2010, pursuant to the Melior Settlement, we acquired one parcel of vacant land adjacent to our property in Trois-Rivieres, Quebec for $1.75 million, the proceeds of which were used to discharge the mortgage debt on this property.

Transactions with ING

In Q4 2009, Chartwell agreed to acquire from ING the remaining 50% ownership interests in eight LTC properties situated in Ontario (the "Regency Care Portfolio") and six retirement properties located in the U.S. (the "Meridian Portfolio") that it does not already own. We have managed these portfolios and have owned the other 50% interests in these portfolios in joint venture relationships with ING since their original acquisition.

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

The Meridian Portfolio consists of six retirement communities totalling 1,057 suites within five properties in the Denver, Colorado area and one property in Temple, Texas. The Meridian Portfolio was acquired in a joint venture with ING in August 2005. Our U.S. joint venture property management company, Horizon Bay Chartwell ("HBC"), will continue managing these properties. The purchase price for ING's 50%

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

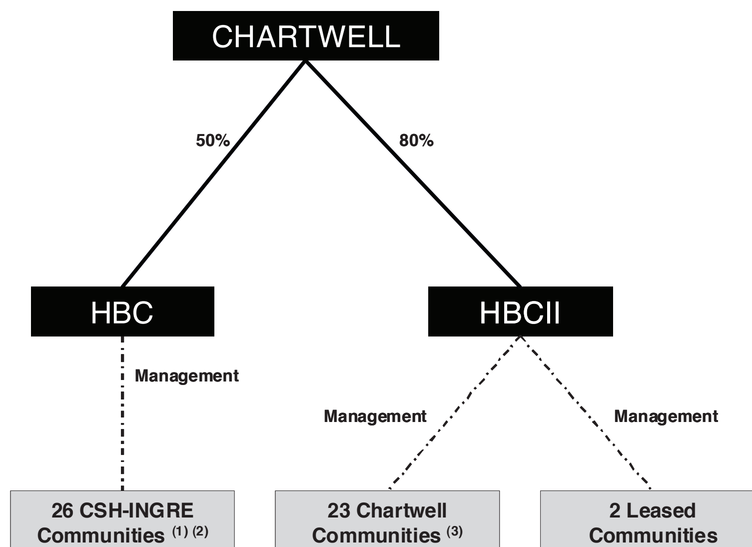
interest in the Meridian Portfolio is U.S.$110.5 million (before closing costs), less outstanding mortgages in respect of the properties of approximately U.S.$75.2 million bearing interest at 5.41% and maturing in September 2015, resulting subject to working capital adjustments, in a cash payment by Chartwell to ING of approximately U.S.$35.3 million.

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

Horizon Bay Restructuring

On October 1, 2009, we reorganized our relationship with Horizon Bay whereby we disposed of our 49% interest in Horizon Bay Realty LLC ("HBR"). Upon completion of the reorganization, we no longer have an ownership interest in the 25 seniors housing communities leased by subsidiaries of HBR, nor the eight third-party management contracts, and retain a 50% interest in HBC, a manager for our U.S. properties co-owned with ING through CSH-INGRE LLC ("CSH-INGRE") and an 80% interest in HBCII Manager LLC ("HBCII."), a manager for our wholly-owned properties in the U.S.

The following chart shows the structure of our U.S. portfolio post reorganization:



(1) Management of five of these communities is currently performed by Ultimate Care Senior Living with financial management services provided by HBC.
*(2) Includes the Meridian Portfolio of six communities that we expect to acquire the remaining interest 50% of in the spring of 2010.***
(3) Management of one of these communities is currently performed by Merrill Gardens due to regulatory requirements.

Development Activities

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

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

We currently have one internal growth project in progress. Once completed in Q1 2010, the project will add 71 suites to the existing 72-suite retirement home in Vernon, British Columbia. The total project costs are estimated at $10.9 million of which $9.2 million is financed with a construction loan.

Completed Internal Growth Projects

The following table summarizes completed internal growth projects in 2008 and 2009:

Project	Location	Suites	Total Cost ($millions)	Debt ($millions)	Construction Completion	Leased Suites at December 31, 2009
2009						
Gayton Terrace[(1)]	Richmond, VA	98	U.S.$21.3	U.S.$17.7	Q2 2009	26
Quail Creek Retirement Centre	Renfrew, ON	34	6.3	5.5	Q3 2009	25
Total 2009		132				51
2008						
Collegiate Heights Retirement Residence	Sault Ste. Marie, ON	30	6.7	4.3	Q3 2008	28
Residence Ste-Marthe	St. Hyacinthe, QC	133	14.8	10.5	Q3 2008	78
Manoir Pierrefonds	Montreal, QC	83	9.8	7.0	Q3 2008	13
Maison Herron	Dorval, QC	72	9.7	5.4	Q4 2008	4
Total 2008		318	41.0	27.2		123
Total		**450**				**174**

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

Offering of Trust Units

On October 8, 2009, pursuant to a public offering, we issued 14,375,000 Trust Units at a price of $6.00 per unit for gross proceeds of $86.3 million. Net proceeds of this offering of approximately $82.1 million were partly used to repay amounts outstanding under our Credit Facility with the remaining proceeds expected to be utilized to enhance our flexibility in order to take advantage of restructuring opportunities related to certain existing mezzanine loans with Spectrum, Melior and others. *

On December 24, 2009, pursuant to a public offering, we issued 12,995,000 Trust Units at a price of $6.20 per unit for gross proceeds of $80.6 million. Net proceeds of this offering of approximately $76.7 million will be utilized to complete the acquisitions of the Meridian Portfolio and the Regency Care Portfolio from ING and for general Trust purposes.*

Distributions

Effective with the payment to Unitholders for August 2009, paid on September 15, 2009, cash distributions per unit were reduced to $0.0450 per month, or $0.54 on an annualized basis, from the previous level of $0.0617 per month, or $0.74 on an annualized basis. In both 2009 and 2008, 100% of distributions were non-taxable return of capital.

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

Highlights of Consolidated Results of Operations

Same Property Portfolio Highlights [(1)]

Same property NOI decreased by $0.9 million or 0.5% for 2009 compared to 2008 as follows:

- In our Canadian retirement portfolio, same property NOI decreased in 2009 compared to 2008 by $1.8 million or 1.8%. Reduced occupancy and increased property tax and commodity tax costs, as well as an increase in our estimated liabilities (for leave, vacation and post-employment benefits that were one-time in nature) were partially offset by regular annual rate increases, which range between 2.5% and 5.0%.
- In our U.S. portfolio, same property NOI increased slightly by U.S.$0.3 million or 0.5% in 2009 compared to 2008. This was achieved through regular annual rent increases, targeted cost reduction initiatives, and tight management of expenses. The impact of these initiatives were offset by reduced occupancy in 2009 compared to 2008
- In our Canadian LTC portfolio, same property NOI increased $0.6 million or 3.5% in 2009 compared to 2008.

Same property occupancy continued to be relatively strong at 91.6% in 2009. However, this represents a 1.7 percentage point decrease from 93.3% in 2008.

Fourth Quarter: Same property NOI decreased by $0.3 million or 0.7% for Q4 2009 compared to Q4 2008 as follows:

- In our Canadian retirement portfolio, same property NOI decreased by $1.0 million or 4.3%, primarily due to our estimates of leave, vacation and post-employment benefit liabilities as described above.
- In our U.S. portfolio, same property NOI increased by U.S.$0.6 million or 4.6%. Regular annual rental rate increases, and tight management of expenses have offset the decrease in occupancy of 3.3 percentage points to 90.0%. In addition, Q4 2009 benefited from an adjustment to reduce health benefits cost based on our experience through 2009.
- In our Canadian LTC portfolio, same property NOI increased by $0.2 million or 3.9%.

Overall, same property occupancy was 91.8% in Q4 2009, a decrease of 1.3 percentage points compared to 93.1% in Q4 2008. Same property occupancy grew 0.5 percentage points from 91.3% in Q3 2009.

Acquisition and Internal Growth Portfolio Highlights

For 2009, acquisitions and internal growth contributed $20.0 million of NOI, or an additional $9.1 million compared to 2008, excluding the impact of foreign exchange.

In Q4 2009, acquisitions and internal growth delivered NOI of $5.7 million, or an additional $2.4 million compared to Q4 2008, excluding foreign exchange.

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

General, Administrative and Trust Expenses

G&A expenses excluding severance and other costs were flat as a percentage of revenue at approximately 2.8% for 2009 and 2008. G&A expenses excluding severance and other costs, decreased as a percentage of revenue to 2.8% of revenues for Q4 2009 compared to 2.9% for Q4 2008 due to continued cost reduction initiatives.

Per Unit Analysis

Excluding impairment provisions of $30.7 million recorded in 2009 and $6.4 million recorded in 2008, AFFO for 2009 was $73.3 million, or $0.69 per unit diluted, a reduction of $0.02 per unit compared to 2008 AFFO of $71.7 million or $0.71 per unit diluted primarily due to the following:

- Lower mezzanine loan interest reduced AFFO by $3.3 million or $0.03 per unit diluted.
- Lower management fee income reduced AFFO by $1.7 million or $0.02 per unit diluted.
- Higher G&A expenses, primarily due to higher severance costs, reduced AFFO by $1.1 million or $0.01 per unit diluted.
- Dilution of AFFO attributed to the issuance of Trust Units of $0.03 per unit diluted.
- Incremental contribution from the property portfolio, primarily due to acquisitions completed subsequent to January 1, 2008, increased AFFO by $4.7 million or $0.05 per unit diluted.
- Increased realized foreign exchange gains of $2.2 million or $0.02 per unit diluted.

Fourth Quarter: AFFO for Q4 2009 was $0.13 per unit diluted, a decrease of $0.04 per unit diluted from Q4 2008 AFFO of $0.17 per unit diluted excluding the impairment provision of $6.4 million recorded in Q4 2008, primarily due to the following:

- Increased realized foreign exchange loss of $2.9 million or $0.03 per unit diluted.
- Lower mezzanine loan interest and management fee income reduced AFFO by $2.3 million or $0.02 per unit diluted.
- Dilution of AFFO attributed primarily to the issuance of Trust Units during the quarter of $0.02 per unit diluted.
- Increased contribution from the property portfolio, primarily due to acquisitions completed subsequent to January 1, 2008 of $1.6 million or $0.02 per unit diluted.

FFO for 2009 was $34.0 million or $0.32 per unit diluted, a decrease of $49.1 million or $0.50 per unit diluted compared to 2008. FFO for Q4 2009 was $0.14 per unit diluted, a decrease of $0.09 per unit diluted from Q4 2008. FFO per unit diluted is described more fully in the "Funds from Operations" section of this MD&A.

Net loss decreased $0.44 per unit diluted to $0.70 per unit diluted for 2009 primarily due to lower impairment provisions, amortization of limited life intangible assets and increased NOI which were partially offset by unrealized foreign exchange losses and higher depreciation of properties. For Q4 2009, net loss decreased to $0.06 per unit diluted, a decrease of $0.75 per unit diluted compared to Q4 2008. Net loss from continuing operations was $61.9 million or $0.61 per unit diluted compared to $98.7 million or $1.05 per unit diluted in 2008.

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

($000s, except per unit amounts, occupancy rates, and operating margins)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Property revenue [1]	163,418	162,627	791	653,749	601,917	51,832
Total revenues [1]	167,788	169,439	(1,651)	673,530	630,393	43,137
Net loss	(7,236)	(77,084)[2]	69,848	(71,245)	(107,428)[2]	36,183
Net loss per unit (basic and diluted)	(0.06)	(0.81)[2]	0.75	(0.70)	(1.14)[2]	0.44
Distributions declared	16,367	18,555	(2,188)	69,106	79,265	(10,159)
Distributions declared per unit	0.14	0.19	(0.05)	0.66	0.79	(0.14)
FFO [3]	16,858	23,249	(6,391)	34,029	83,124	(49,095)
FFO per unit diluted	0.14	0.23	(0.09)	0.32	0.82	(0.50)
AFFO [4]	14,667	11,289	3,378	42,619	65,248	(22,629)
AFFO per unit diluted	0.13	0.11	0.02	0.40	0.64	(0.24)
FFO excluding impairment provisions [3] [5]	16,858	29,655	(12,797)	64,712	89,530	(24,818)
FFO per unit diluted	0.14	0.29	(0.15)	0.61	0.88	(0.27)
AFFO excluding impairment provisions [4] [5]	14,667	17,695	(3,028)	73,303	71,654	(1,649)
AFFO per unit diluted	0.13	0.17	(0.04)	0.69	0.71	(0.02)
Weighted average occupancy rate - same property portfolio	91.8%	93.1%	(1.3pp)	91.6%	93.3%	(1.7pp)[6]
Weighted average number of units including Class B Units of Chartwell Master Care LP:						
Basic	114,522,908	99,041,007	15,481,901	103,550,525	98,543,804	5,006,721
Diluted (includes LTIP)	116,986,471	101,674,442	15,312,029	106,140,729	101,185,111	4,955,618

(1) Excludes the effects of discontinued operations.
(2) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.
(3) Refer to the "Non-GAAP Measures - Funds from Operations" section of this MD&A for the reconciliation of FFO to Net Loss.
(4) Refer to the "Non-GAAP Measures - Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.
(5) Excludes mezzanine loans and accounts receivable impairment provisions of $30.7 million recorded in Q2 2009 and $6.4 million recorded in Q4 2008.
(6) Percentage points.

Correction of Immaterial Prior-Period Error

During the preparation of the Financial Statements for the year ended December 31, 2009, we discovered a misstatement relating to the recognition of future income tax liabilities. These future income tax liabilities related to the differences between the carrying amount and tax basis of certain of our assets. These amounts related to two items: a) a future income tax expense and a future income tax liability of $3.0 million that should have been recognized in conjunction with the initial adoption of the SIFT Rules effective June 22, 2007, and b) a future income tax liability of $8.8 million that should have been recognized in conjunction with the purchase price allocation related to the Regency Care portfolio transaction in 2007, which would have resulted in a corresponding increase in goodwill of the same amount. The latter adjustment to goodwill in 2007 subsequently resulted in an understatement of the provision for impairment of goodwill of $8.8 million in 2008 as this goodwill was considered impaired in 2008. As at December 31, 2008, future income tax liabilities, as previously reported were understated by $10.3 million.

Consolidated Results of Operations

Summary of Property Revenue

($000s, except occupancy rates)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Same property[1]	145,964	144,434	1,530	575,148	566,520	8,628
Acquisitions and other[1]	16,799	12,443	4,356	62,741	41,093	21,648
Eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Equity-accounted variable interest entities ("VIEs") [2]	-	(1,015)	1,015	-	(10,095)	10,095
Foreign exchange on U.S. dollar revenue	2,287	8,417	(6,130)	22,861	10,649	12,212
Total property revenue [3]	163,418	162,627	791	653,749	601,917	51,832
Weighted average occupancy rate - same property portfolio	91.8%	93.1%	(1.3pp)	91.6%	93.3%	(1.7pp)

(1) Excludes the effect of foreign exchange on U.S. dollar revenue.
(2) Refer to "Critical Accounting Estimates – Variable Interest Entities" section of this MD&A for details.
(3) Excludes discontinued operations.

Total property revenue increased by 8.6% in 2009 compared to 2008 due to the contributions from acquisitions, increased foreign exchange translation on U.S. dollar revenues and same property revenue growth.

Same property revenue increased by approximately $8.6 million or 1.5% in 2009 compared to 2008 despite lower occupancies. We continue to drive revenue growth with our proven strategies as follows:

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

Weighted average occupancy rates in the same property portfolio were 91.6% in 2009, a decrease of 1.7 percentage points from 93.3% in 2008. The following factors have contributed to the decrease:

- We experienced a softening of occupancies in the U.S. toward the end of 2008 and through the first half of 2009. U.S. same property average occupancy in 2009 was 90.0% or 4.1 percentage points lower than 2008.
- Our British Columbia properties experienced softer occupancies in 2009 than 2008, with average occupancies in our Western Canada platform 3.3 percentage points lower, or 91.9% in 2009 compared to 95.2% in 2008.
- In addition, occupancies softened in the first half of 2009 in our Ontario properties with average occupancy for 2009 92.9% compared to 93.8% in 2008.

These reductions were partially offset by strengthening occupancies in our Quebec platform with occupancy in the same property platform rising to 87.2% or 1.2 percentage points higher than 2008.

Fourth Quarter: Total property revenue increased $0.8 million or 0.5% in Q4 2009 compared to Q4 2008 due to contributions from acquisitions completed subsequent to January 1, 2008 and same property revenue growth. These increases were offset by reduced foreign exchange translation of U.S. dollar revenue for Q4 2009 compared to Q4 2008.

Same property revenue increased by approximately $1.5 million or 1.0% in Q4 2009 compared to Q4 2008.

Weighted average occupancy rates in the same property portfolio excluding internal growth suites were 91.8% in Q4 2009, a decrease of 1.3 percentage points from 93.1% in Q4 2008. Occupancy grew 0.5 percentage points from Q3 2009 occupancy of 91.3%.

Summary of Direct Operating Expenses

($000s)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Same property[1]	105,705	103,910	1,795	407,258	397,738	9,520
Acquisitions and other[1]	11,072	9,127	1,945	42,757	30,169	12,588
Eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Equity-accounted VIEs	-	(786)	786	-	(7,008)	7,008
Foreign exchange on U.S. dollar expenses	1,414	5,525	(4,111)	14,776	6,986	7,790
Total direct operating expenses – properties	116,559	116,124	435	457,790	421,635	36,155
Direct operating expenses – management operations	1,024	1,025	(1)	4,099	4,102	(3)
Total direct operating expenses [2]	117,583	117,149	434	461,889	425,737	36,152

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

Total direct operating expenses increased by 8.5% in 2009 compared to 2008 primarily due to additional expenses from acquisitions completed subsequent to January 1, 2008, same property direct operating expenses and increased foreign exchange translation of U.S. dollar direct operating expenses.

Same property direct operating expenses increased by approximately $9.5 million or 2.4% for 2009 compared to 2008. Increased costs related to property tax, commodity tax, and an increase in estimates for vacation, sick and post-employment benefit liabilities that were largely one-time in nature, were offset by both lower energy costs and the impact of cost reduction initiatives in labour and discretionary expenditures.

Fourth Quarter: Total direct operating expenses increased by 0.4% in Q4 2009 compared to Q4 2008 due to additional expenses from acquisitions completed subsequent to January 1, 2008 offset by reduced foreign exchange translation of U.S. dollar direct operating expenses. Same property direct operating expenses increased by approximately $1.8 million or 1.7% in Q4 2009 compared to Q4 2008.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	Q4 2009	Q4 2008	Increase / (Decrease)	2009	2008	Increase / (Decrease)
G&A expenses	4,680	4,843	(163)	19,031	17,396	1,635
Severance and other costs	261	459	(198)	1,977	2,506	(529)
Total G&A	4,941	5,302	(361)	21,008	19,902	1,106
As % of revenue:						
Excluding severance and other costs	2.8%	2.9%	(0.1pp)	2.8%	2.8%	-

In 2009, G&A expenses before severance and other costs increased by approximately $1.6 million to $19.0 million or 2.8% of revenue compared to $17.4 million or 2.8% of revenue in 2008. Additional costs incurred to rebrand certain of our U.S. properties of $1.2 million and inflationary increases were offset by savings from our cost reduction initiatives.

Severance and other costs decreased $0.5 million in 2009 as compared to 2008. Included in 2009 amounts are approximately $1.6 million of severance costs which related to executive changes and the wind down of our third-party development management activities.

Fourth Quarter: Continuation of our cost reduction initiatives resulted in a decrease of $0.2 million in G&A excluding severance and other costs, in Q4 2009 compared to Q4 2008. As a result, G&A excluding severance and other costs decreased as a percentage of total revenues to 2.8% for Q4 2009 from 2.9% in Q4 2008.

Interest and Property Lease Expense

($000s)	Q4 2009	Q4 2008	Increase / (Decrease)	2009	2008	Increase / (Decrease)
Mortgages and loans payable						
Same property	19,419	19,877	(458)	77,668	79,436	(1,768)
Acquisitions	2,087	1,597	490	7,981	5,040	2,941
Foreign exchange on U.S. dollar expenses	498	1,954	(1,456)	4,848	2,476	2,372
	22,004	23,428	(1,424)	90,497	86,952	3,545
Convertible debentures	2,980	2,979	1	11,916	11,918	(2)
Credit Facility and other	90	62	28	475	269	206
Interest capitalized to properties under development	(282)	(797)	515	(1,223)	(1,846)	623
	24,792	25,672	(880)	101,665	97,293	4,372
Accretion adjustment to convertible debenture liability	780	715	65	3,020	2,776	244
Amortization of debt mark-to-market adjustments arising on acquisition	(454)	(230)	(224)	(1,388)	(1,067)	(321)
Amortization of financing costs	1,672	1,151	521	6,167	4,762	1,405
Total Interest Expense	26,790	27,308	(518)	109,464	103,764	5,700
Property Lease Expense						
Contractual lease payments for the period [(1)]	599	655	(56)	2,598	2,360	238

(1) Excludes discontinued operations.

In 2009, interest expense on mortgages and loans payable increased by $3.5 million due to the growth in our asset portfolio and foreign exchange translation adjustments. This was offset by approximately $1.8 million reduction of interest expense on the same property portfolio due to regular mortgage principal repayments and lower interest rates achieved on mortgage renewals.

During 2009, we capitalized interest of $1.2 million which relates to our net investment in internal growth projects.

