CHARTWELL SENIORS HOUSING REIT

2008 ANNUAL REPORT

As North America's most trusted name in seniors housing we are well-positioned to deliver value over the long term…

PROFILE

Chartwell is a real estate investment trust focused on generating sustainable, stable and growing cash distributions from owning and managing a complete range of seniors housing communities. It is the largest participant in the Canadian seniors housing business and the third-largest 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.

OUR VISION

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

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.

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FINANCIAL HIGHLIGHTS

in thousands of Canadian dollars, except per unit amounts

Period ended December 31	**2008**	2007
REVENUES		
Property Revenue	695,970	604,195
Mezzanine Loan Interest	11,387	13,342
Management and Other Fees	9,092	14,180
Other Income	8,860	13,320
Total Revenues	725,309	645,037
Normalized Funds from Operations ("NFFO")[1]	73,411	75,939
Normalized Funds from Operations per unit (diluted)	0.73	0.80
Adjusted Funds from Operations ("AFFO")[1]	65,248	68,395
Adjusted Funds from Operations per unit (diluted)	0.64	0.72
Distributions Declared	79,265	100,984
Distributions Declared per unit	0.79	1.07
Weighted Average Units Outstanding (diluted)	101,185	94,950

(1) Refer to the "Key Performance Indicators" section of the Management's Discussion and Analysis for a discussion of the nature of various adjustments made in the calculation of NFFO and AFFO.

OPERATING HIGHLIGHTS

Same property net operating income up 3.8%

Strong weighted average occupancy of 93.1%, excluding internal growth suites

General, administrative and trust expenses improved to 2.6% of revenues on a normalized basis

Normalized adjusted funds from operations of $0.72 per unit diluted exceeds guidance*

Well-balanced mortgage portfolio with no U.S. maturities until 2013

* Adjusted funds from operations excluding provision for impairment of mezzanine loans.

CHARTWELL'S KEY STRENGTHS

As North America's most trusted name in seniors housing, the Chartwell brand is recognized for providing the highest levels of care, service and respect for today's seniors and their families.

1 Our properties continue to perform well

Same property revenues and net operating income continue to grow, driven by enhanced occupancies, higher average rents, and the introduction of new products and services to our residents.

2 Prudent management of financial resources to meet our targets

With debt leverage ratios within our target range, a low weighted average interest rate and an extended term to maturity for our mortgage portfolio, we continue to prudently manage our financial resources to support the execution of our value-enhancing strategies.

3 Demand is driven by a rapidly growing seniors population

Despite the current challenging economic times, we believe seniors housing is a defensive asset class with powerful demographic trends, a healthier and wealthier target market, and reduced new supply coming into the market.

4 A positive future

We believe our considerable growth over the past five years, combined with our proven value-enhancing programs and strategies, will deliver steady growth in AFFO per unit over the long term.

Note: This page contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section of the Management's Discussion and Analysis ("MD&A").

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

The majority of our properties are less than ten years old, and continual upgrades and ongoing investments ensure 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.

We made solid progress in 2008 toward our goal of increasing the percentage of total AFFO from our property operations. Our portfolio performed well during the year, and with our strong presence in a defensive asset class, we look for further performance improvements in the years ahead.

Our Businesses Performed Well

Our initial objective when we entered the public capital markets in 2003 was to expand aggressively and consolidate what was a highly fragmented North American seniors housing business. Over the next four years we invested approximately $2 billion in acquisitions, transforming Chartwell into the largest owner and operator of seniors housing communities in Canada, and the third-largest in North America. Our focus on aggressive growth was a deliberate strategy aimed at building our portfolio and achieving the necessary size and scale to generate value for our Unitholders.

Having accomplished our growth objective, in 2008 we re-focused our efforts on capturing all of the available economies of scale and operating synergies that had resulted from our considerable portfolio expansion over the prior three years. Our goal was to generate strong and sustainable organic growth on an annual basis, as measured by increased Adjusted Funds from Operations ("AFFO") per unit, through the efficient management of our operations.

We were pleased with the positive trends demonstrated by our property operations in 2008. Same property revenues and same property net operating income increased, driven primarily by enhanced occupancies, higher average rents, and the introduction of new products and services to our residents. As a result, AFFO improved through the year, and not including a one-time loan impairment charge taken in the fourth quarter, we exceeded our guidance by delivering pre-tax AFFO of $0.72 per unit. With continuing strong demand for high-quality retirement residences across North America, we expect to build on the progress achieved in 2008 in the years ahead.