Contractual property lease expense increased to $2.6 million for 2009 compared to 2008 primarily due to foreign exchange translation.

Fourth Quarter: During Q4 2009, we capitalized interest of $0.3 million, which relates to our net investment in internal growth projects.

Contractual property lease expense decreased to $0.6 million for Q4 2009 compared to Q4 2008, primarily due to foreign exchange translation.

Mezzanine Loans, Mezzanine Loan Interest Income and Impairment Provision

The following table summarizes the changes in our investments in mezzanine loans for 2009 and 2008:

($millions)	**2009**	2008
Gross mezzanine loans outstanding (beginning of period)	108.1	112.0
Advances in the period to Spectrum, Melior, Seasons and their joint venture partners	-	8.5
Discharge of mezzanine loans on our acquisition of an interest in the related properties	(9.3)[1]	(8.6)[2]
Settlement of mezzanine loan on acquisition of land	(1.0)	-
Other repayments of mezzanine loans in cash	(8.0)	(3.8)
	89.8	108.1
Fees, net of costs recorded as a reduction of mezzanine loan balances	(4.0)	(4.9)
Allowance for impairment of mezzanine loans	(30.5)[3]	(6.4)
Net mezzanine loans outstanding (end of period)	55.3	96.8

(1) Relates to six properties.
(2) Relates to eight properties.

In 2009, we acquired Spectrum's 50% interest in six seniors housing communities and mezzanine loans of approximately $9.3 million were settled on acquisition.

During Q2 2009, Spectrum sold its interest in eight development properties and agreed to sell one additional development property upon receipt of the regulatory approvals to Seasons. As part of this transaction, we agreed to Seasons assuming mezzanine loans on six of the acquired properties totalling $8.2 million. In addition, upon receipt of the regulatory approvals, Spectrum agreed to sell one additional property to Seasons. The mezzanine loan of $2.6 million on that property will also be assumed by Seasons on closing.

During Q4 2009, Spectrum disposed of its interest in four seniors housing communities to a third party and repaid our mezzanine loan outstanding on these properties in the amount of $5.6 million plus accrued interest. In addition, in Q4 2009, our joint venture partner repaid two mezzanine loans totalling $2.4 million.

As discussed in our Q2 2009 MD&A, due to the uncertain market conditions and the inability of Spectrum and Melior to remain current on their interest payments to Chartwell, in Q2 2009 we recorded an impairment provision of $30.7 million of which $7.7 million was allocated to accounts receivable and $23.0 million was allocated to mezzanine loans. Combined with the $6.4 million impairment provision recorded in Q4 2008, the cumulative impairment provision was $37.1 million.

In Q4 2009, we updated our assessment of the underlying value of the security for each mezzanine loan as well as the value of the corporate guarantee securing mezzanine loans where applicable. As discussed in

the "Critical Accounting Estimates" section of this MD&A, the process of determining fair value is subjective and requires us to exercise judgement in making valuation assumptions including revenue and expense projections, capitalization and discount rates. Based on our updated assessment, we believe no changes are required to the cumulative impairment provisions at the present time.

In Q3 and Q4 2009, we collected certain accounts receivable against which an impairment provision was recorded in Q2 2009. Accordingly, we reallocated $1.5 million of the impairment provision from accounts receivable to mezzanine loans. In addition, in Q4 2009, we settled one mezzanine loan against which an impairment provision of $0.4 million had been previously recorded. The following table summarizes changes in the impairment provision in 2009:

($millions)	Mezzanine Loans	Accounts Receivable	Total
Balance December 31, 2008	6.4	-	6.4
Provision recorded during Q2 2009	23.0	7.7	30.7
Reallocation in Q3 2009	1.2	(1.2)	-
Reallocation in Q4 2009	0.3	(0.3)	-
Settlement of mezzanine loan [1]	(0.4)	-	(0.4)
Balance December 31, 2009	30.5	6.2	36.7

(1) Settled on acquisition of a parcel of vacant land from Melior in Q4 2009.

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

($millions)	# Projects	Mezzanine Loans Outstanding	Fees, net of costs recorded as a reduction of mezzanine loan balances	Impairment Provision	Net Balance Outstanding
Spectrum and Partners outside Quebec	14	25.3	(0.2)	-	25.1
Melior, Spectrum and Partners	11	50.5	(3.2)	(30.5)	16.8
Seasons and Partners	6	14.0	(0.6)	-	13.4
Total gross mezzanine loans outstanding	31	89.8	(4.0)	(30.5)	55.3

($000s)	Q4 2009	Q4 2008	Increase / (Decrease)	2009	2008	Increase / (Decrease)
Mezzanine loan interest before effective yield adjustments	1,477	2,869	(1,392)	7,861	11,833	(3,972)
Effective yield adjustments for:						
Placement fees integral to lending activities	(78)	485	(563)	733	230	503
Legal costs integral to lending activities	(105)	(186)	81	(538)	(676)	138
Total mezzanine loan interest income	1,294	3,168	(1,874)	8,056	11,387	(3,331)

Mezzanine loan interest decreased by $3.3 million for 2009 compared to 2008 due to lower balances of loans outstanding and due to the fact that interest revenue from Spectrum and Melior is only recognized when payments have been received. For all other projects, mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method. Under this method, we update our expectations for targeted stabilization dates of the underlying development projects and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate.

Fourth Quarter: Mezzanine loan interest decreased by $1.9 million in Q4 2009 compared to Q4 2008 due to the lower loan balances outstanding.

Discontinued Operations

The following table shows the results of discontinued operations:

(U.S.$000s, except as noted otherwise)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenue	-	21,747	(21,747)	66,677	88,229	(21,552)
Interest and other	-	26	(26)	69	215	(146)
Below market lease amortization	-	91	(91)	61	595	(534)
	-	21,864	(21,864)	66,807	89,039	(22,232)
Direct operating expense	-	13,213	(13,213)	39,681	51,715	(12,034)
Total NOI	-	8,651	(8,651)	27,126	37,324	(10,198)
Interest expense	-	-	-	22	24	(2)
Contractual lease expense	-	9,035	(9,035)	28,131	36,334	(8,203)
Adjustment to record lease expense on a straight-line basis over the lease term	-	1,608	(1,608)	4,256	6,441	(2,185)
Total lease expense	-	10,643	(10,643)	32,409	42,799	(10,390)
	-	(1,992)	1,992	(5,283)	(5,475)	192
Depreciation of properties	-	445	(445)	1,573	1,521	52
Amortization of limited life intangible assets	-	355	(355)	1,198	1,560	(362)
Gain on sale of assets	-	1	(1)	-	1	(1)
	-	801	(801)	2,771	3,082	(311)
Loss before income taxes	-	(2,793)	2,793	(8,054)	(8,557)	503
Income taxes – current	-	-	-	140	-	140
Total net loss	-	(2,793)	2,793)	(8,194)	(8,557)	363
Foreign exchange in CDN	-	(459)	459	(1,391)	(565)	(826)
Total net loss in CDN	-	(3,252)	3,252	(9,585)	(9,122)	(463)
Non-controlling interest allocation	-	(5)	5	202	346	(143)
Net loss after non-controlling interest	-	(3,257)	3,257	(9,383)	(8,776)	(607)

Other Items

($000s)	Q4 2009	Q4 2008	Increase / (Decrease)	2009	2008	Increase / (Decrease)
Bank interest and other income	1,058	834	224	3,236	3,698	(462)
Below-market lease amortization revenue	228	404	(176)	1,142	1,212	(70)
Gain/(Loss) on sale of assets	-	63	(63)	-	95	(95)
Realized foreign exchange gains and (losses)	(1,929)	959	(2,888)	3,113	959	2,154
Unrealized gains and (losses) on derivative financial instruments and unrealized foreign exchange gains and (losses)	1,109	11,575	(10,466)	(10,074)	17,223	(27,297)
Depreciation of properties	(18,764)	(18,395)	(369)	(75,340)	(68,006)	(7,334)
Amortization of limited life intangible assets	(8,095)	(12,251)	4,156	(38,361)	(51,090)	12,729
Provision for impairment of goodwill	-	(73,323)	73,323	-	(73,323)	73,323
Provision for impairment of mezzanine loans and accounts receivable	-	(6,406)	6,406	(30,684)	(6,406)	(24,278)
Results from discontinued operations	-	(3,257)	3,257	(9,383)	(8,776)	(607)
Current income tax (expense) recovery	(80)	496	(576)	(85)	(999)	914
Future income tax (expense) recovery	2,578	2,116[(1)]	462	9,753	379[(1)]	9,374
Non-controlling interest	70	2,308[(1)]	(2,238)	1,245	3,886[(1)]	(2,641)
Net loss	(7,236)	(77,084)[(1)]	69,848	(71,245)	(107,428)[(1)]	36,183

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

Bank Interest and Other Income: Bank interest and other income was lower in 2009 compared to 2008 primarily due to lower cash balances and non-property miscellaneous income. Bank interest and other income was higher in Q4 2009 compared to Q4 2008 due to increased cash balances attributed to the Q4 2009 equity raises.

Realized Gains (Losses): We recorded a net realized foreign exchange gain of $3.1 million in 2009 primarily related to the settlement of a foreign exchange SWAP contract in Q1 2009, which was offset by a realized loss of $1.9 million on the settlement of a U.S. dollar-denominated intercompany cross-border note.

Unrealized Gains (Losses): The unrealized foreign exchange loss primarily related to the intercompany cross-border U.S. dollar-denominated loans receivable and payable that we used to finance our operations in a tax efficient manner. At December 31, 2009, we had net loans outstanding of approximately U.S.$37.5 million from our U.S. subsidiaries. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange gains and losses are required to be recorded in income under GAAP.

Depreciation and Amortization: The increase in depreciation of properties is consistent with the growth in our property portfolio. Amortization of limited life intangible assets decreased in 2009 compared to 2008 and for Q4 2009 compared to Q4 2008 as approximately $56.1 million of intangible assets were fully amortized in 2009.

Provision for Impairment of Goodwill: According to GAAP, goodwill should be tested for impairment between the required annual test when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. During Q4 2008, our market capitalization remained below our net book value and we concluded that this represented a circumstance that indicated it may be more likely than not that the fair value of our reporting units may be below their carrying amounts, and accordingly we updated our annual goodwill impairment test for each of our identified reporting units and the impairment test determined that, for all reporting units, the carrying value of goodwill exceeded its estimated fair value as at December 31, 2008. As a result, we recorded an impairment charge of $64.5 million. Subsequently, as described in the "Correction of Immaterial Prior-Period Error" section of this MD&A, this amount was recasted to $73.3 million.

Current and Future Income Tax (Expense) Recovery: Under the SIFT Rules, we became subject to SIFT tax on certain income beginning in 2007 as described in the "Business Strategy and 2010 Outlook" section of this MD&A. During 2009, we recorded a future income tax recovery of $9.8 million, and a $2.6 million recovery for Q4 2009. The provision for future income tax expense relates to the temporary differences between the carrying amounts and tax bases of assets and liabilities, including those that are expected to reverse on or after December 31, 2009. These temporary differences are tax effected using the estimated substantively enacted SIFT tax rate at the time that these differences are expected to reverse.

In 2008, the Department of Finance issued draft legislation which described potential changes in the determination of which legal entities are considered SIFTs. Enabling legislation received Royal Assent on March 12, 2009. The clarifications set out in the draft legislation likely result in a subsidiary partnership of Chartwell being considered to be a SIFT in 2007 and 2008. Prior to January 1, 2009, we completed a capital reorganization in our subsidiary partnership. As a result, the subsidiary partnership meets the definition of an excluded subsidiary and is no longer subject to SIFT income tax in 2009.

In addition, as described in the "Correction of Immaterial Prior-Period Error" section of this MD&A, the future income tax provision for 2008 was affected by a prior-period error.

Net Loss: Net loss after discontinued operations decreased to $0.70 per unit diluted for 2009, a decrease of $0.44 per unit diluted compared to 2008. Lower impairment provisions and amortization, and increased NOI in 2009 were partially offset by unrealized foreign exchange losses and higher depreciation. For Q4 2009, net loss after discontinued operations decreased to $0.06 per unit diluted, a decrease of $0.75 per unit diluted compared to Q4 2008. In addition, net loss for 2008 and Q4 2008 was affected by the correction of a prior-period immaterial error as described in the "Correction of Immaterial Prior-Period Error" section of this MD&A.

Non-GAAP Measures

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

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

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

($000s, except per unit amounts)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Net loss	(7,236)	(77,084)[1]	69,848	(71,245)	(107,428)[1]	36,183
Add (Subtract):						
Depreciation of properties [2]	18,770	18,920	(150)	77,186	69,628	7,558
Amortization of limited life intangible assets [2]	8,095	12,687	(4,592)	39,763	52,752	(12,989)
Depreciation of leasehold improvements included in depreciation of properties	(118)	(116)	(2)	(470)	(446)	(24)
Loss/ (Gain) on sale of assets	(5)	(63)	58	(5)	(95)	90
Provision for impairment of goodwill	-	73,323	(73,323)	-	73,323	(73,323)
Future income tax expense/ (recovery)	(2,578)	(2,116)[1]	(462)	(9,753)	(379)[1]	(9,374)
Non-controlling interest	(70)	(2,302)[1]	2,232	(1,447)	(4,231)[1]	2,784
FFO [3]	16,858	23,249	(6,391)	34,029	83,124	(49,095)
Add (Subtract):						
Provision for impairment of mezzanine loans and accounts receivable	-	6,406	(6,406)	30,683	6,406	24,277
FFO excluding impairment provision	16,858	29,655	(12,797)	64,712	89,530	(24,818)
FFO per unit						
Basic	0.15	0.23	(0.08)	0.33	0.84	(0.51)
Diluted	0.14	0.23	(0.09)	0.32	0.82	(0.50)
FFO per unit excluding impairment provision						
Basic	0.15	0.30	(0.15)	0.62	0.91	(0.29)
Diluted	0.14	0.29	(0.15)	0.61	0.88	(0.27)

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.
(2) Includes depreciation and amortization that has been reclassified as discontinued operations.
(3) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

FFO decreased by $49.1 million or $0.50 per unit diluted for 2009 compared to 2008 primarily due to a provision for impairment of mezzanine loans and accounts receivable of $30.7 million ($0.29 per unit diluted) recorded in Q2 2009 and the impact of realized / unrealized foreign exchange gains / losses which reduced FFO by $25.1 million ($0.25 per unit diluted).

FFO decreased by $6.4 million or $0.09 per unit diluted for Q4 2009 compared to Q4 2008 primarily due to the impact of realized/unrealized foreign exchange gains/losses, lower mezzanine loan interest and fee income, offset by mezzanine loans and accounts receivable impairment provision recorded in Q4 2008 and contributions from the property portfolio.

Excluding impairment provisions and foreign exchange gains and losses, FFO for 2009 and Q4 2009 was impacted by lower mezzanine loan interest income, lower management fee income and dilution from the issuance of Trust Units. This was offset by increased contributions from the property portfolio primarily due to acquisitions.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

($000s, except per unit amounts)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
FFO [1]	16,858	23,249	(6,391)	34,029	83,124	(49,095)
Add (Subtract):						
Adjustment to record lease expense on a straight-line basis over the lease term	-	1,943	(1,943)	4,979	6,865	(1,886)
Unrealized foreign exchange and derivative (gains)/losses	(1,110)	(11,575)	10,465	10,074	(17,223)	27,297
Amortization of below-market leases	(228)	(525)	297	(1,213)	(1,846)	633
Principal portion of capital subsidy receivable from Health Authorities	555	528	27	2,177	2,077	100
Amounts received under income guarantees	142	99	43	554	740	(186)
Amortization of financing costs	1,672	1,151	521	6,168	4,762	1,406
Accretion adjustment to convertible debenture liability	780	715	65	3,021	2,772	249
Amortization of debt mark-to-market adjustments arising on acquisition	(454)	(229)	(225)	(1,388)	(1,066)	(322)
Deferred financing fee reserve [2]	(280)	(288)	8	(1,147)	(1,038)	(109)
AFFO before capex reserve	17,935	15,068	2,867	57,254	79,167	(21,913)
Maintenance capex reserve - 2% of property revenue	(3,268)	(3,779)	511	(14,635)	(13,919)	(716)
AFFO [3]	14,667	11,289	3,378	42,619	65,248	(22,629)
Add (Subtract):						
Provision for impairment of mezzanine loans and accounts receivable	-	6,406	(6,406)	30,684	6,406	24,278
AFFO excluding impairment provision	14,667	17,695	(3,028)	73,303	71,654	1,649
AFFO per unit						
Basic	0.13	0.11	0.02	0.41	0.66	(0.25)
Diluted	0.13	0.11	0.02	0.40	0.64	(0.24)
AFFO per unit excluding impairment provision						
Basic	0.13	0.18	(0.05)	0.71	0.73	(0.02)
Diluted	0.13	0.17	(0.04)	0.69	0.71	(0.02)

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

(2) Deferred financing fee reserve is calculated quarterly as 60 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.

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

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

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

	2009				2008 As recasted [1]			
($000s, except per unit amounts)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues [2]	167,788	165,837	168,620	171,285	169,440	156,524	152,605	151,824
Direct operating expenses [2]	(117,583)	(112,739)	(114,177)	(117,390)	(117,145)	(103,549)	(102,401)	(102,642)
General, administrative and trust expenses	(4,941)	(4,425)	(5,822)	(5,820)	(5,302)	(4,098)	(5,302)	(5,200)
	45,264	48,673	48,621	48,075	46,993	48,877	44,902	43,982
Interest expense	(26,790)	(27,173)	(27,217)	(28,284)	(27,309)	(25,287)	(25,841)	(25,328)
Property lease expenses [2]	(599)	(588)	(703)	(708)	(655)	(590)	(591)	(524)
Foreign exchange gains/(losses)	(820)	(3,848)	(4,309)	2,016	12,534	3,358	(559)	2,849
Depreciation and amortization	(26,860)	(27,032)	(29,012)	(30,798)	(30,645)	(28,690)	(29,431)	(30,330)
Write down of carrying value of management contracts	-	-	-	-	-	-	-	-
Provision for impairment of goodwill	-	-	-	-	(73,323)	-	-	-
Provision for impairment of mezzanine loans and accounts receivable	-	-	(30,684)	-	(6,406)	-	-	-
(Loss)/Gain on sale of assets	-	-	-	-	64	126	(102)	8
Non-controlling interest	122	140	801	234	2,308	259	660	659
Current income tax (expense) recovery	(80)	(91)	(82)	168	496	(629)	133	(999)
Future income tax (expense) recovery	2,578	4,234	4,693	(1,752)	2,116	(1,500)	-	(237)
(Loss) from discontinued operations [2]	-	(3,265)	(3,223)	(2,895)	(3,257)	(1,875)	(2,043)	(1,601)
Net loss for the period	(7,236)	(8,950)	(41,115)	(13,944)	(77,084)	(5,951)	(12,872)	(11,521)
Net loss per unit diluted	(0.06)	(0.09)	(0.41)	(0.14)	(0.81)	(0.06)	(0.14)	(0.13)
FFO	16,858	14,552	(16,690)	19,309	23,249	24,451	16,524	18,900
FFO per unit diluted	0.14	0.14	(0.16)	0.19	0.23	0.24	0.16	0.19

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.
(2) We disposed of our interest in HBR effective October 1, 2009. The disposition is considered discontinued operations. Accordingly, the results attributed to the discontinued operations are disclosed separately.

Our results for the past eight quarters have been affected by the contribution of the acquired seniors housing communities, changes in foreign exchange rates resulting in realized and unrealized gains and losses and the impact of the slow North American economy on occupancies.

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

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)	2009	2008	2007
Property revenues	653,749	601,917	512,433
Total revenues	673,530	630,392	553,275
Direct operating expenses	461,889	425,737	362,571
Net loss	(71,245)	(107,428)(1)	(69,259)(1)
Total assets	2,598,674	2,705,487(1)	2,612,016(1)
Total liabilities	1,933,260	2,049,139(1)	1,809,470(1)
Net loss per unit, diluted	(0.70)	(1.14)(1)	(0.80)(1)
Cash distributions declared per unit	0.6569	0.7930	1.0650

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

Our annual results for the past three years have been affected by the acquisitions of new seniors housing communities and the corresponding revenue increases from development, management and lending activities and the impact of the slow North American economy on occupancies in 2008 and 2009.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for 2009 compared to 2008 and Q4 2009 compared to Q4 2008.

Canadian Retirement Operations

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

		Composition of Suites			
	Properties	ISL	AL	LTC	Total
Same Property					
100% Owned	84	6,712	2,106	745	9,563
50% Owned	2	248	-	-	248
Total Same Property	86	6,960	2,106	745	9,811
Acquisitions & Internal Growth					
100% Owned:					
Operating	14	1,428	164	254	1,846
Internal growth	-	264	-	155	419
	14	1,692	164	409	2,265
50% Owned	6	582	37	-	619
Total Acquisitions & Internal Growth	20	2,274	201	409	2,884
Total	106	9,234	2,307	1,154	12,695

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

($000s, except occupancy rates and operating margins)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenues						
Same property	69,254	69,180	74	272,245	269,079	3,166
Acquisitions and internal growth	14,151	8,887	5,264	52,070	22,135	29,935
Equity-accounted VIEs	-	1,015	(1,015)	-	10,095	(10,095)
Total Revenue	83,405	79,082	4,323	324,315	301,309	23,006
Direct Operating Expenses						
Same property	46,622	45,532	1,090	176,162	171,240	4,922
Acquisitions and internal growth	9,596	6,605	2,991	35,491	16,250	19,241
Equity-accounted VIEs	-	786	(786)	-	7,008	(7,008)
Total Direct Operating Expenses	56,218	52,923	3,295	211,653	194,498	17,155
Net Operating Income						
Same property	22,632	23,648	(1,016)	96,083	97,839	(1,756)
Acquisitions and internal growth	4,555	2,282	2,273	16,579	5,885	10,694
Equity-accounted VIEs	-	229	(229)	-	3,087	(3,087)
Total Net Operating Income	27,187	26,159	1,028	112,662	106,811	5,851
Same property statistics:						
Weighted average occupancy rate	91.1%	91.5%	(0.4pp)	90.8%	91.5%	(0.7pp)

Same property revenues increased by 1.2% in 2009 as regular rental rate increases, which ranged between 2.5% and 5.0%, have offset a 0.7 percentage point decline in same property occupancy compared to 2008. Same property average occupancy remained strong at 90.8% for 2009.