Most importantly, the Chartwell brand is now recognized for providing

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

Jonathan Boulakia
Executive Vice President and General Counsel

Karen Sullivan
Executive Vice President, People

Vlad Volodarski
Chief Financial Officer

Brent Binions
President

Stephen Suske
Chief Executive Officer and Vice Chair

Richard Noonan
Chief Operating Officer

Terry Whalen
Chief Investment Officer

Sheri Annable
Executive Vice President, Finance and Administration

Phil McKenzie
Executive Vice President, Marketing and Public Relations

the highest levels of care, service and respect for today's seniors and their families. Chartwell has also become the employer of choice in the seniors housing business with a dedicated and experienced team of people who truly enjoy caring for today's senior.

Looking ahead, our portfolio is well-positioned to meet the needs of our markets over the long term. The majority of our properties are, on average, less than ten years old, a distinct competitive advantage in the marketplace. The diversification of our portfolio, which includes a large proportion of higher-margin independent supportive living communities, also favours the growing baby boom generation who will increasingly be seeking the high-quality accommodation and services provided by a Chartwell community.

We were also very pleased that, despite our considerable growth over the past five years, our general, administrative and trust expenses ("G&A") have stabilized. We believe we now have the people, the assets, the infrastructure and the strategies to continue delivering solid and sustainable growth in AFFO per unit over the long term.

Prudent Management of Financial Resources to Meet our Targets

Our financial position is stable and our debt portfolio is well-managed. With debt leverage ratios within our target range, a low weighted average interest rate and an extended term to maturity for our mortgage portfolio, we continue to prudently manage our financial resources to support the execution of our value-enhancing strategies 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.

The Board of Directors, management and staff of Chartwell extend their sincere thanks to Stephen Suske who will be stepping down as CEO and Vice Chair on April 30, 2009. As one of the REIT's founders, Steve played a key role in establishing and growing Chartwell, and was instrumental in assembling a talented and experienced management team dedicated to providing the highest levels of care and service in all of our communities across North America. We wish Steve all the best in his future endeavours. Brent Binions will assume CEO responsibilities on May 1, 2009.

A Strong North American Portfolio

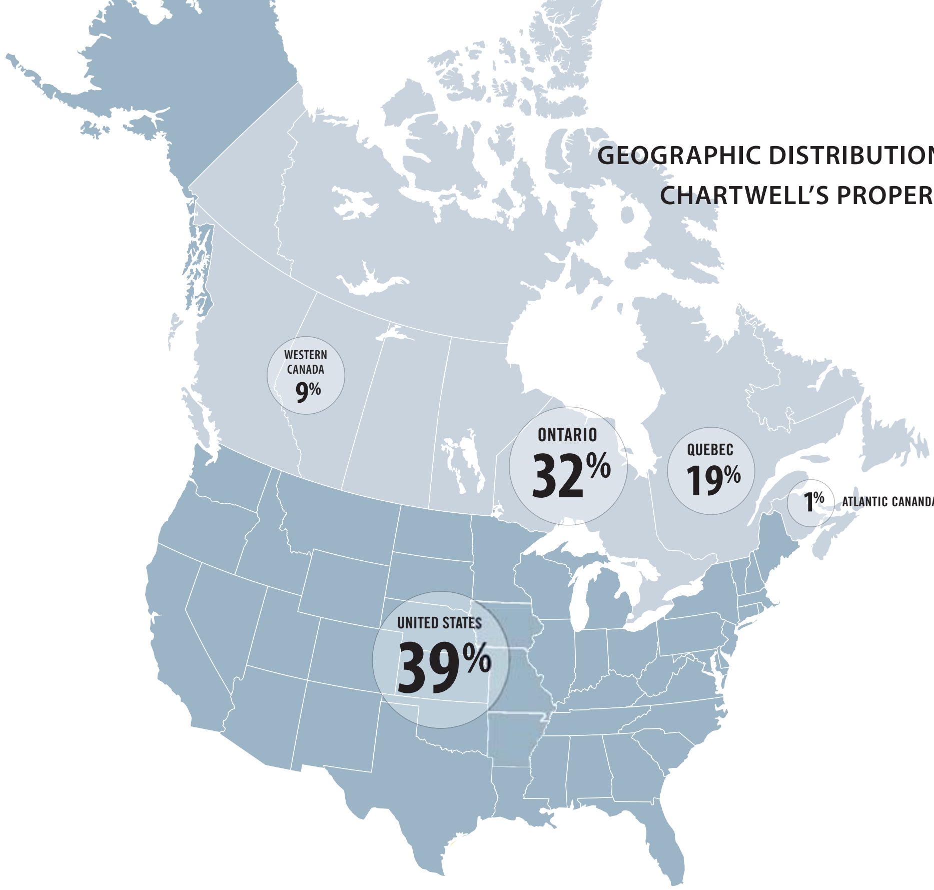
Chartwell's modern and high-quality portfolio is well-positioned in most major markets across Canada and the United States.