Same property direct operating expenses increased by 2.9% in 2009 compared to 2008 as follows:

- increased property tax expense as a result of increased market value assessments;
- increased goods and services taxes on contracted-out services in our Western properties previously treated as tax exempt; and
- an increase in vacation and post-employment benefits of $0.7 million due to a one-time charge resulting from a change in our estimation methodology.

Same property NOI decreased $1.8 million or 1.8% in 2009 compared to 2008. Same property NOI in our Eastern Canadian retirement properties (outside Quebec) for 2009 decreased 0.9% primarily due to lower occupancies and the adjustment to vacation estimates described above, partially offset by regular annual rent increases. Our Western Canadian platform same property NOI decreased by 5.1%, due to reduced occupancies in certain local markets, increased goods and services taxes and adjustments to vacation and post-employment benefit estimates as described above, partially offset by regular annual rental increases and cost reduction initiatives. Our Quebec platform same property NOI was stable compared to 2008. In Q4 2008 we acquired full control of our Quebec operating platform and over the past two years have completed significant construction and renovation activity to renew and position many of these properties. As a result, we are continuing to realize improved occupancy in the Quebec portfolio.

Fourth Quarter: Same property NOI decreased by 4.3% in Q4 2009 compared to Q4 2008 primarily due to a one-time charge of $0.7 million related to vacation and post-employment benefits as described above.

Same property revenues were flat in Q4 2009 as compared to Q4 2008. Regular annual rental rate increases of between 2.5% and 5.0% were offset by reduced occupancy.

Weighted average occupancy rates, excluding internal growth suites in lease-up, decreased to 91.1% in Q4 2009 from 91.5% in Q4 2008, or 0.4 percentage points. However, this represents an increase of 0.6 percentage points from Q3 2009 weighted average occupancy rate of 90.5%.

Same property operating expenses increased by 2.4% in Q4 2009 compared to Q4 2008, primarily driven by the adjustments described above to vacation and post-employment benefit estimates.

Canadian Long-Term Care Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property					
100% Owned	15	-	99	1,616	1,715
50% Owned	8	-	-	1,385	1,385
Total Same Property	23	-	99	3,001	3,100
Acquisitions					
100% Owned Acquisition	1	64	-	-	64
Total Acquisitions	1	64	-	-	64
Total	24	64	99	3,001	3,164

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

($000s, except occupancy rates and operating margins)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenues						
Same property	37,138	35,646	1,492	143,514	137,348	6,166
Acquisitions	532	514	18	2,111	1,405	706
Total Revenues	37,670	36,160	1,510	145,625	138,753	6,872
Direct Operating Expenses						
Same property	33,057	31,717	1,340	125,953	120,384	5,569
Acquisitions	347	336	11	1,333	880	453
Total Direct Operating Expenses	33,404	32,053	1,351	127,286	121,264	6,022
Net operating income						
Same property	4,081	3,929	152	17,561	16,964	597
Acquisitions	185	178	7	778	525	253
Total Net Operating Income	4,266	4,107	159	18,339	17,489	850
Same property statistics:						
Weighted average occupancy rate	98.2%	98.9%	(0.7pp)	98.3%	99.0%	(0.7pp)

Same property revenues increased by 4.5% in 2009 compared to 2008. Direct operating expenses increased by 4.6% in 2009 compared to 2008. The increases are primarily due to higher government funding provided for direct resident care services which are mainly staffing related. This direct resident care funding results in an increase in both revenue and direct operating expenses. In addition, the Ontario government provided additional funding for other accommodation which increased revenues by approximately $0.9 million for 2009 compared to 2008. It is not clear whether the provincial government will continue to provide this new funding after March 31, 2010. Direct operating expenses also increased $0.3 million due to a change in our methodology for estimating vacation and sick time liabilities that is one-time in nature. Same property NOI increased $0.6 million or 3.5% for 2009 compared to 2008 as a result of this new funding, partially offset by the increase in vacation and sick estimates.

Weighted average occupancies in the same property portfolio were at 98.3% for 2009, a decrease of 0.7 percentage points from 2008. Occupancy in all of our Ontario LTC communities exceeded 97% for 2009, and as a result, these communities received government funding as though fully occupied.

Fourth Quarter: Same property NOI increased $0.2 million or 3.9% for Q4 2009 compared to Q4 2008.

Weighted average occupancies in the same property portfolio are at 98.2% for Q4 2009 compared to 98.9% for Q4 2008.

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%	23	711	1,600	-	2,311
50%	25	2,891	1,483	190	4,564
Total Same Property Owned	48	3,602	3,083	190	6,875
Properties under Operating Lease					
100% Interest	2	78	159	-	237
Total Same Property Owned and Leased	50	3,680	3,242	190	7,112
Internal Growth					
50% Owned	1	161	35	-	196
Discontinued Operations [(1)]					
49% Interest	25	4,714	757	151	5,622
Properties under management	8	2,316	110	-	2,426
Total Discontinued Operations	33	7,030	867	151	8,048
Total	84	10,871	4,144	341	15,356

(1) As described in note 8 of the Financial Statements, effective October 1, 2009 we reorganized our relationship with Horizon Bay resulting in, among other things, the disposition of our 49% leased interest in 25 properties (5,622 suites) and eight management contracts (2,426 suites).

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

(U.S.$000s, except as noted otherwise)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenues						
Same property	39,574	39,611	(37)	159,388	160,096	(708)
Internal growth and other [1]	2,117	2,027	90	8,560	7,458	1,102
Intercompany eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Total Revenues	40,059	39,986	73	160,947	161,304	(357)
Direct Operating Expenses						
Same property	26,027	26,663	(636)	105,145	106,112	(967)
Internal growth and other [1]	1,129	1,399	(270)	5,933	6,030	(97)
Intercompany eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Total Direct Operating Expenses	25,524	26,410	(886)	104,077	105,892	(1,815)
Net Operating Income						
Same property	13,547	12,948	599	54,243	53,984	259
Internal growth and other [1]	988	628	360	2,627	1,428	1,199
Total Net Operating Income	14,535	13,576	959	56,870	55,412	1,458
Foreign exchange in CDN	872	2,887	(2,015)	8,088	3,660	4,428
Total Net Operating Income in CDN	15,407	16,463	(1,056)	64,958	59,072	5,886
Same property statistics:						
Weighted average occupancy rate	90.0%	93.3%	(3.3pp)	90.0%	94.1%	(4.1pp)

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

Same property revenue decreased by U.S.$0.7 million or 0.4% for 2009 compared to 2008. Same property revenues have been impacted by declining occupancy with 2009 weighted average occupancy 90.0% or 4.1 percentage points lower than 2008 weighted average occupancy of 94.1%. Declining occupancies were partially offset by rental rate increases which ranged between 5% and 7%.

Same property direct operating expenses decreased $1.0 million or 0.9% for 2009 compared to 2008. To mitigate reduced occupancy, we are continuing to implement strategies to provide more payment flexibility to existing and potential residents, and are selectively investing in marketing and advertising initiatives including launching a new U.S. website to drive increased traffic to our properties. In addition, we reduced staffing levels to align with lower occupancy levels and on staff turnover have been successful in bringing in new hires at lower wage rates. We also reduced any discretionary maintenance and marketing expenditures. These activities, combined with reduced energy costs, decreased direct operating expenses in 2009 compared to 2008.

Same property NOI increased U.S.$0.3 million or 0.5% for 2009 compared to 2008.

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

	Q4 2009	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	1.06	1.21	(0.15)	1.14	1.07	0.07

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

Fourth Quarter: Same property NOI increased U.S.$0.6 million or 4.6% in Q4 2009 compared to Q4 2008.

Same property revenue was flat for Q4 2009 compared to Q4 2008. Regular annual rental rate increases which ranged between 4% and 7% helped to offset the impact of an occupancy decline from 93.3% in Q4 2008 to 90.0% in Q4 2009.

Same property direct operating expenses decreased $0.6 million or 2.4% for Q4 2009 compared to Q4 2008 primarily due to the reductions in our estimates of the cost of employee health benefits based on our experience through 2009. Tight management of labour costs and the implementation of new cost management programs that began in the latter half of 2007 have helped to offset increased utility costs, insurance expense and investments in expanded marketing programs to drive occupancy growth.

U.S. management operations and one property where we have added additional suites added U.S.$0.4 million of NOI in Q4 2009.

Canadian Management Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Managed properties	39	2,919	396	1,262	4,577
Mezzanine loans	9	1,384	116	-	1,500
Total	48	4,303	512	1,262	6,077

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

($000s)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Management and Other Fee Revenue						
Spectrum:						
Development management	-	152	(152)	321	1,402	(1,081)
Operations management	418	610	(192)	1,878	2,167	(289)
Other	30	17	13	81	119	(38)
Total Spectrum	448	779	(331)	2,280	3,688	(1,408)
ING	569	665	(96)	2,321	2,453	(132)
Other	774	732	42	2,746	2,948	(202)
Total Management and Other Fee Revenue:	1,791	2,176	(385)	7,347	9,089	(1,742)
Direct operating expenses	1,024	1,025	(1)	4,099	4,102	(3)
Income from Management Operations	767	1,151	(384)	3,248	4,987	(1,739)

In 2009 management operations revenue decreased $1.7 million compared to 2008 primarily due to lower fees from Spectrum as the number of Spectrum properties under management declined as a result of completion of the majority of the development projects and sales of certain operating projects in 2009.

Under our agreement with Spectrum, on the closing of Spectrum's sale of eight properties to Seasons in Q2 2009, we were entitled to a $2.0 million fee as compensation for waiving our purchase option on these projects. We did not record this fee as revenue in 2009 as collectability of these amounts could not be assured at that time.

Fourth Quarter: In Q4 2009, management operations revenue decreased $0.4 million compared to Q4 2008 primarily due to lower fees earned from Spectrum, ING and other third parties.

Fees from ING decreased in Q4 2009 compared to Q4 2008 primarily as a result of lower asset management fees.

Direct operating expenses principally represent the allocation of compensation and related costs of individuals involved in management operations.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity for 2009 compared to 2008:

	Increase / (Decrease) ($millions) As recasted [(1)]	Explanation
Properties	(70.9)	Properties increased as follows: properties acquired during 2009 added $78.3 million; internal growth developments, building improvements, other capital expenditures added $39.9 million. These increases were offset by depreciation and amortization of $75.3 million and foreign exchange translation adjustment of $113.8 million.
Mezzanine loans	(41.5)	Mezzanine loans outstanding decreased due to a provision for impairment of $24.1 million, the discharge of $9.3 million of mezzanine loans on the acquisition of the related properties and the cash collection of outstanding mezzanine loans of $8.1 million.
Limited life intangible assets	(35.0)	Limited life intangible assets decreased due to amortization of $38.4 million and foreign exchange translation adjustment of $3.0 million. These decreases were offset by an increase of $6.4 million from acquisitions.
Total assets	(106.8)	The decrease in total assets during 2009 is principally due to the decrease in properties, limited life intangible assets, mezzanine loans and the disposition of our 49% interest in HBR. These decreases were offset by increases in cash from the issuance of new Trust Units.
Mortgages payable	(43.2)	Mortgages payable decreased as a result of regular amortizing principal repayments of $58.2 million, foreign exchange translation adjustment of $92.3 million and additional deferred financing costs, net of amortization, of $0.6 million. These decreases were offset by new mortgage financings of $47.8 million, assumed mortgages on acquired properties of $60.1 million.
Total liabilities	(115.9)	The decrease in total liabilities is primarily due to decreases in mortgages payable, Credit Facility and deferred consideration on business contributions and disposition of the 49% interest in HBR.
Non-controlling interest	(8.2)	Non-controlling interest decreased primarily due to exchanges of Class B Units of Chartwell Master Care LP ("Master LP") for Trust Units of $5.0 million, distributions to the holders of the Class B Units of Master LP of $1.4 million and non-controlling interests share of net loss of $1.5 million.
Unitholders' equity	17.2	The increase in Unitholders' equity is due primarily to Trust Units issued during the year of approximately $158.7 million. This was offset by cash distributions, the allocation of the net loss to the Trust's Unitholders and foreign exchange translation in other comprehensive income.

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

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2009.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2010	32,426	98,128	130,554	7.87%	4.62%
2011	31,468	56,422	87,890	4.53%	4.64%
2012	32,307	95,046	127,353	7.63%	5.11%
2013	32,174	111,304	143,478	8.93%	5.22%
2014	27,226	143,775	171,001	11.54%	4.31%
2015	25,170	88,482	113,652	7.10%	5.31%
2016	22,486	176,660	199,146	14.18%	6.02%
2017	18,010	259,026	277,036	20.78%	5.68%
2018	15,862	32,625	48,487	2.62%	5.55%
2019	14,295	100,537	114,832	8.45%	6.11%
2020-2024	62,518	49,859	112,377	3.62%	5.92%
Thereafter	72,077	34,318	106,395	2.75%	4.95%
Total	386,019	1,246,182	1,632,201	100.00%	
Mark-to-market adjustments arising on acquisition			13,263		
Less: Financing costs			(20,183)		
Total Mortgage Debt			1,625,281		

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

	2009	2008
Average term to maturity	7.9 years	8.7 years
Weighted average contractual interest rate	5.42%	5.65%
Variable-rate mortgage debt	$53.7 million	$28.9 million

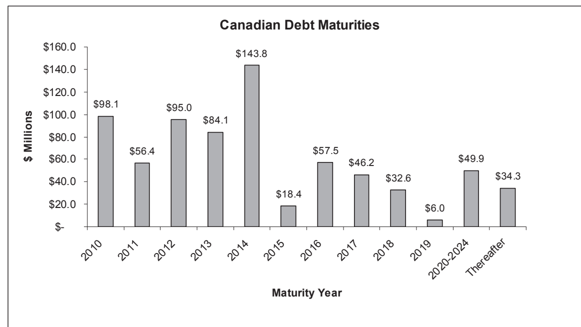
Our strategy is to mitigate the interest rate risk of our debt portfolio by staggering maturities over time and financing our properties with longer-term, fixed-rate mortgage debt.

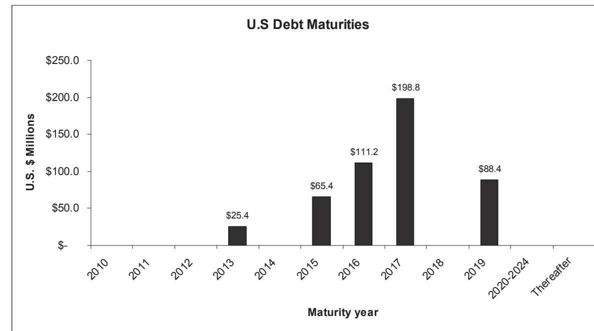
Our variable-rate mortgages relate to two communities acquired from Spectrum of $17.0 million; five of our internal growth projects of $24.7 million; and two property specific bridge loans of $12.0 million. Subsequent to December 31, 2009 we repaid $25.9 million of these variable-rate mortgages. Variable-rate loans are expected to be refinanced with fixed-rate debt upon completion and stabilization of the internal growth projects and properties in lease-up.*

Debt maturing in 2010 through 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. We have no U.S. debt maturities until 2013. In Canada, we have access to low cost CMHC-insured debt and we intend to continue financing our properties through this program. At December 31, 2009, approximately 69% of our total Canadian mortgage debt was CMHC-insured. During 2009, we refinanced $151.0 million of debt, including $12.6 million of 2010 maturing debt at a weighted average interest rate of 3.79%, lower than the 5.06% average interest rate on the maturing debt. In Q4 2009, $16.5 million of maturing debt was refinanced at an average rate of approximately 3.09% compared to 5.06% rate on the maturing debt. Subsequent to December 31, 2009, we repaid $31.2 million of debt in order to mitigate a temporary dilution from the units offerings completed in Q4 2009. We anticipate renewing or replacing 2010 maturing mortgages in due course.*

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

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





Convertible Debentures

At December 31, 2009 we had $124.9 million of 6% convertible unsecured subordinated debentures and $75 million of 5.9% convertible unsecured subordinated debentures outstanding. The 6% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of $15.60 per unit and mature on December 1, 2011. The 5.9% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of $16.25 per unit and mature on May 1, 2012.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2009:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Deferred Trust Units	Total
Balance December 31, 2008	96,369,598	2,571,990	2,865,472	34,286	101,841,346
Trust Units issued pursuant to a secondary public offering	27,370,000				27,370,000
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	1,013,922	-	-		1,013,922
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	122,500	-		122,500
LTIP Units under subscription surrendered	-	(137,595)	-		(137,595)
Exchange of LTIP Units	120,000	(120,000)	-	-	-
Deferred Trust Units issued				77,441	77,441
Deferred Trust Unit distributions				8,865	8,865
Units transferred to Treasury	-	-	-		-
Exchange of Class B Units of Master LP	888,613	-	(888,613)		-
Balance December 31, 2009	125,762,133	2,436,895	1,976,859	120,592	130,296,479

Liquidity and Capital Commitments

Liquidity

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

Our principal source of liquidity is cash flow from operations. In order to provide for our operating and capital requirements, we raise funds through the capital markets, arrange mortgage debt financing and have arranged for a secured revolving operating facility ("Credit Facility").

In Q3 2009 we renewed our Credit Facility until June 27, 2010. Under the amended terms, the amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 2.75% or at the applicable bankers' acceptance rate plus 4.00%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to Unitholders. At our request, the committed amount under the Credit Facility has been reduced to $75 million from $90 million. The Credit Facility is secured by first and second charges on 23 seniors housing communities. At December 31, 2009, the maximum available borrowing capacity under the Credit Facility was $61.9 million, of which nil was drawn. As of December 31, 2009, although we were not in compliance with the debt service coverage covenant and the distribution payout covenant under the Credit Facility, we obtained a waiver from the lenders with respect to these covenants. We also expect not to be in compliance with the debt service coverage covenant in Q1 and Q2 2010 and have received waivers for these two quarters as well.

At December 31, 2009 we had cash on hand in the amount of $106.9 million.

Debt Leverage

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

The following table presents the calculation of the debt leverage ratio as at December 31, 2009, including the indebtedness of third parties guaranteed by Chartwell:

($000s)	2009
Mortgages payable	1,632,201
Loans payable	-
Guarantee (1)	6,098
Credit Facility	-
Total indebtedness excluding convertible debentures	1,638,299
Convertible debentures (face value)	199,925
Indebtedness	1,838,224
Total assets	2,598,674
Accumulated depreciation and amortization(2)	484,162
Gross book value ("GBV") of assets	3,082,836
Less: Assets financed by deferred purchase consideration on acquisition properties	13,592
Gross book value of assets (net of deferred consideration)	3,069,244
Debt to GBV before convertible debentures	53.4%
Debt to GBV including convertible debentures	59.9%

(1) Guarantee was reduced to $6,098 upon the property achieving revenue targets as per the loan agreements.
(2) Includes accumulated depreciation and amortization related to fully amortized intangible assets of $145,333.

Capital Expenditures

We classify our capital expenditures under the following categories:

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

The following table summarizes additions to properties during 2009:

($000s)	2009
Building expansions (internal growth)	18,148
Acquisition-related capital expenditures	2,337
Building improvements	7,291
Long-term replacement items	5,433
Furniture, fixtures and equipment	6,661
Total	39,870

Contractual Obligations and Guarantees

Contractual Obligations

The following table summarizes the major contractual obligations as at December 31, 2009:

($000s)	Total	2010	2011	2012	2013	2014	Thereafter
Mortgages payable	1,632,201	130,554	87,890	127,353	143,478	171,001	971,925
Convertible debentures	199,925	-	124,925	75,000	-	-	-
Credit Facility	-	-	-	-	-	-	-
Purchase obligations	22,659	12,777	5,504	4,378	-	-	-
Property operating leases	13,426	1,678	1,678	1,678	1,678	1,678	5,036
Other operating leases	5,386	1,083	974	974	974	974	407
Land leases	11,073	245	245	245	245	245	9,848
Total contractual obligations	1,884,670	146,337	221,216	209,628	146,375	173,898	987,216

Purchase obligations relate to the following:

- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately $13.6 million payable generally on the earlier of the maturity date or the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Purchase obligations with respect to previously closed acquisitions up to the amount of approximately $2.8 million payment contingent upon the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Commitments with respect to various construction contracts of approximately $3.9 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately $2.4 million.

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 relates to an obligation we assumed in respect of the three leases which expire between 2044 and 2061 with annual payments of approximately $0.2 million

Other Contracts

In accordance with contracts between Chartwell and Melior, we are committed to (i) payment to Melior of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell in the Province of Quebec and 2.0% of the purchase price of all acquisitions by Chartwell of properties in Canada, excluding the Province of Quebec, which are introduced, presented or referred by Melior; and (ii) reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50,000 and 3% of total budgeted development costs for the related project. (Collectively, the "Melior Contracts"). The Melior Contracts terminate upon closing of the Melior Settlement.

CSH-INGRE's properties in the U.S. are managed by HBC. The property management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenues plus incentive fees based on achieving certain operating targets.

Our 100% owned properties in the U.S. are managed by HBCII. The management agreements are for a term of 30 years and call for payment of management fees between 5.0% and 5.5% of gross revenues plus an incentive fee based on achieving certain specified operating targets.

During Q2 2009, we restructured our relationships with Horizon Bay such that we now own a 50% interest in HBC and an 80% interest in HBCII.

Guarantees

We provide a guarantee of the debt of one property sold to Spectrum in 2005 for which we receive an annual guarantee fee. The maximum amount of guarantee was reduced to $6.1 million upon the property achieving predetermined revenue targets. Spectrum has indemnified us in respect of this guarantee.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between 2009 and 2008:

Cash Provided by (Used in):	Increase / (Decrease) ($millions)	Explanation
Operating activities	(36.7)	Cash flows from operating activities decreased primarily due to a decrease in non-cash working capital items.
Financing activities	94.8	Cash flows from financing activities increased primarily due to the issuance of new Trust Units through a public offering, net of issue costs of $158.8 million and decrease in distributions of $9.1 million. This increase was offset by higher mortgage repayments net of proceeds from mortgage financing of $55.7 million, and repayments on our Credit Facility of $16.8 million.
Investing activities	104.5	Cash flow from investing activities increased by $104.5 million due primarily to lower capital expenditures and acquisition activity and reduced payment of deferred purchase consideration.

Distributions

As described in the "Significant Events" section of this MD&A, effective with the payment to Unitholders for August 2009, paid on September 15, 2009, cash distributions per unit were reduced to $0.0450 per month, or $0.54 on an annualized basis from $0.0617 per month, or $0.74 on an annualized basis. The declaration and payment of future distributions is subject to the discretion of the Board of Trustees. The Trustees rely upon forward-looking cash flow information including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors deemed relevant by them in setting the distribution rate.

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

Our Distribution Reinvestment Plan ("DRIP") allows Unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Participating investors registered in DRIP receive additional bonus units in an amount equal to 3% of their distributions which they have elected to reinvest, and this amount is paid in the form of additional units. Unitholders who are Canadian residents and beneficial holders of 1,000 units or more are eligible to participate.

The following table summarizes distributions made in 2009, 2008 and 2007:

($000s)	**Q4 2009**	**2009**	2008	2007
Distributions declared	16,101	67,711	75,670	94,145
Distributions on Class B Units of Master LP	267	1,395	3,595	6,839
Distributions reinvested under DRIP	(706)	(5,074)	(9,230)	(4,317)
Distributions applied against LTIP installment loan receivable	(311)	(1,771)	(2,144)	(2,557)
Distributions paid or payable in cash	15,351	62,261	67,891	94,110

The following table summarizes cash distributions made in 2009, 2008 and 2007 in relation to net loss and cash flows from operating activities:

($000s)	**Q4 2009**	**2009**	2008	2007
Cash flows from operating activities	7,818	64,810	101,525	101,435
Loss before non-controlling interest	(7,306)	(72,692)	(111,660)	(74,410)
Cash distributions declared [(1)]	15,351	62,261	67,891	94,110
Excess (shortfall) of cash flows from operating activities over cash distributions paid	(7,533)	2,549	33,634	7,325
Excess (shortfall) of net loss before non-controlling interest over cash distributions paid	(22,657)	(134,953)	(179,551)	(168,520)

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

The excess of cash flow from operating activities over cash distributions in the years ended December 31, 2008 and 2007, partially relates to the positive changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period and we do not consider this to be a sustainable source of cash inflow. For 2009, changes in non-cash working capital reduced cash flows from operating activities by approximately $25.3 million. In Q4 2009, changes in non-cash working capital reduced cash flows from operating activities $16.4 million which resulted in the shortfall of cash flows from operating activities over distributions paid of $7.5 million.

Our distributions exceeded net loss in 2009, 2008 and 2007. We anticipate that this will continue. We do not use net loss in accordance with GAAP as the basis to establish the level of distributions to Unitholders as net loss includes, among other items, non-cash depreciation and amortization and impairment provisions related to our property portfolio. We do not consider non-cash depreciation and amortization and impairment provisions in establishing our distribution levels as we believe that the value of our real estate investments generally does not diminish over time and as we give consideration to maintenance capital expenditures in establishing the level of annual distributions to Unitholders. We believe our current distribution level is sustainable.

Subsequent Events

Subsequent to December 31, 2009, we acquired from Melior one parcel of vacant land adjacent to our property in Trois-Rivieres, Quebec for $1.75 million, which proceeds were used to discharge the mortgage debt on this property.

Key Performance Indicators

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

Funds from Operations

FFO is not a recognized measure under GAAP, does not have a standardized meaning prescribed by GAAP and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by GAAP. FFO is defined as net income computed in accordance with GAAP, excluding gains or losses from sales of depreciable real estate and extraordinary items, and adds back the following: depreciation and amortization; future income taxes; and adjustments for equity-accounted-for entities and non-controlling interests. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO consistent with the definition adopted by the Real Property Association of Canada ("REALpac").

In the opinion of management, the use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial to the users of the financial information, improving their understanding of our operating results. Management generally considers FFO to be a useful measure for reviewing our operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

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

Adjusted Funds from Operations

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

Straight-line adjustment to lease expense: GAAP requires that operating lease expenses be recognized over the term of related leases using the straight-line method. Generally, lease payments increase over time to account for inflation. As the corresponding inflationary revenue increases will only be realized in the future, we adjust for this non-cash expense in AFFO calculations.

Unrealized gains and losses on derivative financial instruments and unrealized foreign exchange gains and losses: These non-cash items are adjusted for as these amounts may fluctuate significantly over time and we believe that this adjustment improves comparability across periods.

Amortization of below-market leases: This non-cash item increases GAAP revenue and is commonly adjusted in AFFO calculations. On acquisition of a property, as required by GAAP, management records

a liability for below-market leases that exist on acquisition. This liability is amortized to revenue, as required by GAAP, over time with no effect on cash.

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

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

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

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

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

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

Per Unit Amounts

In our calculations of FFO and AFFO per unit, we include the Class B Units of Master LP and the AFFO allocable to the related non-controlling interest as the Class B Units are exchangeable into Trust Units at any time at the option of the Unitholder.

Net Operating Income

NOI is calculated as revenue, excluding below-market lease amortization, adding equity income from Quebec co-owned properties (prior to acquiring the remaining 50% interest in these properties in 2008), less direct operating expenses and is reported for each operating segment. Management uses this measure to evaluate individual and divisional property performance.

Same Property Performance

We evaluate our financial performance by analyzing our same property portfolio. Generally, our same property portfolio excludes properties that have not been owned or leased continuously since the beginning of the previous fiscal year. In addition, to improve comparability, beginning in 2009 we have designated properties where we have added significant capacity or expect in the current year to open new suites to be excluded from the same property portfolio.

The following table summarizes the same property portfolio for 2009:

	Properties	Suites/Beds
Canadian Retirement Operations	86	9,811
Canadian Long-Term Care Operations	23	3,100
U.S. Operations (owned and leased) (1)	50	7,112
Total Same Property Portfolio	159	20,023

(1) Excludes discontinued operations.

Occupancy Percentage

Occupancy percentages are calculated as the number of days a suite is occupied divided by the maximum number of days available in the period. Occupancy is calculated including both owned and leased properties at our share of ownership or leasehold interest and excluding second occupants (e.g. spouses) and any suites under construction or in lease-up as part of an internal growth project.

General, Administrative and Trust Expenses as a Percentage of Revenue

We monitor G&A expenses on a consolidated basis as a percentage of revenue.

Changes to Significant Accounting Policies

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

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

Changes Adopted in 2009

On January 1, 2009, we adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets ("Section 3064"). The adoption of this section was applied retrospectively. The adoption of this standard did not have a significant impact on the Financial Statements.

In January 2009, the Emerging Issues Committee of the CICA issued Abstract EIC-173 ("EIC-173"), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which required us to take into account our own credit risk and the credit risk of the counterparty in determining the fair values of our financial assets and financial liabilities including derivative instruments. EIC-173 is applicable to the Trust for the first quarter of fiscal 2009 with retrospective application, if any, to the beginning of the current fiscal year. The adoption of EIC-173 did not have a significant impact on the Financial Statements.

Ontario Long-Term Care Licensing

- The new legislation governing LTC communities in Ontario, which, among other things, contemplates the granting of licenses for fixed terms of up to 25 years has not yet been fully

proclaimed into effect. If it is proclaimed into effect in the current form, we may be required to start amortizing the value of our long-term care licenses over the respective license term.

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

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

Business Combinations, Section 1582: The new section expands the definition of a business subject to an acquisition and establishes significant new guidelines on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of business combinations are no longer considered part of the acquisition accounting. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities.

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

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

International Financial Reporting Standards

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

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

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

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

Phase	Description and Status
Initial Assessment Phase	This phase identifies the significant differences between existing GAAP and IFRS at a high level as relevant to Chartwell. Based upon the current state of IFRS, this phase identified a number of topics that will impact our financial results and the necessary effort to make the transition to IFRS. Targeted training and communication activities, leveraging both internal and external resources, occurred during this phase. We have completed our initial assessment phase.
Detailed Assessment Phase	Building upon the assessment performed in the initial assessment phase, this phase included: • Identification, evaluation and selection of accounting policies necessary for us to change over to IFRS; • Identification of the business impacts resulting from the identified accounting differences. Business impacts considered in our project plan are: business units, internal controls over financial reporting processes, information technology, stakeholders, regulatory matters, and others as identified during this phase; • Assessment of IFRS 1 exemptions and elections. This aspect of the project plan has followed the detailed assessment of the financial statement items and was revisited periodically throughout the project; • An initial training analysis and information systems impact analysis were also components of this phase. We have completed the detailed assessment phase.
Design Phase	This phase integrates the solutions from the detailed assessment phase into our underlying financial system and processes that are necessary for us to change over to IFRS. In addition, we will have designed business process changes and developed detailed training programs. The design phase is expected to be completed by the end of Q2 2010.
Testing, Implementation and Review Phase	During 2010, we will be testing our IFRS systems, processes, financial statements, notes to the financial statements, policies and procedures, internal controls, and internal management reporting throughout the period in preparation for our conversion date of January 1, 2011. This phase will also include the formal approval process to the recommended accounting policies (throughout 2010), implementation of training programs for

	finance and operational staff (Q2 2010), implementation of new information technology systems resulting from the need to implement IFRS (Q4 2010) and update of CEO/CFO certification process (Q4 2010).

Key IFRS dates:

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

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

Impact of Adoption of IFRS

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

First-Time Adoption of IFRS

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

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

The significant difference in the application of IFRS 3 is that transaction costs (including appraisals, legal fees, land transfer tax, commissions) arising from the acquisition of the business is expensed immediately; under GAAP, these amounts are included in the purchase price of the acquired business. The result of this difference will have a negative impact on NOI, FFO and AFFO in the year of acquisition.

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

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

We expect to continue with the application of the cost model post transition date; however, the full impact of this policy choice is still under evaluation.

Borrowing Costs**:** IAS 23, Borrowing Costs requires the capitalization of borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. Under GAAP, we made an accounting policy choice to capitalize these costs as incurred. However, the application of these rules under GAAP may not be consistent with IFRS.

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

Employee Benefits: Under IFRS 1, we may elect to recognize all cumulative unrecognized actuarial gains and losses at the transition date through retained earnings. Although this is not expected to be material, we are still in the process of assessing the application of this option.

Cumulative Translation Differences*:* At the date of transition, we can elect to deem the cumulative translation differences for all U.S. operations to be zero and recognize these differences in retained earnings. This would result in any gains and losses on subsequent disposals of U.S. operations to exclude translation differences that arose before the date of transition to IFRS. We are currently assessing the impact of this election.

Compound Financial Instruments**:** Under GAAP, our convertible debentures are carried as components of debt and equity. The debt is measured under the effective interest rate method using amortized cost. Under IFRS, since the convertible debentures contain options to convert to Trust Units and Trust Units are puttable instruments; the convertible debentures will be carried as debt without a component of equity. IFRS also provides the option to designate these convertible debentures at fair value through profit or loss (at date of transition). It is expected that we will elect this option, which is not expected to have a significant impact on our financial statements.

Other IFRS Impacts

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

Impairment of Assets**:** GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IFRS uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). IFRS also allows the reversals of any impairment losses when the recoverable amount of the asset is higher than the carrying amount. Reversals of impairment losses are disallowed under GAAP. The difference in methodologies may potentially result in asset impairments upon transition to IFRS. At this time we are continuing with our analysis of potential impairments under IFRS.

Share-based Payments*:* IFRS 2 Share-based Payments requires that cash-settled share-based payments to employees be measured, both initially and at each reporting period, based on fair values of the awards. GAAP on the other hand requires that such payments be measured based on intrinsic values of the award. This difference may impact the accounting measurement of some of our cash-settled employee incentive plans such as our long term incentive plans. We are currently in the process of assessing the application of IFRS 2.

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

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

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

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

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

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

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

At the present time we continue our analysis of this issue.

Critical Accounting Estimates

Under GAAP, 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 properties

Properties make up approximately 87.9% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the net carrying amount of properties is recoverable from future undiscounted cash flows. 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 businesses, 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 event has occurred, an estimate is made of the future undiscounted cash flows from the asset. If the total of the undiscounted future cash flows, excluding financing charges, is less than the carrying amount of the asset, an asset impairment charge is recognized in the financial statements. The amount of the impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is best estimated by calculating the net present value of future expected cash flows related to the asset. 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 property which can be up to 40 years. 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 properties

Properties are depreciated over their estimated useful lives. Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. Major components of properties are depreciated over their own useful lives. 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.

Valuation of mezzanine loans receivable

We evaluate our mezzanine loans receivable for impairment. Impairment is recognized when the carrying value of mezzanine loans receivable may not be recovered due to the inability of the underlying assets' performance to support a fair value that would exceed our net investment in these assets (with consideration given to third party guarantees and pledges of security). In making this determination, our estimates of future cash flow and the effects of other factors could vary and result in a significantly different assessment of impairment. Mezzanine loans, net of impairment provisions, comprise approximately 2.1% of our total assets.

Variable Interest Entities

In the normal course of business, we may enter into arrangements like acquisition of the interest in retirement and long-term care properties, advancing mezzanine loans, providing guarantees for loans and mortgages that need to be examined to determine whether they are variable interest entities ("VIE") as defined under GAAP. Management needs to exercise significant judgment to determine if VIEs exist and if so, whether or not the VIE is required to be consolidated in our financial statements. This process involves understanding the arrangements, determining whether the entity is considered a VIE under the accounting rules and determining our interests in any VIEs identified. We use a variety of complex estimation processes involving both qualitative and quantitative factors that involve the use of a number of assumptions about the business environment in which the entity operates to determine whether such entity is a VIE, to analyze and calculate its expected losses and its expected residual returns and also to assess financial conditions. These processes involve estimating the future cash flows and performance of the entity, assessing the entity's financial condition, analyzing the variability in cash flows and allocating losses and returns among the identified parties holding interests in the VIE. Our interests are then compared to those of the other parties to identify the party that is the primary beneficiary, and therefore the entity that should consolidate the VIE. There is a significant amount of judgment exercised in interpreting the provisions of the accounting guidance due to their complexity and applying them to specific situations and fact patterns.

Different estimates, with respect to key variables used for calculations, or changes to estimates that could result in our being required to consolidate a VIE, could potentially have a material impact on our ability to comply with certain loan covenants relating to financial position or results of operations.

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 GAAP, we use the asset and liability method of accounting for future income taxes and provide for future income taxes for all significant temporary differences.

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 future 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 net of valuation allowances 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 future tax assets will be recovered from future taxable income. To the extent that recovery is considered less rather than more likely, a valuation allowance must be provided. Judgment is required in determining the provision for income taxes, future income tax assets and liabilities and any related valuation allowance. To the extent a valuation allowance is created or 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) and our own assumptions giving consideration to: (i) the potential use for the asset, other than that intended, by other market participants; (ii) our ability to accept levels of risk for a liability and manage it internally, rather than transferring that liability to another enterprise; (iii) our possession of certain capabilities not possessed by others; (iv) our possession of information or processes that allow us to realize (or avoid paying) cash flows that differ from other market participants; and (v) our ability to realize economies of scale not necessarily available to other market participants. As a result, in determining fair value we select amongst several acceptable valuation techniques and make assumptions. Consequently, our determination of fair value could vary under differing circumstances and result in significantly different calculations of fair value.

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.
- Included in revenue is the adjustment for the differential between contractual and market rents on our resident leases in place at the acquisition of our properties.
- In addition, 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 fair value.
- Impairment testing of goodwill is required at least annually and requires comparing the fair value of the reporting unit to its carrying value and if carrying value is higher than fair value, potentially recognizing an impairment loss on goodwill.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing fair value 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.
- On January 1, 2007, we adopted the new accounting standard Section 3855, Financial Instruments – Recognition and Measurement. This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. 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 and debentures payable, which amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

Revenue

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.

Fee Revenue

Development fee revenue is recognized using the percentage of completion method. Judgment is required to assess the stage of work completed based on achieving project milestones and timelines. Changes to the timeline for the underlying development project could result in changes in the revenue recorded.

Mezzanine loan placement fees are recognized in income over the expected term of the loan on an effective yield basis. The term of the loan is estimated based on the expected underlying project timeline and consequently, changes in the progress of the project could change revenue.

Controls and Procedures

We are committed to maintaining effective disclosure control procedures and internal controls over financial reporting ("internal controls"). Over the past two years, we made significant investments in improvements to our information systems and financial processes. We expect to continue these efforts to further strengthen our internal controls in 2010. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

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

The President and Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision, of the design of the Trust's disclosure controls and procedures and internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2009. Based on this evaluation, we have concluded that we have a) designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to Chartwell is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared and (ii) information required to be disclosed by Chartwell in its various reports filed or submitted under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation; and b) designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There were no changes in the Trust's internal controls over financial reporting that occurred during the interim period ended December 31, 2009 that have significantly affected, or are reasonably likely to significantly affect the Trust's internal controls over financial reporting.

Forward–Looking Information and Risks and Uncertainties

Forward-Looking Information

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

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

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- possible benefits from the implementation of new purchasing programs, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods that offset any benefits from our purchasing power and is subject to the assumption that we can negotiate favourable terms with our vendors in the future;
- growth or lack thereof of G&A expenses, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase;
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks;
- our ability to predict seasonal increases in occupancy rates due to uncertain economic conditions;
- the decline in anticipated development and operations management fees due to Spectrum's reduced development activities;
- our ability to renew maturing debt in due course;
- timing of closing of acquisitions which are subject to legal, regulatory and lenders' approvals which may not be received as currently expected; and
- the expected impact of IFRS implementation as well as timing of completion of certain phases of the IFRS convergence project.

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See "Risks and Uncertainties" below and 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 description of the recent tax developments relating to the SIFT Rules, please refer to the "Business Strategy and 2010 Outlook" section of this MD&A.

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 both 2009 and 2008, 100% of our distributions were characterized as return of capital. Management believes it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

(c) **Geographic Concentration**: Our business and operations are conducted in the United States and Canada, and within Canada primarily in Ontario and Quebec. At December 31, 2009, a geographic concentration of our owned and leased suites, at our percentage share of ownership or leasehold interest, as a percentage of total suites was: U.S. – 31%; Canada – 69%; by province as a percentage of total suites as follows: Ontario – 37%; Quebec – 21%; and other Canadian provinces – 11%. 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 Productive Capacity**: 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 capital maintenance 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 capital maintenance requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in capital maintenance requirements of our communities could adversely impact cash available to us. The details of our

♦ *For a complete description of the Risks and Uncertainties, please refer to Chartwell's Annual Information Form ("AIF").*

actual capital asset spending for 2009 can be found in the "Capital Expenditures" section of this MD&A.

(e) **Acquisition and 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. We have significantly reduced our focus on external growth over the past year. If we are unable to manage our growth and integrate our acquisitions effectively, our business, operating results and financial condition could be adversely affected.

(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 charged, and could adversely affect our revenues and, consequently, cash available to us. The supply of long-term care 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, new legislation that is expected to be in force in early 2010 will have a significant effect on 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**: We, directly and indirectly, employ or supervise over 15,000 persons, of whom approximately 40% 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.

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.

Over the past 24 months, lenders' credit spreads have increased substantially from the levels experienced in the past. However, the continuing decline in Government of Canada's bond yields made "all-in" debt costs comparable to or in some cases lower than previously.

Lenders may have suffered losses related to their lending and other financial relationships, especially because of the general weakening of the economy and the increased financial instability of many borrowers. As a result, lenders may further tighten their lending standards, which could make it more difficult for us to obtain financing on favourable terms, or at all.