CANADA	
Owned Suites	15,559
Managed Suites	1,592
Under Development	6,168
Total Canadian Suites (61%)	23,319

UNITED STATES	
Owned Suites	7,046
Leased Suites	5,859
Managed Suites	2,426
Total U.S. Suites (39%)	15,331
Total	**38,650***

* Includes suites under renovation, partially owned or under contract

GEOGRAPHIC DISTRIBUTION OF CHARTWELL'S PROPERTIES



Importantly, with continued access to Canada Mortgage and Housing Corporation ("CMHC") insurance, we have the ability to finance our maturing and new Canadian mortgages on favourable terms that will result in considerable interest savings. For example, in the first quarter of 2009 we completed financings for new and maturing mortgages totalling approximately $57.1 million at a weighted average interest rate of approximately 3.39%, significantly lower than the weighted average rate of 5.2% on the maturing mortgages. These financings also raised approximately $9.6 million in cash through new and top-up mortgages, funds that will be used to further enhance our financial position.

Looking ahead, approximately 85% of our remaining maturing mortgages in 2009 are CMHC-insured, and we have no U.S. debt maturing until 2013. We believe our conservative debt profile, and our manageable refinancing requirements over the next two years, will enable us to manage effectively through the current tight credit market conditions and will also allow us to generate significant savings in our interest costs.

Seniors Housing – A Defensive Asset Class

As we enter 2009, we recognize that the challenging economic conditions experienced through the last half of 2008 will continue to affect consumers and businesses. However, we do not believe these factors will have any material impact on our ability to meet our goal of steady performance improvements this year and going forward.

The decision to move into a seniors residence is, for the most part, a needs-based decision and not discretionary. The average age of our residents is approximately 84 years, and they and their families recognize that the safety and security provided by a seniors community, as well the sense of companionship and community found in a Chartwell residence, all combine to enhance the quality of life for today's senior.

In addition, the majority of seniors today are healthier and wealthier than ever before. Our market consists primarily of seniors who have been mortgage-free for over twenty years and who have built considerable equity in their homes. Federal pensions in both Canada and the United States are sufficient to cover more than one-third of the monthly cost of residing in a Chartwell community, and most residents have the financial resources to pay our fees and absorb annual increases. As a result, we believe demand for our services will remain stable despite the challenging economic times we are currently experiencing.

We are also confident that our long-term care business will be immune to any economic slowdown or recession. Primarily government-funded, demand for long-term care remains very high; in Ontario alone there is a current waiting list for long-term care homes that exceeds 24,000 people.

In addition, it is no secret that powerful demographic trends are on our side as the seniors population in North America is expanding at three to four times faster than the general population. With little new supply of seniors housing coming on-stream due to tight credit conditions for property developers, we believe demand for the high-quality accommodations and services that we provide will continue to grow for the foreseeable future.