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) **Mezzanine Financing**: The mezzanine financing that we have provided to Spectrum pursuant to the Development Agreement between Chartwell and Spectrum, and to Melior, Seasons and their joint venture partners, is generally secured by second charges or pledges of the borrowers' interests in development projects and ranks behind construction financing. Consequently, if mezzanine loan borrowers face financial difficulty and are not able to meet their commitments to their lenders, as is currently the case in the case of Melior (and to a lesser extent, Spectrum), the Trust could suffer a loss of management fees and of either interest or principal or both on the mezzanine loans it has advanced since lenders under the construction financing will rank ahead of us in any recovery from the assets of mezzanine loan borrowers. Further, we may not, at the applicable time, have the financial capacity to acquire all communities that we are entitled to acquire from mezzanine loan borrowers. In the event that we do not exercise our purchase options, we would expect to have the principal and any unpaid interest relating to our mezzanine financing returned to us at which time we would cease to receive mezzanine loan interest income, and/or may cease to receive our management fees when mezzanine loan borrowers sell the property to a third-party. There is no guarantee that the level of development carried on by mezzanine loan borrowers will be maintained at current levels. Mezzanine loan borrowers' level of development activity may be constrained by their capital resources.

(l) **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 rate losses that could adversely affect cash available to us.

(m) **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.

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.

(n) **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.

(o) **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 facilities including those risks described above. However, we rely, in part, on our joint venture partners to successfully manage and operate certain of our seniors housing operations, including those owned by certain of the joint ventures. Such reliance may include, but is not limited to: personnel; local, regional and/or industry expertise and licensing; historical performance; technical resources and information systems; financial strength and access to capital; economies of scale; and operations management. Therefore, 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.

(p) **Variable Interest Entities:** In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities ("VIE"). AcG-15 provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interest. AcG-15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG-15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or entitle it to receive a majority of the VIE's expected residual returns or both.

We continuously evaluate the impact of AcG-15 on the accounting for our relationships with and interests in various entities. In order to complete our evaluation under AcG-15, management is required, among other things, to make estimates of expected losses and/or residual returns, the probabilities of any such losses and/or residual returns relating to Spectrum, Melior, joint ventures, mezzanine financings and other relationships, and the impact of changing economic conditions. These estimates are based on historical and available market information. Imprecision in these estimates can affect the assessment of expected losses and/or residual returns.

At December 31, 2009, we hold, directly or indirectly, variable interests in 12 VIEs. Although these entities were identified as VIEs, it was determined that we are not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

If, based on our evaluation of our relationships with Spectrum, Melior, or other entities and the surrounding circumstances at any particular time, we determine that Spectrum, Melior and/or other entities are subject to consolidation under the AcG-15, there would be a material adverse effect on our results of operations and financial position as presented in our financial statements.

(q) **Current North American Financial Conditions**: Current North American financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. The extent and speed of recovery from the global recession is yet unclear, especially in the U.S., as property values have declined in some regions, particularly in the U.S. These factors may impact our ability to obtain future financing on favourable terms. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, our operations could be adversely impacted and the trading price of our units may be adversely affected.

(r) **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.

(s) **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 our Amended and Restated Credit Facility, distributions by Chartwell to Unitholders are limited to 100% of our AFFO. We have had to seek waivers from our lenders in the past, including in 2009 to maintain our distributions as they have exceeded AFFO.

Management's Responsibility for Financial Statements

To the Unitholders of Chartwell Seniors Housing Real Estate Investment Trust

The accompanying consolidated financial statements of Chartwell Seniors Housing Real Estate Investment Trust and the information included in the Annual Report have been prepared by management, which is responsible for their consistency, integrity and objectivity. Management is also responsible for ensuring that the consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in Canada. To fulfill these responsibilities, management maintains appropriate systems of internal control, policies and procedures to ensure its reporting practices and accounting and administrative procedures are of high quality.

KPMG LLP, the independent auditor, is responsible for auditing the consolidated financial statements in accordance with generally accepted auditing standards in Canada, to enable the expression of their opinion on the consolidated financial statements to the Unitholders. Their report, as auditors, is set forth herein.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and engaging the independent auditors. The Board of Trustees carries out this responsibility through its Audit Committee, which meets regularly with management and the independent auditors. The Audit Committee is composed of three members who are independent of management. The consolidated financial statements have been reviewed and approved by the Board of Trustees and its Audit Committee. The independent auditors have direct and full access to the Audit Committee and Board of Trustees.

W. Brent Binions
President and Chief Executive Officer

Vlad Volodarski
Chief Financial Officer

Auditor's Report

To the Unitholders of Chartwell Seniors Housing Real Estate Investment Trust

We have audited the consolidated balance sheets of Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell") as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Chartwell's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chartwell as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 4, 2010

Consolidated Balance Sheets

(In thousands of Canadian dollars)

December 31	2009	2008 (As recasted - note 2)
Assets		
Properties (note 4)	$ 2,283,521	$ 2,354,408
Mezzanine loans receivable (note 5)	55,323	96,822
Limited life intangible assets (note 6)	32,047	67,070
Cash and cash equivalents	106,943	5,069
Other assets (note 7)	51,366	63,271
Capital funding receivable (note 8)	43,824	46,001
Licenses	25,650	25,650
Assets held for sale (note 9)	–	47,196
	$ 2,598,674	$ 2,705,487
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 11(a))	$ 1,625,281	$ 1,668,445
Revolving operating credit facility (note 11(b))	–	8,000
Convertible debentures (note 12)	188,996	184,634
Accounts payable and other liabilities (note 13)	81,367	92,463
Deferred consideration on business combinations (note 14)	13,592	23,649
Distributions payable	5,857	6,285
Future income tax liabilities (note 23)	18,167	29,695
Liabilities held for sale (note 9)	–	35,968
	1,933,260	2,049,139
Non-controlling interest (note 15)	7,813	15,990
Unitholders' equity	657,601	640,358
Commitments and contingencies (note 21)		
Guarantees (note 26)		
Subsequent events (notes 3(a), 18 and 27)		
	$ 2,598,674	$ 2,705,487

See accompanying Notes to Consolidated Financial Statements.

Approved by the Trustees:

Charles Moses, Trustee

Sidney Robinson, Trustee

Consolidated Balance Sheets

(In thousands of Canadian dollars)

Years ended December 31	2009	2008 (As recasted - note 2)
Revenue:		
Resident	$ 653,749	$ 601,917
Management and other fees (note 18)	7,347	9,092
Mezzanine loan interest (notes 18 and 20)	8,056	11,387
Bank interest and other	3,236	3,698
Equity income from variable interest entities	–	3,087
Below-market lease amortization	1,142	1,212
	673,530	630,393
Expenses:		
Direct operating	461,889	425,737
General, administrative and trust	21,008	19,902
	482,897	445,639
	190,633	184,754
Interest expense	109,464	103,764
Property lease expense	2,598	2,360
	112,062	106,124
	78,571	78,630
Realized foreign exchange gain and realized gains on derivative financial instruments	(3,113)	(959)
Unrealized loss (gain) on derivative financial instruments and unrealized foreign exchange loss (gain)	10,074	(17,223)
Depreciation of properties	75,340	68,006
Amortization of limited life intangible assets	38,361	51,090
Provision for impairment of goodwill (note 10)	–	73,323
Provision for impairment of mezzanine loans and accounts receivable (note 5)	30,684	6,406
Gain on sale of assets	–	(95)
	151,346	180,548
Loss before income taxes	(72,775)	(101,918)
Income taxes (recovery) (note 23):		
Current	85	999
Future	(9,753)	(379)
	(9,668)	620
Loss before non-controlling interest	(63,107)	(102,538)
Non-controlling interest (note 15)	1,245	3,886
Loss from continuing operations	(61,862)	(98,652)
Loss from discontinued operations (note 9)	(9,383)	(8,776)
Loss for the year	(71,245)	(107,428)
Other comprehensive income (loss):		
Unrealized foreign currency gain (loss) on the translation of self-sustaining foreign operations	(18,123)	34,948
Net change in fair value of derivatives designated as cash flow hedges (net of future income taxes of $147; 2008 - $462) (note 24)	490	(1,932)
Non-controlling interest	352	(1,250)
	(17,281)	31,766
Comprehensive loss	$ (88,526)	$ (75,662)
Loss per unit (note 17):		
Basic and diluted - continuing operations	$ (0.61)	$ (1.05)
Basic and diluted - discontinued operations	(0.09)	(0.09)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Unitholder's Equity

(In thousands of Canadian dollars)

	Trust Units issued net (note 16)	LTIP Units under subscription (note 16)	LTIP installment receivable (note 16)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components	Total
Year ended December 31, 2009								
Unitholders' equity, January 1, 2009	$ 1,137,031	$ 34,099	$ (26,485)	$ (209,992)	$ 3,415	$ (312,783)	$ 15,073	$ 640,358
Loss for the year	-	-	-	(71,245)	-	-	-	(71,245)
Other comprehensive loss	-	-	-	-	(17,281)	-	-	(17,281)
Distributions to Unitholders	-	-	-	-	-	(67,711)	-	(67,711)
Issuance of Trust Units pursuant to public offering	158,746	-	-	-	-	-	1,922	160,668
Units issued under the deferred unit plan	-	-	-	-	-	-	644	644
Issuance of Trust Units under the Distribution Reinvestment Plan ("DRIP")	5,074	-	-	-	-	-	-	5,074
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	4,965	-	-	-	-	-	-	4,965
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury	1,200	(2,766)	2,079	-	-	-	670	1,183
Interest on instalment loan receivable	-	-	(825)	-	-	-	-	(825)
Distributions applied against instalment loan receivable	-	-	1,771	-	-	-	-	1,771
Unitholders' equity, December 31, 2009	$ 1,307,016	$ 31,333	$ (23,460)	$ (281,237)	$ (13,866)	$ (380,494)	$ 18,309	$ 657,601
Year ended December 31, 2008 (as recasted – note 2)								
Unitholders' equity, January 1, 2008	$ 1,102,573	$ 31,894	$ (25,633)	$ (100,664)	$ 28,351	$ (237,113)	$ 14,878	$ 757,604
Correction of an immaterial prior period error	-	-	-	(1,920)	-	-	-	(1,920)
Loss for the year	-	-	-	(107,428)	-	-	-	(107,428)
Other comprehensive loss	-	-	-	-	31,766	-	-	31,766
Distributions to Unitholders	-	-	-	-	-	(75,670)	-	(75,670)
Issuance of Trust Units under the DRIP	9,230	-	-	-	-	-	-	9,230
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	24,296	-	-	-	-	-	-	24,296
Trust Units issued under theLTIP, net of units transferred to Treasury	-	6,681	(5,751)	-	-	-	195	1,125
Disposition of LTIP Units surrendered, net of units transferred to Treasury	932	(4,476)	3,846	-	-	-	-	302
Interest on instalment loan receivable	-	-	(1,091)	-	-	-	-	(1,091)
Distributions applied against instalment loan receivable	-	-	2,144	-	-	-	-	2,144
Unitholders' equity, December 31, 2008	$ 1,137,031	$ 34,099	$ (26,485)	$ (209,992)	$ (3,415)	$ (312,783)	$ 15,073	$ 640,358

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31	2009	2008 (As recasted - note 2)
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (71,245)	$ (107,428)
Items not affecting cash:		
Depreciation and amortization	116,944	122,380
Gain on sale of assets	–	(95)
Below-market lease amortization	(1,213)	(1,846)
Adjustment to record lease expense on a straight-line basis over the lease term	5,058	6,866
Non-cash compensation expense	1,087	752
Income from long-term investments	–	(65)
Unrealized loss (gain) on derivative financial instruments and unrealized foreign exchange loss (gain)	10,074	(17,223)
Non-controlling interest	(1,447)	(4,231)
Amortization of financing expenses	6,168	4,762
Accretion adjustment to convertible debenture liability	3,021	2,772
Amortization of debt discounts	863	1,303
Amortization of mezzanine placement fees	(732)	(229)
Amortization of legal costs integral to mezzanine lending activities	538	677
Provision for impairment of goodwill (note 10)	–	73,323
Provision for impairment of mezzanine loans and accounts receivable (note 5)	30,684	6,406
Future income taxes	(9,753)	(379)
Change in non-cash operating items (note 22)	(25,237)	13,780
	64,810	101,525
Financing activities:		
Proceeds from mortgage financing	47,774	73,568
Proceeds from (repayment of) loans payable and revolving operating credit facility	(8,000)	8,847
Mortgage principal repayments	(58,172)	(28,290)
Financing costs	(5,685)	(4,937)
Trust Units issued pursuant to:		
Public offering	166,819	–
Issue costs	(8,073)	–
Redemption of non-voting preferred interests of CSH Master Care LLC	(260)	(971)
Disposition of Treasury Units	–	1,125
Distributions paid	(61,986)	(68,692)
Distributions paid to non-controlling interest Unitholders	(1,483)	(3,975)
Deposits received under LTIP and repayment of LTIP instalment loan receivable	700	178
	71,634	(23,147)
Investing activities:		
Acquisition of assets, net of debt assumed (note 3)	(3,195)	(43,722)
Payment of deferred consideration on business combinations	(9,721)	(22,314)
Additions to properties	(39,870)	(72,564)
Payment of contingent purchase consideration	–	(4,300)
Amounts received under income guarantees	554	740
Proceeds on sale of assets	–	1,257
Mezzanine loans advances, net of fees	–	(8,480)
Mezzanine loans repayments	8,060	3,843
Restricted cash and deposits in escrow	3,140	82
Proceeds from capital funding receivables	2,177	2,077
	(38,855)	(143,381)
Foreign exchange gain (loss) on U.S. dollar-denominated cash	(1,176)	3,005
Increase (decrease) in cash and cash equivalents	96,413	(61,998)
Cash and cash equivalents, beginning of year	10,530	72,528
Cash and cash equivalents, end of year	$ 106,943	$ 10,530
Represented by:		
Continuing operations		$ 5,069
Discontinued operations		5,461
		$ 10,530

Supplemental cash flow information (note 22)

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per unit amounts)

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Ontario and was created pursuant to the Declaration of Trust dated July 7, 2003, as amended ("Declaration of Trust"), when one Trust Unit was issued for cash. Chartwell began operations on November 14, 2003 for the purpose of owning, operating and managing retirement communities and long-term care communities in Canada and the United States.

Chartwell owns 100% of the outstanding Trust Units and Series 1 Trust Notes of CSH Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, which in turn owns 100% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba. Class B Units of Master LP are held by non-controlling investors.

The Canadian assets of Chartwell are held by Master LP, which carries out the business of the Trust. Its activities are financed through equity contributed by CSH Trust, Class B Unitholders and third-party lenders, including mortgages.

The United States assets of Chartwell are also owned indirectly by Master LP, through its wholly-owned United States subsidiary corporation, CSH Master Care USA Inc.

Chartwell's Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint ventures. All intercompany transactions have been eliminated upon consolidation.

(b) Impact of new accounting standards:

(i) Goodwill and intangible assets:

On January 1, 2009, Chartwell adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new accounting standard reinforces the approach under which assets are recorded only if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenue, so as to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset.

The application of this standard did not have a significant impact on Chartwell's consolidated financial statements.

(ii) Credit risk and the fair values of financial assets and financial liabilities:

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"), which requires the Trust to take into account its own credit risk and the credit risk of the counterparty in determining the fair values of its financial assets and financial liabilities, including derivative instruments. EIC-173 was applicable to the Trust for the first quarter of fiscal 2009 with retrospective application, if any, to the beginning of the current fiscal year. The adoption of EIC-173 did not have a significant impact on Chartwell's consolidated financial statements.

(iii) Fair value and liquidity risk disclosures:

In June 2009, the CICA amended Handbook Section 3862 to improve fair value and liquidity risk disclosures. The Section now requires that all financial instruments measured at fair value be categorized into one of the three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - One or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The financial statement disclosures have been amended to comply with the recommendations of Handbook Section 3862 (note 24).

(c) Business combinations:

Upon the acquisition of properties, Chartwell allocates the purchase price to the fair value of assets and liabilities, including land, building, furniture, fixtures and equipment and intangibles, such as licenses, the value of the above- and below-market resident contracts, in-place resident contracts and the value of customer relationships.

(d) Properties:

Properties include land, buildings and furniture, fixtures and equipment and are recorded at cost less accumulated depreciation. An impairment loss on an income property is required to be recognized when the carrying amount of any individual property exceeds the sum of the undiscounted cash flows expected from its use and disposal. An impairment loss is measured as the amount by which the carrying amount of a property exceeds its fair value.

Properties under development and land held for development, included in properties, are carried at the lower of cost and estimated net realizable value. Cost includes initial acquisition costs, other direct costs, realty taxes, interest related to their financing and other operating costs less the amount of operating revenue during the development period. The development period ends once a property is designated as an operating property, which is the earlier of the attainment of break-even cash flow after debt service or 24 months after substantial completion of construction.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	40 years
Building improvements	10 years
Furniture, fixtures and equipment	3 - 5 years

(e) Goodwill and other intangibles:

Goodwill represented the cost of acquired net assets in excess of their fair values. Goodwill is not amortized, but tested for impairment annually, or more frequently, if events or changes in circumstances indicated the asset might be impaired, by comparing the carrying value of a reporting unit with its fair value.

Intangible assets are recorded at cost and consist of third-party management contracts, resident contracts, above- and below-market resident contracts, customer relationships, other intangibles and licenses. Intangible assets with finite useful lives are amortized over their useful lives and are tested for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with indefinite lives are not amortized and are tested for impairment annually, or more frequently, if events or circumstances indicate that the assets might be impaired.

(i) Management contracts and customer relationships:

Management contracts and customer relationships are amortized on a straight-line basis over the term of the contract or if no term is specified, over an estimated life not to exceed five years.

(ii) Above- and below-market resident contracts:

The values of the above- and below-market resident contracts are amortized and recorded as either an increase (in the case of below-market resident contracts) or a decrease (in the case of above-market resident contracts) to revenue over the expected term of the associated resident occupancy, estimated at an average of three years for retirement properties and two years for long-term care properties.

(iii) Resident contracts:

The value associated with in-place resident contracts, which represents the avoided costs of originating the acquired resident contracts plus the value of lost net resident revenue over the estimated lease-up period of the property, is amortized over the expected term of the resident occupancy.

(iv) Other intangibles:

Other intangibles consist of the allocated cost of acquired operating leases of seniors housing properties. The allocated cost of the operating leases is amortized over the initial lease term of the underlying operating leases.

(v) Licenses:

Licenses for the operation of long-term care properties, when acquired, are recorded at cost. These licenses are considered to have an indefinite life and are not amortized.

(f) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase and are stated at cost, which approximates fair value.

(g) Revenue recognition:

The Trust derives most of its revenue from rental income, care services to residents and management services.

(i) Retirement community resident revenue:

Revenue in respect of accommodation and care services fees provided to residents of retirement communities is recognized when the services, both rental and care, are provided. In certain jurisdictions, residents of retirement communities are eligible for government subsidies and the rates for these subsidies are regulated. In Canada, in some jurisdictions, rent control regulations affect rates that can be charged for rental accommodation.

(ii) Long-term care community resident revenue:

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian long-term care communities is recognized when the rental or ancillary services are provided.

In Canada, the provinces or regional health authorities (collectively "funding agencies") regulate amounts charged to residents of long-term care communities, a substantial portion of which are funded by provincial or regional programs. Long-term care community resident revenue earned is based exclusively on actual census and is recognized as services are rendered. Certain revenue is earned only when the Trust has achieved actual census and has met additional criteria, which may include achieving certain levels of expenditures or levels of labour hours. Revenue is recognized when these criteria are achieved.

Canadian funding agencies provide additional funding in excess of the amounts due for actual census if certain minimum occupancy levels are achieved over the funding agency's annual cycle. Revenue for funding in excess of amounts due for actual census is recognized when the Trust has achieved the required occupancy criteria, on a proportionate basis, to earn such funding and where management expects to continue to achieve the occupancy criteria through to the completion of the funding agency's annual cycle.

(iii) Allowance for doubtful accounts:

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of residents to meet the contractual obligations under their lease agreements. Such allowances are reviewed periodically based on the recovery experience of the Trust and the creditworthiness of the residents.

(iv) Fee revenue:

(a) The Trust provides property management services for both third-party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services and is recognized in the month in which services are performed in accordance with the terms of the management contract.

(b) Fee revenue from development services relates to building design and construction oversight. Development fee revenue is recognized on a project-specific basis using the percentage-of-completion method reflecting the level of effort expended to achieve predetermined project milestones. Prior to submission to the municipality for a building permit, no development fees are recognized. At submission, 65% of the estimated fees are recognized. The remaining portion of fees revenue is recognized on a straight-line basis over the estimated period the services are provided.

(c) Fee revenue integral to Chartwell's lending activities is recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are expensed over the same period using the effective interest rate method.

(d) To the extent that ultimate collection of revenue is not reasonably assured, Chartwell will recognize revenue only as cash is received.

(v) Gains/losses on properties:

Gains/losses on long-lived income properties are recognized when the Trust has transferred to the purchaser the significant risks and rewards of ownership of the property and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

(vi) Multiple deliverables:

Chartwell earns revenue from contracts that include multiple deliverables. These multiple-element arrangements are assessed on a case-by-case basis to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. The revenue recognition policies described above are then applied to each unit of accounting.

Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell's lending activities and are recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are expensed over the same period using the effective interest rate method.

(h) Long-Term Incentive Plan:

Chartwell accounts for its Long-Term Incentive Plan ("LTIP") using the fair value-based method, under which a compensation expense is recognized, over the vesting period, for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes.

As the units issued under the LTIP are treated as options for accounting purposes, they are included in the diluted per unit calculations to the extent they are dilutive.

(i) Deferred Unit Plan:

On May 21, 2009, Unitholders of Chartwell approved a Deferred Unit Plan for its independent trustees. The plan is described in note 16(d). Deferred Trust Units granted to eligible trustees are considered to be in respect of past performance and are recognized in compensation expense when granted. Compensation costs are measured based on the fair market value of the Trust's Units on the date of the grant of the Deferred Trust Units. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. No additional compensation cost is recorded for these additional Deferred Trust Units issued. Upon vesting, Deferred Trust Units will be converted to Trust Units.

(j) Employee future benefits:

Chartwell provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis.

Chartwell accrues its obligations related to accumulated sick pay and post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in direct operating expenses in the current year.

(k) Income taxes:

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to the enactment of laws relating to the federal income taxation of specified investment flow-through ("SIFT") trusts, as discussed below, income earned by Chartwell and distributed annually to Unitholders was not, and would not be, subject to taxation in Chartwell, but was taxed at the individual Unitholder level. For financial statement reporting purposes, this tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and expected to continue distributing all of its taxable income to its Unitholders.

Chartwell is a SIFT trust for Canadian income tax purposes and became subject to SIFT tax commencing in fiscal 2007. Under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax.

Chartwell uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the year that includes the date of enactment or substantive enactment.

(l) Foreign currency:

Financial statements of Chartwell's self-sustaining operations in the United States are translated into Canadian currency using the current rate method. Assets and liabilities are translated at the rate of exchange in effect as at the consolidated balance sheet dates. Revenue and expenses are translated at rates in effect on the dates on which such items are recognized in income during the year.

Exchange gains and losses arising from the translation of the financial statements of Chartwell's self-sustaining foreign operations are deferred and included in other comprehensive income (loss). When there is a reduction in Chartwell's net investment in a self-sustaining foreign operation, a proportionate amount of the accumulated other comprehensive income (loss) related to currency translation is included in the determination of loss for the year.

(m) Derivative financial instruments:

Interest rate derivatives:

Chartwell enters into interest rate swap arrangements in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Chartwell may designate its interest rate swap arrangements as hedges of the underlying interest. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swap arrangements.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred on the consolidated balance sheets and recognized in the consolidated statements of operations in the year in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in loss for the year.

(n) Convertible debentures:

Chartwell accounts for convertible debentures by valuing the holders' option to convert to units and classifying such value as equity. The remaining value of the convertible debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

(o) Employee health benefits:

Chartwell self-insures the cost of certain employee health plans. These plans are administered by an independent third party. Accruals for self-insured liabilities include estimates of the costs of both reported claims and claims incurred but not reported and is based on estimates of loss based on assumptions made by management including consideration of projections provided by the independent third-party administrator of the plan.

(p) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. In determining the estimated construction period over which to recognize development fees, the estimated mezzanine loan term over which fee revenue for services considered integral to the Trust's lending activities is to be recognized, the fair value of assets and liabilities of businesses it acquires, the fair values of financial instruments, the expected gains and losses of variable interest entities ("VIEs"), the recoverability of mezzanine loans, the estimated useful lives and net recoverable amounts for properties, the fair value of reporting units and intangible assets not subject to amortization, as well as the reversal pattern of temporary differences related to future income tax, Chartwell relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity, foreign exchange and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

(q) Future accounting changes:

(i) Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued three new standards:

(a) Section 1582, Business Combinations:

This Section replaces the former Section 1581, Business Combinations, and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3, Business Combinations (January 2008). The new Section expands the definition of a business subject to an acquisition and establishes significant new guidelines on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting and such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity.

(b) Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests:

These two Sections replace Section 1600, Consolidated Financial Statements. These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of Unitholders' equity. Under Section 1602, consolidated net income and other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

Section 1582 is applicable to Chartwell prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted, if all three Sections are applied at the same time. At present, Chartwell does not expect to adopt these Sections earlier than the effective date.

(ii) Harmonizing of Canadian and international standards:

In February 2008, the Canadian Accounting Standards Board issued an exposure draft proposing that accounting standards in Canada for publicly accountable profit-oriented enterprises will converge with IFRS for interim and annual reporting periods beginning on or after January 1, 2011. The Trust's first annual IFRS consolidated financial statements will be for the year ended December 31, 2011 and will include the comparative period for the year ended December 31, 2010. Starting with the first quarter of 2011, the Trust will provide unaudited consolidated financial statements in accordance with IFRS, including comparative figures for 2010. The impact of the transition to IFRS on Chartwell's consolidated financial statements has not yet been determined.

The Trust is assessing the implementation impacts of conversion to IFRS, including transitional options, changes to accounting policies and processes, information systems and business management. The full impact of adopting IFRS on the Trust's future financial position and future results has not been determined at this time.

2. Correction of immaterial prior period error:

During the preparation of the consolidated financial statements for the year ended December 31, 2009, Chartwell discovered a misstatement relating to the recognition of future income tax liabilities. These future income tax liabilities related to the differences between the carrying amount and tax basis of certain of its assets. These amounts related to two items: (a) a future income tax expense and a future income tax liability of $3,039 that should have been recognized in conjunction with the initial adoption of the SIFT rules effective June 22, 2007 and (b) a future income tax liability of $8,817 that should have been recognized in conjunction with purchase price allocation related to the Regency portfolio transaction in 2007, which would have resulted in a corresponding increase in goodwill of the same amount. The latter adjustment to goodwill in 2007 subsequently resulted in an understatement of the provision for impairment of goodwill of $8,817 in 2008 as this goodwill was considered impaired in 2008. As at December 31, 2008, future income tax liabilities, as previously reported, were understated by $10,332.

The following table outlines the impact of the adjustments:

	Previously reported	Adjustments	As recasted
As at December 31, 2007 Consolidated Balance Sheets			
Goodwill	$ 56,445	$ 8,817	$ 65,262
Future income tax liabilities	18,732	10,880	29,612
Non-controlling interest	47,005	(143)	46,862
Unitholders' equity	757,604	(1,920)	755,684
As at December 31, 2008 Consolidated Balance Sheets			
Future income tax liabilities	19,363	10,332	29,695
Non-controlling interest	16,446	(456)	15,990
Unitholders' equity	650,234	(9,876)	640,358

	Previously reported[1]	Adjustments	As recasted
For the year ended December 31, 2007 Consolidated Statement of Operations and Comprehensive Loss			
Future income taxes	13,924	2,063	15,987
Loss before non-controlling interest	(60,517)	(2,063)	(62,580)
Non-controlling interest	4,189	143	4,332
Loss from continuing operations	(56,328)	(1,920)	(58,248)
Loss from discontinued operations	(11,011)	–	(11,011)
Loss for the year	(67,339)	(1,920)	(69,259)
Comprehensive loss	(96,277)	(1,920)	(98,197)
Loss per unit:			
Basic and diluted:			
Continuing operations	(0.65)	(0.02)	(0.67)
Discontinued operations	(0.13)	–	(0.13)
For the year ended December 31, 2008 Consolidated Statement of Operations and Comprehensive Loss:			
Provision for impairment of goodwill	64,506	8,817	73,323
Future income taxes (recovery)	169	(548)	(379)
Loss before non-controlling interest	(94,268)	(8,270)	(102,538)
Non-controlling interest	3,572	314	3,886
Loss from continuing operations	(90,696)	(7,956)	(98,652)
Loss from discontinued operations	(8,776)	–	(8,776)
Loss for the year	(99,472)	(7,956)	(107,428)
Comprehensive loss	(67,706)	(7,956)	(75,662)
Loss per unit:			
Basic and diluted:			
Continuing operations	(0.97)	(0.08)	(1.05)
Discontinued operations	(0.09)	–	(0.09)

[1] *2007 and 2008 previously reported results have been reclassified to report the 2009 disposition of HBR as discontinued operations in those years.*

The balances for operating activities, financing activities and investing activities in the consolidated statement of cash flows for the corresponding years were not impacted by the above recast.

3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2009:

During the year ended December 31, 2009, Chartwell completed the following acquisitions:

(i) On February 1, 2009, Chartwell acquired 50% interest in two retirement properties in British Columbia, and on March 1, 2009, two retirement properties in Ontario from Spectrum Seniors Housing Development LP ("Spectrum"). The combined purchase price of these properties, before closing costs, was $50,078 and was settled by the assumption of debt and working capital of $36,433, discharge of outstanding mezzanine loans of $5,676, and settlement of outstanding accounts receivable of $7,493 with the remainder paid in cash.

(ii) On October 1, 2009, Chartwell acquired 100% interest in one retirement property in Thunder Bay, Ontario, from Spectrum. The purchase price before closing costs of $23,197 was satisfied through the assumption of debt and working capital of $17,360, discharge of mezzanine loans receivable of $3,028, with the remaining settled against outstanding accounts receivable from Spectrum. The assumed debt was repaid subsequent to the acquisition.

(iii) On December 1, 2009, Chartwell acquired 100% interest in one retirement property in Mission, British Columbia, from Spectrum and its joint venture partner. The purchase price before closing costs of $8,900 was satisfied by the assumption of debt and working capital of $7,278, discharge of mezzanine loans receivable of $623, settlement against outstanding accounts receivable from Spectrum of $188 with the balance paid in cash.

The following table summarizes the allocation of the purchase price (including costs of acquisition) to each major class of assets acquired and liabilities assumed at the date of acquisition:

	Spectrum			Total
Date of acquisition	February 1, 2009 and March 1, 2009	October 1, 2009	December 1, 2009	
Segment	Canadian Retirement Operations	Canadian Retirement Operations	Canadians Retirements Operations	
Location	London, Ontario, Pickering, Ontario, Kelowna, British Columbia North Vancouver, British Columbia (Four retirement communities - 455 suites)	Thunder Bay, Ontario (One retirement community - 109 suites)	Mission, British Columbia (One retirement community - 55 suites)	
Properties	$ 47,206	$ 22,281	$ 8,775	$ 78,262
Limited life intangible assets	4,668	1,508	238	6,414
Mortgages assumed	(35,750)	(17,150)	(7,200)	(60,100)
Below-market resident contracts	(506)	(87)	–	(593)
Other liabilities	(683)	(210)	(78)	(971)
Net assets acquired	$ 14,935	$ 6,342	$ 1,735	$ 23,012
Discharge of mezzanine loans receivable	$ 5,676	$ 3,028	$ 623	$ 9,327
Settlement of outstanding receivables from Spectrum	7,493	2,809	188	10,490
Cash consideration	476	–	811	1,287
Acquisition costs	1,290	505	113	1,908
Total consideration	$ 14,935	$ 6,342	$ 1,735	$ 23,012

These acquisitions have been recorded using the purchase method of accounting, with the results of operations included in these consolidated financial statements from the date of acquisition.

Chartwell continues to assess the initial valuation of the net assets acquired for each of these acquisitions. The purchase price allocation for accounting purposes may be adjusted in future periods.

On December 7, 2009, Chartwell entered into an agreement with ING Real Estate Investment Management Australia PYT Limited and its affiliates ("ING") to acquire the remaining 50% interest in eight long-term care properties in Ontario (the "Regency Care Portfolio") and in six retirement communities in the United States (the "Meridian Portfolio"). Chartwell continues to maintain ownership of the remaining 50% interests in these portfolios in joint venture relationships with ING since their original acquisition. The purchase price of the Regency Care Portfolio, before closing costs, is approximately $79,500 and will be settled, subject to working capital adjustments, by assumption of the outstanding debt of approximately $68,900 with the remaining being paid in cash. The purchase price of the Meridian Portfolio, before closing costs, is approximately U.S. $110,500 and will be settled, subject to working capital adjustments, by assumption of outstanding debt of approximately U.S. $75,200 with the remaining being settled in cash. [Subject to regulatory and lender approvals these transactions are expected to close during the first half of 2010.]

On August 9, 2009, Chartwell and certain subsidiaries and affiliates of Le Groupe Melior ("Melior") (the "Melior Debtors") entered into a settlement agreement (the "Settlement Agreement") in order to address certain issues relating to the performance by the Melior Debtors of the obligation under certain mezzanine loans. The Settlement Agreement provides that only upon satisfaction of a number of specific terms and conditions, Chartwell: (a) may exercise its rights as security holder and assume the Melior Debtors ownership interests in specified new and currently operating seniors housing properties on a selective basis; (b) will allow the sale of properties to certain third parties and release and discharge its mezzanine loans; and (c) will stand still with respect to certain other mezzanine loans.

On November 17, 2009, further to certain conditions of the Settlement Agreement being satisfied or waived, a prior notice of exercise by Chartwell of the equivalent to a foreclosure right was registered in respect of three operating properties and one parcel of vacant land against the Melior Debtors and another co-owner. The acquisition will result in Chartwell assuming approximately $67,700 of outstanding mortgages payable and approximately $5,690 of other liabilities and closing costs. Mezzanine loans in the amount of $21,621, (net of fees recorded as a reduction of mezzanine loan balances of $1,018) against which an impairment provision of $8,817 had previously been recorded, will be discharged on closing. These foreclosures are expected to be completed in early 2010. On November 18, 2009, Chartwell took possession of the three operating properties and assumed administration of the properties. In addition, as part of the Settlement Agreement, in the fourth quarter, Chartwell acquired one parcel of land valued at $80 from Melior. As part of this acquisition, one mezzanine loan in the amount of $520 (net of fees recorded as a reduction of the mezzanine loan balance of $465), against which an impairment provision of $440 had previously been recorded, was discharged.

Subsequent to December 31, 2009, Chartwell acquired another parcel of land from Melior, assuming and immediately repaying to the lender a $1,750 mortgage.

(b) Acquisitions during the year ended December 31, 2008:

During the year ended December 31, 2008, Chartwell acquired varying interests in 10 seniors housing communities (1,547 suites) and one joint venture management entity. The following table summarizes the net assets acquired, at fair value:

Properties	$ 95,896
Limited life intangible assets	10,035
Goodwill	5,290
Other assets	255
Mortgages assumed	(54,384)
Other liabilities	(3,152)
Below-market resident contracts	(1,616)
Net assets acquired	$ 52,324
Discharge of mezzanine loans receivable	$ 8,602
Cash consideration	43,722
Total consideration	$ 52,324

The acquisitions were recorded using the purchase method of accounting with the results of operations included in these consolidated financial statements from the date of acquisition.

4. Properties:

			2009			2008
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 235,489	$ –	$ 235,489	$ 238,123	$ –	$ 238,123
Buildings	2,131,107	203,951	1,927,156	2,155,919	153,100	2,002,819
Furniture, fixtures and equipment	88,182	54,786	33,396	89,320	45,923	43,397
	2,454,778	258,737	2,196,041	2,483,362	199,023	2,284,339
Properties under development	67,394	–	67,394	49,425	–	49,425
Land held for development	20,086	–	20,086	20,644	–	20,644
	$ 2,542,258	$ 258,737	$ 2,283,521	$ 2,553,431	$ 199,023	$ 2,354,408

Included under properties as at December 31, 2009 are assets under capital leases with a cost of $133,586 (2008 - $154,439) and accumulated depreciation of $10,544 (2008 - $7,892).

Included in properties under development is interest of $3,726 (2008 - $1,854) and incremental operating costs of $760 (2008 - $422), cumulatively capitalized as at December 31, 2009

During the year ended December 31, 2008, Chartwell sold part of one property, excess land and miscellaneous equipment with a carrying value of $821. A gain of $79 was recognized on these sales.

5. Mezzanine loans receivable:

Under the Development Agreement with Spectrum and the Loan Agreement with Melior and other joint venture partners, the Trust provided mezzanine loans to these parties.

The following table summarizes mezzanine loans receivable from Spectrum, Melior and other joint venture partners:

				2009	2008
	Contractual interest rate	Principal amount	Lending expenses/ (deferred placement fees), net	Net balance	Net balance
Spectrum	10% - 14%	$ 27,729	$ 23	$ 27,752	$ 51,094
Melior	10% - 14%	39,560	(3,193)	36,367	36,354
Seasons	10% - 14%	8,214	(575)	7,639	–
Others	10% - 12%	14,295	(222)	14,073	15,780
		$ 89,798	$ (3,967)	85,831	103,228
Provision for impairment				(30,508)	(6,406)
				$ 55,323	$ 96,822

(a) Spectrum:

The loans are secured by second charges or pledges of Spectrum's interest over 18 (2008 - 34) seniors housing development properties. In addition, the loans are cross defaulted.

Under the terms of the Development Agreement, Chartwell has the first right to purchase Spectrum's interest in each development property provided that Spectrum must offer Chartwell the opportunity to purchase any development property within one year of such property reaching a stabilized occupancy. If Chartwell elects to purchase a development property, Chartwell will acquire the property at an amount equal to 95%, 92% or 90% of appraised fair market value, depending upon the amount of mezzanine financing provided on the development property or at 100% of the appraised fair market value if no mezzanine financing had been advanced. Both parties have a right to terminate the Development Agreement upon six months' notice. Under such circumstances, certain rights of Chartwell, in respect of existing mezzanine loans and options on related projects, will continue.

On December 8, 2009 (the "Spectrum Settlement Effective Date"), Chartwell and Spectrum agreed, among other things, that Chartwell would: (i) waive its entitlement to 5% of the purchase price, net of transaction costs, of any properties sold by Spectrum to third parties; and (ii) would limit its purchase rights of Spectrum's development properties to properties on which mezzanine loans remain outstanding, as well as three Spectrum properties located in Mississauga, Ontario, Kamloops, British Columbia and Muskoka, Ontario (the "Three Purchase Rights"), so long as the following conditions (the "Settlement Conditions") are satisfied no later than August 16, 2010: (i) all mezzanine loans then due and other amounts owing by Spectrum to Chartwell are repaid in full (including interest thereon); and (ii) Spectrum has made a $5,000 payment to Chartwell. Until such time, Chartwell's purchase rights with respect to Spectrum's development properties will remain in effect with compressed notice periods and interest on overdue, unsecured accounts receivable from Spectrum will be

charged at 12% per annum, so long as Spectrum remains current on its obligations from the Spectrum Settlement Effective Date on new accounts receivable and interest on mezzanine loans. Upon the Settlement Conditions being fulfilled, Chartwell and Spectrum will sever all agreements, obligations and rights between one another, except for the Three Purchase Rights in Chartwell's favour and purchase rights on properties for which mezzanine loans outstanding have not yet matured. The properties which are subject to the Three Purchase Rights were selected by Chartwell as they fit within Chartwell's strategic objectives relating to property acquisitions.

On June 1, 2009, Spectrum disposed of its interest in eight of its properties and agreed to dispose of one additional property upon receipt of the required regulatory approval to Seasons, a partnership controlled by an institutional investor. As part of this transaction, Chartwell agreed to Seasons assuming mezzanine loans of six of the acquired properties totalling $8,214 (note 5(c)).

During 2009, Chartwell acquired Spectrum's interest in six operating properties (note 3), converting mezzanine loans into equity in the assets. In the fourth quarter of 2009, Spectrum sold its interest in two operating properties and two properties under development to third parties and repaid mezzanine loans in the amount of $5,580 in cash.

(b) Melior and other joint venture partners:

Chartwell has advanced 20 (2008 - 24) mezzanine loans to Melior and six other joint venture partners of Spectrum (the "Borrowers"). These loans are secured by second charges or pledges of the Borrowers' interest over 19 (2008 - 22) seniors housing development projects.

Chartwell has the first right to purchase the Borrowers' interest in these projects at fair market value upon properties reaching stabilized occupancy.

In the fourth quarter of 2009, one of Chartwell's joint venture partners repaid two mezzanine loans on properties it co-owns with Chartwell totalling $2,401 in cash.

(c) Seasons:

On acquisition of Spectrum's interest in eight development properties, Seasons assumed Spectrum's obligation related to six mezzanine loans in the amount of $8,214.

These loans are secured by second charges over six seniors housing development projects.

Each mezzanine loan matures on the earliest of: the fifth anniversary of the initial advance of the funds; the date of sale of the related development property; or on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development and Loan Agreements with the Borrowers. No principal amounts are due prior to maturity of each loan.

The following table represents the loan repayment schedule assuming that all outstanding mezzanine loans were to mature on their fifth anniversary date, excluding provision for impairment:

	Spectrum	Melior	Seasons	Other joint venture partners	Total
2010	$ 10,918	$ 33,539	$ 4,764	$ 4,531	$ 53,752
2011	9,630	2,267	1,575	6,462	19,934
2012	7,181	3,754	–	1,427	12,362
2013	–	–	1,875	1,875	3,750
	$ 27,729	$ 39,560	$ 8,214	$ 14,295	$ 89,798

6. Limited life intangible assets:

			2009			2008
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 9,308	$ 5,266	$ 4,042	$ 9,503	$ 4,236	$ 5,267
Resident contracts	82,685	67,260	15,425	143,877	99,231	44,646
Other intangibles	20,145	7,565	12,580	23,074	5,917	17,157
	$ 112,138	$ 80,091	$ 32,047	$ 176,454	$ 109,384	$ 67,070

Management contracts and customer relationships represent the acquired value of contractual agreements to provide management and advisory services for the operations of seniors residences and long-term care properties owned by third parties. Resident contracts represent in-place resident contracts valued at acquisition. Other intangibles represent the acquired value of operating leases of senior housing properties.

During the year ended December 31, 2009, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and customer relationships that were fully amortized by $56,155 (2008 - $46,931).

7. Other assets:

	2009	2008
Accounts receivable	$ 13,955	$ 15,339
Due from Spectrum, net of provision for impairment of $3,506 (2008 - nil)	218	9,977
Due from ING (a)	6,610	501
Prepaid expenses and deposits	10,532	10,571
Deposits in escrow	10,473	18,419
Other	9,578	8,464
	$ 51,366	$ 63,271

(a) Included in amounts due from ING is $6,354 (U.S. $6,000) related to ING's share of the deferred purchase price related to the Bristal portfolio acquisition which was funded by Chartwell (note 14(b)). The amounts due from ING bear interest at 10% effective March 1, 2010 and are repayable on closing of the Meridian Portfolio (note 3), or from ING's share of distributions from their properties co-owned with Chartwell beginning with March 2010 distributions.

8. Capital funding receivable:

The capital funding receivable of $43,824 (2008 - $46,001) represents the discounted cash flows receivable from the Government of Ontario over a remaining period of approximately 13 years in respect of construction costs of 12 long-term care properties. The funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care communities for the remaining period. The discount rate used is based upon long-term Ontario Government Bond rates.

9. Discontinued operations:

On October 1, 2009, the Trust divested its 49% interest in HBR, whose assets and liabilities included: equipment, current assets, trade accounts receivable and certain other assets and liabilities and were included in the Trust's U.S. operating segment (note 19). The following table summarizes the results of operations and financial position of these discontinued operations.

	2009	2008
Revenue	$ 78,171	$ 94,917
Loss before non-controlling interest	$ (9,585)	$ (9,122)
Non-controlling interest	202	346
	$ (9,383)	$ (8,776)

Assets and liabilities held for sale are as follows:

	2008
Properties	$ 8,490
Limited life intangible assets	20,866
Cash and cash equivalents	5,461
Other assets	12,379
	47,196
Accounts payable and other liabilities	35,968
	$ 11,228

HBR owns 50% of management company Horizon Bay Chartwell LLC ("HBC") with the remaining 50% owned by the Trust. Upon completion of the HBR transactions, the Trust's 74.5% interest in HBC, 50% direct ownership and 24.5% indirect ownership through HBR, has been reduced to a 50% direct ownership interest. As part of the transaction, Chartwell increased its ownership interest in Horizon Bay Chartwell II LLC by 5.5%.

10. Goodwill:

According to GAAP, goodwill should be tested for impairment between the required annual test when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. During the fourth quarter of 2008, Chartwell's market capitalization remained below its net book value. Accordingly, Chartwell concluded that this represented a circumstance that indicated it may be more likely than not that the fair value of the reporting units may be lower than their respective carrying amounts. Chartwell estimated fair value of the respective reporting units using a combination of valuation approaches including a market capitalization approach, multiples approach and discounted cash flow analysis. The market capitalization approach used Chartwell's publicly traded unit price to determine fair values, the multiples approach used comparable market multiples to arrive at fair values and the discounted cash flow method used revenue and expense projections and risk-adjusted discount rates. Future cash projections were based on 2009 projections, which were then adjusted to reflect the latest information and estimates on trends, such as contractual and non-contractual pricing expectations and anticipated operating efficiencies that would affect estimated cash flows of each reporting unit.

The process of determining fair value was highly subjective and required management to exercise a significant amount of judgment in determining future growth, discount and tax rates among other factors. Consequently, given the uncertainty in the economic environment, Chartwell relied on the publicly traded market price of Trust Units as at December 31, 2008 allocated to each reporting unit based on the market value of equity as the primary basis for the valuation of its reporting units and the determination of the implied fair value of goodwill for these reporting units. On that basis, the impairment test determined that, for all reporting units, the carrying value of goodwill exceeded its estimated fair value as at December 31, 2008 and as a result, Chartwell recorded an impairment charge of $73,323 (note 2).

11. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are repayable as follows for the periods ending December 31:

	Regular principal payments	Principal due on maturity	Total
2010	$ 32,426	$ 98,128	$ 130,554
2011	31,468	56,422	87,890
2012	32,307	95,046	127,353
2013	32,174	111,304	143,478
2014	27,226	143,775	171,001
2015	25,170	88,482	113,652
2016	22,486	176,660	199,146
2017	18,010	259,026	277,036
2018	15,862	32,625	48,487
2019	14,295	100,537	114,832
2020 - 2024	62,518	49,859	112,377
Thereafter	72,077	34,318	106,395
	$ 386,019	$ 1,246,182	1,632,201
Mark-to-market adjustment arising on acquisition			13,263
Financing costs			(20,183)
			$ 1,625,281

	2009	2008
Mortgages at fixed rates:		
Mortgages	$1,578,454	$1,644,135
Interest rates	2.03% - 10.00%	4.11% - 8.75%
Weighted average interest rate	5.49%	5.69%
Mortgages at variable rates:		
Mortgages	$53,747	$28,934
Interest rates	Lenders' COF + 2.00% to prime plus 4.75%	Bankers' acceptance + 0.95% to prime plus 3.00%
Weighted average interest rate	3.56%	3.23%
Blended weighted average rate of maturing debt	5.42%	5.65%

During the year ended December 31, 2009, interest expense on mortgages payable amounted to $93,057 (2008 - $88,403).

As at December 31, 2009, Chartwell was in breach of the debt services covenant on one of its mortgages and is working with the lender to remedy the breach.

(b) Secured revolving operating credit facility:

Chartwell has arranged for a $75,000 secured revolving operating credit facility (the "Credit Facility"). At December 31, 2009, the maximum available borrowing capacity under the Credit Facility was $61,931 (2008 - $62,153) based on the security provided. The Credit Facility matures on June 27, 2010. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 2.75% or at the applicable bankers' acceptance rate plus 4.00%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The Credit Facility is secured by first and second charges on specific properties. As at December 31, 2009, nil (2008 - $8,000) was outstanding under the Credit Facility. Although Chartwell was not in compliance at December 31, 2009 with the debt service coverage and the distribution payout covenants under the Credit Facility, Chartwell obtained a waiver from the lenders with respect to these covenants. Chartwell also expects not to be in compliance with the debt service coverage covenant in Q1 and Q2 2010 and has received waivers covering these periods.

12. Convertible debentures:

The Trust has the following series of convertible debentures outstanding:

	2009			2008		
	6.0% Convertible Debentures	5.9% Convertible Debentures	Total	6.0% Convertible Debentures	5.9% Convertible Debentures	Total
Principal	$ 124,925	$ 75,000	$ 199,925	$ 124,925	$ 75,000	$ 199,925
Carrying value of liability	$ 120,886	$ 68,110	$ 188,996	$ 119,005	$ 65,629	$ 184,634

(a) 6.0% Convertible Debentures:

The 6.0% Convertible Debentures bear interest at an annual rate of 6.0% payable semi-annually in arrears on December 1 and June 1 in each year commencing December 1, 2006. Each 6.0% Convertible Debenture is convertible into freely tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of December 1, 2011 and the last business day immediately preceding the date specified by Chartwell for redemption of the 6.0% Convertible Debentures, at a conversion price of $15.60 per Trust Unit. Holders converting their 6.0% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 6.0% Convertible Debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the Unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell has suspended regular distributions, then a 6.0% Convertible Debentures holder, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion.

The 6.0% Convertible Debentures were not redeemable by Chartwell before December 1, 2009 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after December 1, 2009 but prior to December 1, 2010, the 6.0% Convertible

Debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the Indenture is not less than 125% of the conversion price. On or after December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 6.0% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the trust indenture relating to the debenture (the "Indenture"). In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 6.0% Convertible Debentures trustee to satisfy the obligations to pay interest on the 6.0% Convertible Debentures.

As Chartwell's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell requires a variable number of Trust Units to be issued to satisfy the obligation, the 6.0% Convertible Debentures are recorded primarily as a liability. On issuance, Chartwell has recorded a liability of $120,046 and equity, which represents the holders' option to convert the 6.0% Convertible Debentures into Trust Units, of $4,954. Chartwell incurred issue costs of $4,688, of which $240 has been recorded as a reduction of the equity component of the 6.0% Convertible Debentures. The remaining $4,448 of issue costs will be amortized to interest expense over the term of the 6.0% Convertible Debentures.

Interest expense is recorded on the liability component of the 6.0% Convertible Debentures as a charge to income and is calculated at the effective rate of approximately 8.0% with the difference between the coupon interest rate of 6.0% and the effective rate of 8.0% credited to the liability component of the 6.0% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 6.0% Convertible Debentures.

(b) 5.9% Convertible Debentures:

The 5.9% Convertible Debentures bear interest at an annual rate of 5.9% payable semi-annually in arrears on May 1 and November 1 in each year commencing May 1, 2007. Each 5.9% Convertible Debenture is convertible into freely tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of May 1, 2012 and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.9% Convertible Debentures, at a conversion price of $16.25 per Trust Unit. Holders converting their 5.9% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 5.9% Convertible Debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the Unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell has suspended regular distributions, then a 5.9% Convertible Debenture holder, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion.

The 5.9% Convertible Debentures are not redeemable by Chartwell before May 1, 2010 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after May 1, 2010 but prior to May 1, 2011, the 5.9% Convertible Debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the Indenture is not less than 125% of the conversion price. On or after May 1, 2011, the 5.9% Convertible Debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the face value thereof plus accrued and unpaid interest.

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.9% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the Indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 5.9% Convertible Debentures trustee to satisfy the obligations to pay interest on the 5.9% Convertible Debentures.

As Chartwell's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell requires a variable number of Trust Units to be issued to satisfy the obligation, the 5.9% Convertible Debentures are recorded primarily as a liability. On issuance, Chartwell has recorded a liability of $62,021, net of issue costs of $2,416, and equity, which represents the holders' option to convert the 5.9% Convertible Debentures into Trust Units, of $10,167, net of issue costs of $396.

Interest expense is recorded on the liability component of the 5.9% Convertible Debentures as a charge to income and is calculated at an effective rate of approximately 10.0% with the difference between the coupon interest rate of 5.9% and the effective rate of 10.0% credited to the liability component of the 5.9% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 5.9% Convertible Debentures.

13. Accounts payable and other liabilities:

	2009	2008
Accounts payable and accrued liabilities	$ 71,548	$ 75,893
Income taxes payable	–	3,003
Below-market resident contracts, net of accumulated amortization of $2,528 (2008 - $2,274)	1,467	2,101
Resident deposits	4,348	5,033
Deferred revenue	4,004	6,433
	$ 81,367	$ 92,463

14. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

Business combinations	2009	2008
Castel Royale	$ 520	$ 520
Elizabeth Towers	918	918
Heritage Glen (a)	9,075	12,025
Bristal portfolio (b)	–	6,849
Merrill Gardens portfolio	3,079	3,337
	$ 13,592	$ 23,649

During the year ended December 31, 2009, Chartwell settled the following deferred consideration in cash:

(a) On November 2, 2009, $3,500 was paid in respect of Heritage Glen acquisition.

(b) On December 21, 2009, Chartwell paid in advance $6,211 (U.S. $5,865 net of discount of U.S. $135) of deferred purchase consideration relating to the Bristal portfolio acquisition. This represents early settlement of Chartwell's share of principal and interest due on the notes on the third anniversary of acquisition.

15. Non-controlling interest:

Non-controlling interest represents the interest of the holders of the Class B Units of Master LP, which is consolidated in these consolidated financial statements. Class B Units of Master LP are exchangeable, at the option of the holder, into Trust Units. Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Class B Units are transferable to third parties with Chartwell's consent. As at December 31, 2009, there were 1,976,859 (2008 - 2,865,472) Class B Units outstanding.

The details of non-controlling interest are as follows:

	2009	2008 (As recasted - note 2)
Balance, beginning of year	$ 15,990	$ 46,862
Non-controlling interest's share of loss for the year	(1,447)	(4,232)
Distributions on Class B Units of Master LP	(1,395)	(3,595)
Exchange of Class B Units of Master LP for Trust Units	(4,983)	(24,295)
Other comprehensive income (loss)	(352)	1,250
Balance, end of year	$ 7,813	$ 15,990

16. Unitholders' equity:

Chartwell is authorized to issue unlimited Trust Units.

Trust Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Chartwell, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

(i) 90% of the "market price" of the units on the principal market on which the units are quoted for trading during the 10-trading-day period ending immediately prior to the date on which the units were surrendered for redemption; and

(ii) 100% of the "closing market price" on the principal market on which the units are listed for trading on the redemption date.

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed $50 unless waived at the discretion of the Trust Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the units were tendered for redemption. To the extent the redemption price payable in respect of Trust Units surrendered for redemption exceeds $50 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell.

(a) The following units are issued and outstanding and exclude the issuance of LTIP Units:

	Number of voting units	Amount
Balance, December 31, 2007	91,625,701	$ 1,102,573
Trust Units issued under DRIP	1,265,991	9,230
Trust Units issued on exchange of Class B Units of Master LP	3,407,906	24,296
Disposition of LTIP Units surrendered	70,000	932
Balance, December 31, 2008	96,369,598	1,137,031
Trust Units issued under DRIP	1,013,922	5,074
Trust Units issued on exchange of Class B Units of Master LP	888,613	4,965
LTIP Units transferred to Trust Units (note 15(b))	120,000	1,200
Trust Units issued pursuant to public offering	27,370,000	158,746
Balance, December 31, 2009	125,762,133	$ 1,307,016

(b) Long-Term Incentive Plan:

Chartwell has established an LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the Units for 20 trading days preceding the date of issuance, which will be payable in cash instalments, over a term not to exceed 10 years. Participants are required to pay interest on the LTIP instalment loan receivable at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time LTIP Units are issued over a 10-year fixed period. All distributions on the LTIP Units issued are applied as payments, first of interest and the balance toward the principal of the LTIP instalment receivable. Participants may prepay any principal at their discretion and

receive the units. Units issued under the LTIP are held as security for the outstanding LTIP instalment receivable. If a participant elects to withdraw from the plan without paying the LTIP instalment receivable in full, Chartwell may elect to reacquire or sell the Trust LTIP Units in satisfaction of the outstanding amounts. Chartwell's recourse is limited to the units it holds as security.

Subsequent to 2005, the LTIP was amended to include vesting provisions at the discretion of the Trustees. Since that time, all units issued to full time employees have the following vesting provisions: one-third in the first year of employment, one-third in the third year of employment and one-third in the fifth year of employment.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,436,895 (2008 - 2,571,990) were issued and 3,463,995 (2008 - 3,328,900) were available to be issued at December 31, 2009.

The following table summarizes LTIP Units issued under the LTIP:

	Number of units under subscription	Amount
Balance, December 31, 2007	2,336,323	$ 31,894
Sale of Trust Units	(15,000)	(150)
Issuance of Trust Units	656,667	5,929
Compensation expense	–	752
Units transferred to Treasury	(406,000)	(4,326)
Balance, December 31, 2008	2,571,990	34,099
Issuance of Trust Units	122,500	614
Compensation expense	–	493
Units transferred to Treasury	(137,595)	(2,673)
LTIP Units transferred to Trust Units	(120,000)	(1,200)
Balance, December 31, 2009	2,436,895	$ 31,333

The market value of the Trust Units at December 31, 2009 was $7.03 per unit (2008 - $5.40).

The compensation expense attributable to the LTIP of $463 for the year ended December 31, 2009 (2008 - $752) is included in general, administrative and trust expenses with a corresponding amount included in Unitholders' equity as units under subscription. The LTIP instalment loans receivable are recognized as a deduction from LTIP Units under subscription. Distributions received under the LTIP are charged to Unitholders' equity while interest received under the LTIP is credited to distributions.

(c) Distribution Reinvestment Program:

Chartwell has established a DRIP for its Unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

(d) Deferred unit plan:

During 2008, the Trust implemented a Deferred Unit Plan which was approved by Unitholders at the annual general meeting held on May 21, 2009. The plan entitles independent directors, at their option, to receive all, 75%, 50% or 25% of their trustee fees in the form of Deferred Trust Units. The number awarded is based on the fair market value, as defined by the plan, of the Trust Units on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred Trust Units issued in regard to distributions is based on the fair market value of the Trust's Units, as defined in the plan, on the date distributions are paid.

The following table summarizes the Deferred Trust Unit activity since inception:

	Units outstanding	Amount
Granted since inception	111,102	$ 592
Reinvested distributions	9,490	52
Balance, December 31, 2009	120,592	$ 644

17. Loss per unit calculation:

	2009	2008 (As recasted - note 2)
Numerator:		
Loss for the year - continuing operations	$ (61,862)	$ (98,652)
Loss for the year - discontinued operations	(9,383)	(8,776)
	$ (71,245)	$ (107,428)
Denominator:		
Denominator for basic earnings per unit - weighted average units	101,361,927	93,946,250
Denominator for diluted earnings per unit - weighted average units	101,361,927	93,946,250
Loss per unit:		
Basic and diluted - continuing operations	$ (0.61)	$ (1.05)
Basic and diluted - discontinued operations	(0.09)	(0.09)
Total loss per unit	$ (0.70)	$ (1.14)

The calculation of per unit information on a diluted basis considers the potential exercise of outstanding unit options to the extent that the exercise of the option is dilutive and the potential conversion of outstanding convertible debentures to the extent that such conversion is dilutive.

Excluded from the calculation of dilutive weighted average units are the following weighted average units:

	2009	2008
LTIP Units under subscription	2,590,204	2,641,306
Class B Units of Master LP	2,113,511	4,597,555
Assumed conversion of convertible debentures	12,623,397	12,623,397

18. Transactions with Spectrum:

During 2008 through to April 30, 2009, Spectrum met the definition of a related party as defined by CICA Handbook Section 3840. Subsequent to April 30, 2009, due to a change in senior management, Spectrum no longer met the definition of a related party.

Except as disclosed elsewhere in these consolidated financial statements, transactions with Spectrum were as follows:

	2009	2008
Contractual mezzanine loan interest income (note 5)	$ 4,128	$ 5,494
Effective interest rate adjustments	(190)	(220)
Development fees	321	1,402
Operations management fees	1,876	2,167
Other fees	81	119
Interest on overdue accounts receivable	487	310

Other assets as at December 31, 2009 include $218, net of provision for impairment of $3,506 (2008 - $9,977, net of provision for impairment of nil) due from Spectrum. Subsequent to December 31, 2009, $218 of this balance was collected in cash.

During the year ended December 31, 2008, 0.1 acre of land owned by Chartwell was sold to Spectrum, Melior and their joint venture partners for a purchase consideration of $52.

19. Segmented information:

Chartwell monitors and operates its Canadian Retirement, Canadian Long-Term Care, Canadian Management and United States Operations separately.

The accounting policies of each of the segments are the same as those described for Chartwell. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material intersegment revenue, transfers or expenses.

During the year ended December 31, 2008, three properties previously included in the Canadian Long-Term Care Operations segment were reclassified to the Canadian Retirement Operations segment to more accurately reflect how the properties are managed. The comparative results have been restated to reflect this change.

2009	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Total
Revenue	$ 324,315	$ 145,625	$ 7,347	$ 183,809	$ 661,096
Equity income from variable interest entities	–	–	–	–	–
Below-market lease amortization	785	–	–	357	1,142
Direct operating expense	(211,653)	(127,286)	(4,099)	(118,851)	(461,889)
Income before the undernoted	113,447	18,339	3,248	65,315	200,349
Interest expense	(40,168)	(9,196)	–	(43,817)	(93,181)
Property lease expense	(134)	(204)	–	(2,260)	(2,598)
Income before the following	73,145	8,939	3,248	19,238	104,570
Depreciation and amortization	(60,341)	(7,807)	(1,678)	(43,875)	(113,701)
Loss (gain) on sale of assets	–	–	–	–	–
	$ 12,804	$ 1,132	$ 1,570	$ (24,637)	(9,131)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					11,292
General, administrative and trust expenses					(21,008)
Interest on convertible debentures					(16,283)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					(6,961)
Provision for impairment of goodwill					–
Provision for impairment of mezzanine loans and accounts receivable					(30,684)
Non-controlling interest					1,245
Current income tax expense					(85)
Future income tax expense					9,753
Loss from discontinued operations					(9,383)
Loss for the year					$ (71,245)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets	$ 84,676	$ –	$ –	$ –	$ 84,676
Capital improvements	26,955	2,767	–	10,148	39,870

2008	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Total
					(As recasted - note 2)
Revenue	$ 291,214	$ 138,753	$ 9,089	$ 171,953	$ 611,009
Equity income from variable interest entities	3,087	–	–	–	3,087
Below-market lease amortization	410	–	–	802	1,212
Direct operating expense	(187,490)	(121,264)	(4,102)	(112,881)	(425,737)
Income before the undernoted	107,221	17,489	4,987	59,874	189,571
Interest expense	(36,689)	(9,534)	–	(41,641)	(87,864)
Property lease expense	(117)	(204)	–	(2,039)	(2,360)
Income before the following	70,415	7,751	4,987	16,194	99,347
Depreciation and amortization	(58,441)	(8,847)	(2,759)	(49,049)	(119,096)
Loss (gain) on sale of assets	89	–	16	(10)	95
	$ 12,063	$ (1,096)	$ 2,244	$ (32,865)	(19,654)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					15,085
General, administrative and trust expenses					(19,902)
Interest on convertible debentures					(15,900)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					18,182
Provision for impairment of goodwill					(73,323)
Provision for impairment of mezzanine loans					(6,406)
Non-controlling interest					3,886
Current income tax expense					(999)
Future income tax expense					379
Loss from discontinued operations					(8,776)
Loss for the year					$ (107,428)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets	$ 106,186	$ –	$ –	$ –	$ 106,186
Capital improvements	54,351	3,458	797	13,958	72,564

2009	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Other	Total
Total assets	$ 1,382,074	$ 295,161	$ 3,476	$ 749,087	$ 168,876	$ 2,598,674
Total liabilities	949,332	180,933	–	594,879	208,116	1,933,260

2008	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Other	Total
(As recasted - note 2)						
Total assets	$ 1,331,094	$ 298,772	$ 13,937	$ 953,830	$ 107,854	$ 2,705,487
Total liabilities	922,332	190,187	–	717,956	218,664	2,049,139

20. Joint venture operations and variable interest entities:

(a) Joint venture operations:

The following amounts included in the consolidated financial statements are Chartwell's proportionate interest in its joint ventures:

	2009	2008
Assets	$ 607,524	$ 703,683
Liabilities	481,583	549,482

	2009	2008
Revenue	$ 238,618	$ 243,167
Expenses, including depreciation and amortization of $31,246 (2008 - $38,760)	256,704	267,610
Loss for the year	(18,086)	(24,443)
Cash provided by (used in):		
Operating activities	$ 12,171	$ 16,083
Financing activities	(23,509)	(19,421)
Investing activities	8,223	(2,448)

Chartwell's joint venture operations are generally undertaken through entities in which the Trust holds an indirect interest. The joint venture entities have liabilities in excess of Chartwell's proportionate share amounting to $481,565 (2008 - $550,951), which have not been recorded in the Trust's financial statements. The assets of these joint ventures are available and sufficient to satisfy these liabilities.

(b) Variable interest entities:

At December 31, 2009, Chartwell holds variable interests in 12 (2008 - 19) VIEs. Chartwell provides development services, mezzanine loans, structuring services and consulting services to these entities.

As of December 31, 2009, Chartwell had mezzanine loans receivable of $21,568 (net of provision for impairment of $18,726) (2008 - $62,769, (net of provision for impairment of $6,406 from these entities)). During the year ended December 31, 2009, Chartwell earned $4,059 (2008 - $6,960) in interest from these entities.

Although these entities were identified as VIEs, it was determined that Chartwell is not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

21. Commitments and contingencies:

(a) Operating leases of seniors housing properties:

Chartwell has a leasehold interest in two properties acquired with the Merrill Gardens Portfolio. The term of these leases expire on December 31, 2017 and the leases have one renewal option for 10 years each. Minimum lease payments under these leases is $1,678 (U.S. $1,597) per annum and a total of $13,426 (U.S. $12,777) for the term of the leases.

(b) Other leases:

Chartwell has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of $126.

Pursuant to the Regency Care Portfolio acquisition, the Trust assumed one land lease expiring August 31, 2044 with annual payments of $100 through to August 31, 2024 and $120 for the remainder of the term, and one land lease expiring May 31, 2048 with annual payments of $138, negotiated to market every 15 years thereafter. Chartwell's share is 50% of the amounts due under these leases.

In addition, Chartwell has operating leases on office space in Canada that expire on various dates up to May 31, 2015. Annual payments in aggregate on these leases vary from $1,195 to $1,380 over the term of the lease.

(c) Purchase obligations:

Chartwell has entered into various construction contracts related to various internal growth projects. As at December 31, 2009, the remaining commitments under these contracts amounted to approximately $3,914.

As at December 31, 2009, Chartwell has entered into fixed-price natural gas contracts with a third-party natural gas supplier for $1,421 to provide gas for its own use at its properties. Chartwell has also entered into fixed-price electricity and natural gas contracts with local utilities in the United States for $938 (U.S. $892) to provide electricity for its own use at its properties.

(d) Contingent consideration on acquisitions:

Under the respective Purchase and Sale Agreements, contingent consideration is payable upon properties achieving predetermined operating targets over set time periods.

At December 31, 2009, contingent consideration on acquisitions of properties amounted to $2,795 (2008 - $2,795).

(e) Letters of credit:

As at December 31, 2009, Chartwell was contingently liable for letters of credit in the amount of $2,182 (2008 - $2,365).

(f) Other contracts:

(i) The properties Chartwell owns in the United States are managed by HBC and HBC II Manager LLC ("HBC II"). The properties' management agreements are for a term of 20 to 30 years and call for payment of management fees between 4.0% and 5.5% of gross revenue plus incentive fee based on certain operating targets. Chartwell owns a 50% interest in HBC and an 80% interest in HBC II.

(ii) In accordance with contracts between Chartwell and Melior, Chartwell has committed to the following:

(a) For a period of 10 years, expiring February 5, 2016, payment of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell in the Province of Quebec whether or not such acquisition is introduced, presented or referred by Melior and 2.0% of the purchase amount of each and every acquisition by Chartwell of properties in Canada, excluding the Province of Quebec, which is introduced, presented or referred by Melior.

(b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50 and 3% of total budgeted development costs for the related project.

These contracts will be terminated upon completion of transactions contemplated in the Melior Settlement Agreement (note 3).

(g) Litigation and claims:

In the ordinary course of business activities, Chartwell may be contingently liable for litigation and claims from, among others, residents, partners and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of Chartwell.

22. Supplemental cash flow information:

The change in non-cash operating items for the years ended December 31 are as follows:

	2009	2008
Change in non-cash operating items:		
Accounts receivable	$ 475	$ 3,190
Deposits on acquisitions	(2,399)	111
Due from Spectrum	(4,237)	(4,299)
Due from ING	(6,639)	4,253
Accounts payable and other liabilities	(4,100)	11,108
Other	(8,337)	(583)
	$ (25,237)	$ 13,780

The following amounts recognized during the year ended December 31 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

	2009	2008
Non-cash consideration on acquisitions:		
Discharge of mezzanine loans receivable	$ 9,327	$ 8,602
Distributions applied against instalment loans receivable related to LTIP	1,771	2,144
Interest on instalment loans receivable related to LTIP	825	1,091
Trust Units issued pursuant to the DRIP	5,074	9,230

In accordance with Chartwell's Sixth Amended and Restated Declaration of Trust, the distributions to Trust Unitholders will be within the discretion of the Trustees. The Trustee will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions.

During the year ended December 31, 2009, interest paid amounted to $101,311 (2008 - $98,595).

During the year ended December, 2009, cash distributions on Trust Units amounted to $61,986 (2008 - $68,692).

23. Income taxes:

For the year ended December 31, 2009, Chartwell recorded a current income tax expense of $85 (year ended December 31, 2008 - $999) and a future income tax recovery of $9,753 (year ended December 31, 2008 - $379).

The tax effects of temporary differences that give rise to significant portions of the Canadian future income tax assets and liabilities are as follows as for the years ended December 31:

	2009	2008 (As recasted - note 2)
Future income tax assets:		
Mortgages payable	$ 2,618	$ 4,001
Issue costs	4,004	4,705
Losses carried forward	2,201	3,725
Other	2,949	2,842
Valuation allowance	(382)	(2,243)
	11,390	13,030
Future income tax liabilities:		
Properties	(13,909)	(21,271)
Capital funding receivable	(8,689)	(10,332)
Limited life intangible assets	(5,157)	(8,054)
Other	(1,802)	(3,068)
	(29,557)	(42,725)
Net future income tax liability	$ (18,167)	$ (29,695)

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At December 31, 2009, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately $45,859 (U.S. $43,634). Of these losses, approximately $988 (U.S. $940) expire in 2025, $2,187 (U.S. $2,081) expire in 2026, $12,427 (U.S. $11,824) expire in 2027, $14,078 (U.S. $13,395) expire in 2028 and $16,179 (U.S. $15,394) expire in 2029.

As at December 31, 2009, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of $45,636 (U.S. $43,421) against which a valuation allowance of $45,636 (U.S. $43,421) has been recorded.

The provision for income taxes in the consolidated statements of operations and comprehensive loss represents an effective income tax rate different than the Canadian SIFT tax rate of 33.0% (2008 - 32.5%). The differences for the years ended December 31 are as follows:

	2009	2008 (As recasted - note 2)
Loss before income taxes	$ (72,775)	$ (101,918)
Computed income tax recovery at Canadian SIFT tax rate	$ (24,016)	$ (33,123)
Increase (decrease) resulting from:		
Effect of permanent differences	3,529	23,324
Change in valuation allowance	10,514	15,966
International income tax rate differences	(1,380)	(3,347)
Enacted changes in tax rates	1,772	–
Other	(87)	(2,200)
Income tax expense (recovery)	$ (9,668)	$ 620

24. Financial instruments and financial risk management:

(a) Classification, carrying values and fair values of financial instruments:

The classification of financial instruments, other than derivative financial instruments designated as hedges, as well as their carrying amounts and fair values, are shown in the table below.

Fair value represents management's estimates of the market value at a given point in time. The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated balance sheets for the years ended December 31 are as follows:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and receivables, recorded at amortized cost:				
Mezzanine loans receivable (i)	$ 55,323	$ 53,997	$ 96,822	$ 93,561
Capital funding receivable (ii)	43,824	47,719	46,001	47,254
Financial liabilities:				
Financial liabilities, recorded at amortized cost:				
Mortgages payable (iii)	1,625,281	1,629,609	1,668,445	1,678,693
Convertible debentures (iv)	203,874	203,674	199,707	161,180

The Trust's other financial assets are classified as loans and receivables, which include amounts receivable and deposits and are measured at amortized cost. The Trust's other financial liabilities are measured at amortized cost, which include accounts payable and accrued liabilities and deposits. The carrying values of these other financial instruments approximate their fair values due to their short period to receipt or payment of cash. Cash and cash equivalents are classified as held-for-trading and are measured at fair value.

Basis for determining fair values:

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above:

(i) The fair value of mezzanine loans receivable is estimated based on discounted expected future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

(ii) The fair value of capital funding receivable is estimated by discounting the expected future cash flows using the yield of the applicable bonds issued by the Province of Ontario.

(iii) The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities.

(iv) The fair value of the convertible debentures is based on market prices, which includes both the debt and equity components.

The carrying value of the convertible debentures is recorded as a financial liability and equity as follows:

	2009	2008
Liability	$ 188,996	$ 184,634
Equity	14,878	15,073
	$ 203,874	$ 199,707

Chartwell has not estimated the market value of the liability and equity components of the convertible debentures separately as neither is traded separately in an active market such that management can reliably estimate their respective fair values.

Fair-value estimates represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(b) Financial risk management objectives and policies:

In the normal course of business, Chartwell is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for unitholder returns. Chartwell is exposed to financial risks that arise from the fluctuation of interest rates, the credit quality of its residents and borrowers pursuant to mezzanine loans, risks of changes in foreign exchange rates and rate regulation by provincial governments.

The Board of Trustees has overall responsibility for the establishment and oversight of the Trust's risk management framework. Management is responsible for developing and monitoring the Trust's risk management policies and reports regularly to the Board of Trustees on its activities.

These risks are managed as follows:

(i) Credit risk:

Chartwell is exposed to credit risk arising from the possibility that parties responsible for payment of fees or the borrowers of mezzanine loans may experience financial difficulty and be unable to fulfill their contractual obligations. Chartwell has five significant categories of receivables: resident receivables, mezzanine loans, funding from various provincial governments, development fees and asset and operations management fees receivable from Spectrum, Melior and ING.

Chartwell regularly monitors the credit risk exposure and takes steps to mitigate the likelihood that these exposures will result in an actual loss.

Chartwell's exposure to credit risk from resident receivables is influenced mainly by the individual characteristics of each resident, the demographics of its resident base and general economic conditions. Due to the nature of the Trust's business and geographic

spread of its resident base, there is no significant concentration of receivables from residents.

In addition to project-specific security, all Spectrum mezzanine loans contain cross-default provisions and are secured by Spectrum's corporate guarantee. Chartwell is involved in the development and operations management of Spectrum's properties. The mezzanine loan compliance group monitors performance and risk of each loan on an ongoing basis and reports quarterly to the Investment Committee of Chartwell.

On December 9, 2009, Chartwell entered into a Settlement Agreement with Spectrum (note 5(a)) and is working with Spectrum to complete transactions contemplated by the Settlement Agreement. Chartwell completed an evaluation of the project-specific security underlying each mezzanine loan, as well as an evaluation of Spectrum's corporate guarantee based on Spectrum's financial information as at December 31, 2009. The process of determining fair values is subjective and requires management to exercise a significant amount of judgement in making valuation assumptions. Based on this evaluation Chartwell believes that Spectrum has sufficient equity value to allow it to satisfy its obligations to Chartwell in due course.

On August 19, 2009, Chartwell entered into a Settlement Agreement with Melior to resolve certain issues relating to Melior's performance of its obligations under mezzanine loan agreements. Chartwell recorded a cumulative impairment provision against its mezzanine loans to Melior and its joint ventures partners in Quebec in the amount of $30,508.

Receivables from provincial governments represent capital and operating funding for licensed long-term care properties primarily from the agencies of the Government of Ontario. Management believes that collection risk on these receivables is not significant.

Generally, the carrying amount on the consolidated balance sheets of the Trust's financial assets exposed to credit risk, net of applicable loss allowances, represents the Trust's maximum exposure to credit risk.

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible.

The aging of resident receivables at December 31, 2009 is as follows:

Current	$ 3,021
31 - 60 days	673
61 - 90 days	314
Over 90 days	1,148
	5,156
Allowance for doubtful accounts	1,130
Net resident receivables	$ 4,026

The Trust limits its exposure to credit risk related to derivatives by transacting with counterparties that are stable and of high credit quality.

(ii) Liquidity risk:

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to Chartwell to fund its growth program and refinance or meet its payment obligations as they arise.

The Trust's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to Unitholders, and possible property acquisition funding requirements.

The above liquidity needs are funded from cash flows from operating the property portfolio, with the exception of debt repayment obligations and property acquisition funding requirements. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include additional draws on the bank Credit Facility, raising new equity by issuing units or convertible debentures or the disposition of properties. At December 31, 2009, the Trust had $61,931 available and undrawn on the Credit Facility. The risk with issuing new capital is that the capital markets may not be receptive to an equity issue with financial terms favourable to the Trust.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. Management mitigates this risk by staggering debt maturities and through the use of programs such as CMHC-insured mortgages.

At December 31, 2009, Chartwell's 2010 debt maturities amounted to approximately $98,128. Subsequent to December 31, 2009, approximately $31,230 of the outstanding debt was repaid, of which $25,917 related to 2010 maturities with the remaining relating to maturities beyond 2010.

There is also risk that the Credit Facility will not be renewed on terms and conditions acceptable to the Trust or on any terms at all.

Chartwell's major contractual obligations for the next 24 months as at December 31, 2009 were as follows:

	2010	2011	Total
Mortgage principal repayments	$ 130,554	$ 87,890	$ 218,444
Purchase obligations	12,777	5,504	18,281
Property operating leases	1,678	1,678	3,356
Other operating leases	1,083	974	2,057
Land leases	245	245	490
Maturity of 6.0% Convertible Debentures	–	124,925	124,925
	$ 146,337	$ 221,216	$ 367,553

(iii) Market risk:

Market risk is the risk of an adverse financial impact due to a change in market conditions, such as foreign exchange rates, interest rates and equity prices, that will affect Chartwell's income or the value of its holdings of financial instruments. Chartwell may buy derivative instruments in the ordinary course of business, and also may incur financial liabilities, in order to manage potential market risks.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At December 31, 2009, $53,747 (2008 - $38,522) of Chartwell's mortgages and loans payable, excluding hedged loans, bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell fixes the term of long-term debt within a range from 5 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed-rate long-term debt over time.

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell entered into an interest rate swap arrangement with a current notional principal amount of $11,328 that entitles Chartwell to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.6% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap arrangement based on an estimate of the cost to close the contract as at December 31, 2009 is a loss position of $1,322 (2008 - $2,087), which is included in accrued liabilities on the consolidated balance sheets (note 13). Included in other comprehensive loss for the year ended December 31, 2009 is a gain of $490, net of future income taxes of $147 (2008 - loss of $1,932, net of future income taxes of $462) that relates to the effective portion of the net change in fair value of the interest rate swap arrangement that has been designated as a hedge.

At December 31, 2009, the Trust's interest-bearing financial instruments were:

	Carrying amount 2009	Carrying amount 2008
Fixed-rate instruments:		
Financial assets (mezzanine loans)	$ 55,323	$ 96,822
Financial liabilities	1,767,450	1,828,769
Variable-rate instruments:		
Financial liabilities	$ 53,747	$ 38,522

A change in interest rates at December 31, 2009 would not affect net income with respect to the fixed-rate instruments, including hedged loans. Therefore, no sensitivity analysis is provided for the fixed-rate instruments. An increase of 100 basis points in interest rates at December 31, 2009 for the variable-rate mortgages would have decreased equity by $537 and increased the loss for the year by $537 (on a pre-tax basis).

(b) Foreign currency exchange risk:

At December 31, 2009, through its self-sustaining United States operations, 29% (2008 - 35%) of Chartwell's assets and 35% (2008 - 40%) of Chartwell's mortgages payable were held in the United States and 35% (2008 - 38%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in the exchange rate between Chartwell's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. dollar-denominated financial instruments, which are not a component of the self-sustaining United States operations or part of the net investment in self-sustaining United States operations.

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency fluctuation risk. For example, cash flow from United States operating activities is first used for repayment of loans denominated in U.S. dollars. Chartwell may use derivative financial instruments to hedge its net foreign currency exposures. Chartwell's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the consolidated financial statements. The United States operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk. There were no foreign exchange hedge contracts outstanding as at December 31, 2009.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining United States operations at December 31, 2009:

	U.S. dollar
Cash	$ 488
Loans receivable from self-sustaining United States operations	37,500
Net investment in self-sustaining United States operations	95,787
Net exposure	$ 133,775

A one cent reduction in the foreign exchange translation rate of U.S. dollars to Canadian dollars would have decreased the loss for the year and decreased other comprehensive loss (on a pre-tax basis) for the year by the amounts shown below:

Decrease in loss for the year	$ 380
Decrease in other comprehensive loss for the year	958

(iv) Reliance on government funding:

Chartwell holds licenses related to each of is long-term care properties. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2009, the Trust received approximately $98,759 (2008 - $95,057) in funding in respect of these licenses, which has been recorded as resident revenue. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

(c) Fair value hierarchy:

The following table presents, for each of the fair value hierarchy levels as defined in note 1(b)(iii), the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009:

	Fair value	Level 1	Level 2	Level 3
Liabilities:				
Derivatives	$ 1,441	$ –	$ 1,441	$ –

25. Capital structure financial policies:

The Trust's primary objectives in managing capital are:

- to continue as a going concern and to provide returns to Unitholders;
- to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements by ensuring that the Trust complies with externally imposed capital requirements;
- to ensure that the Trust has sufficient capital to meet its targeted capital maintenance expenditures;
- to ensure that the Trust has sufficient capital to meet its internal growth requirements; and
- to ensure that the Trust has access to sufficient capital for strategic acquisitions.

In managing its capital structure, the Trust takes into consideration various factors, including changes in economic conditions, growth of its business and risk characteristics of the underlying assets.

Management defines capital as the Trust's total unitholders' equity and long-term debt. The Trust's long-term debt primarily includes mortgages payable and convertible debentures. The issued and outstanding convertible debentures may be converted into Trust Units at the option of the holder at the specified conversion price. At the maturity date, the Trust may elect to issue units in lieu of cash to satisfy its convertible debenture obligations. The Trust has access to a revolving Credit Facility that is secured by first and second charges on certain of its properties.

The Board of Trustees is responsible for overseeing the Trust's capital management and does so through quarterly Trustees' meetings, review of financial information and regular communication with officers and senior management of the Trust. The Board of Trustees also reviews on a quarterly basis the level of any distributions that should be made. The Trustees of the Trust are required to make distributions to all Trust Unitholders in accordance with the Declaration of Trust, as amended, at a minimum equal to, on an annual basis, its net income for tax purposes.

In order to maintain or adjust the capital structure, the Trust may issue new units, buy back units, issue new debt or issue new debt to replace existing debt with different characteristics, adjust the amount of distributions paid to Unitholders or by undertaking other activities as deemed appropriate under specific circumstances.

The Trust monitors capital based on the debt to adjusted gross book value ratio.

The Trust's strategy for capital management is driven by policies stated under the Declaration of Trust and external requirements from certain of its lenders. There have been no changes in the Trust's capital management strategy during the year.

The following are the debt leverage ratios at December 31, 2009 and 2008:

	2009	2008	Increase (decrease)
Debt to adjusted gross book value ratio (excluding convertible debentures)	53.4%	55.2%	(1.8)%
Debt to adjusted gross book value ratio (including convertible debentures)	59.9%	61.7%	(1.8)%

Debt includes guarantees and is determined on a consolidated basis for the Trust and its consolidated subsidiaries.

Adjusted gross book value means, at any time, the consolidated book value of the assets of the Trust, as shown on the Trust's most recent consolidated balance sheets (or if approved by a majority of the Independent Directors of the General Partner at any time, the appraised value thereof), plus the amount of accumulated depreciation and amortization shown thereon or in the notes thereto less the carrying value of any deferred consideration on business combinations in the notes thereto.

The debt to adjusted gross book value ratio at December 31, 2009 decreased primarily due to the issuance of additional equity pursuant to public offerings.

26. Guarantees:

At December 31, 2009, Chartwell remains as a guarantor on the debt of one property to a maximum amount of $6,098 (2008 - $18,008). The guarantee is in relation to the property that was sold to Spectrum. Spectrum has indemnified Chartwell for the guarantee and pays an annual guarantee fee.

27. Subsequent events:

Subsequent to December 31, 2009, Chartwell purchased a parcel of land adjacent to one of its existing retirement properties from Melior for cash consideration of $1,750 which proceeds were used to discharge the mortgage debt on this property.

28. Comparative figures:

Certain 2008 figures have been reclassified to conform with the financial statement presentation adopted in 2009.

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