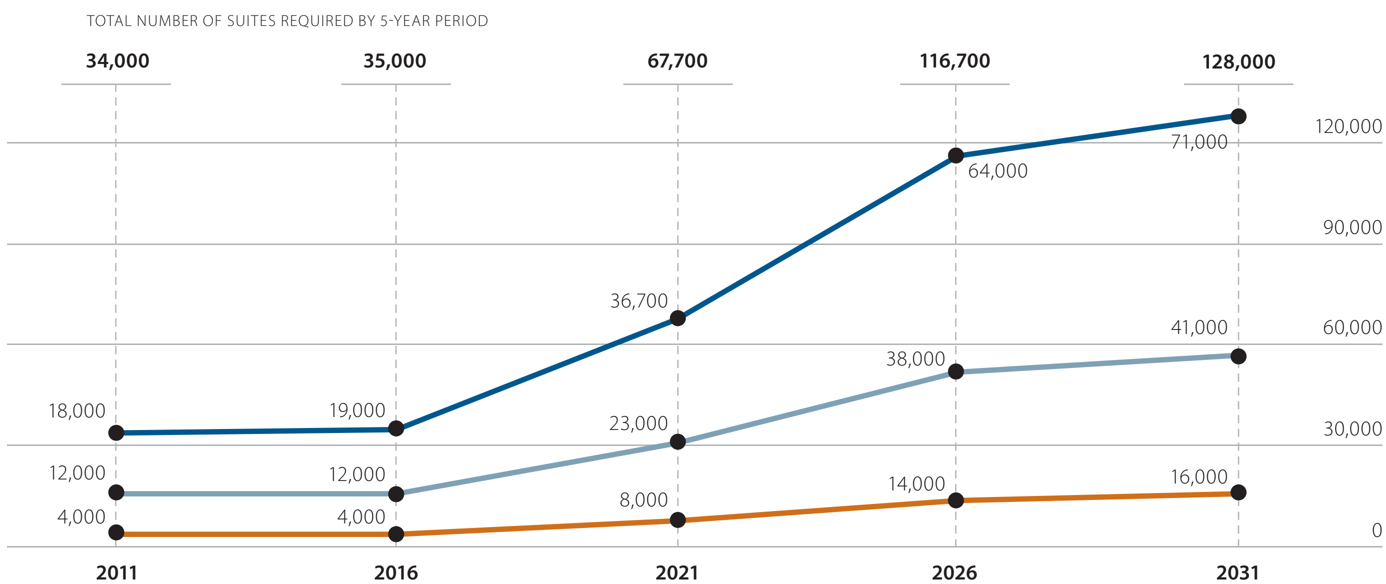
More than 800 contestants from across Canada entered Senior Star Competition!

In honour of Seniors Month in June, regional contests are held across Canada in Chartwell residences, community centres and auditoriums. Senior Star contests are open to Canadian residents 65 and over. Contestants do not have to be living in a Chartwell residence. The third annual regional competitions will take place in June 2009. "The quality of talent this past year was spectacular. It was a very difficult task to pick the best out of the amazing ten finalists. In the end, it was the power and grace of Lloyd Knight's voice that won us over," said Dan Clancy, lead singer of famed Canadian band Lighthouse.

Significant Future Demand in Canada

INDEPENDENT SUPPORTIVE LIVING | ASSISTED LIVING | LONG-TERM CARE

The seniors population is growing at a rate three to four times faster than the general population. To maintain current supply ratios, on average, 125 new 120-suite communities will be required annually between now and 2031.



Source: Care Planning Partners Inc. and Statistics Canada

Chartwell Offers a Full Spectrum of Care Today's seniors are wealthier, healthier and wiser than ever before. To meet increasing demand for high-quality seniors residences, Chartwell's modern and well-appointed property portfolio offers larger suites and more programs and services, all supported by people committed to the highest levels of care and services.

	INDEPENDENT SUPPORTIVE LIVING ("ISL")	ASSISTED LIVING ("AL")	LONG-TERM CARE ("LTC")
Chartwell Suite Mix	**70%**	**15%**	**15%**
Occupancy Levels	90 – 95%	90%	97 – 100%
Operating Margins	40 – 55%	30 – 40%	12 – 18%
Monthly Fees	$900 – $5,000	$1,900 – $5,000	$3,837 – $4,384
Government Funding	$0	$0	$2,300 (incl. above)
Capitalization Rates (Cdn)*	7.00 – 8.00%	8.00 – 9.00%	7.50 – 9.50%

* Cap Rates apply to standalone purchases only.

A Positive Future

Looking ahead, we are confident 2009 will be a turning point for Chartwell. We expect to continue our track record of strong operating performance, which, over time, will result in enhanced returns to our Unitholders. Our communities are modern and state-of-the-art, and our ongoing commitment to invest approximately 2% of property revenue ensures our communities will remain the destination of choice for seniors looking for quality, comfort, safety and security. Our experienced and proven operational teams are also the best in the industry, dedicated to providing the highest levels of care and service to our residents.

Early in 2009 we acquired a 50% interest in four state-of-the-art seniors housing communities from Spectrum, a third-party development partner. These brand new communities, designed to the highest standards, possessed high occupancies at the time of acquisition, and we expect these properties will make a solid contribution to our AFFO per unit in 2009. In addition, new property management contracts won by our U.S. partner Horizon Bay will also contribute to performance improvements in 2009.

Finally, our stable financial position and positive business outlook, together with continued access to CMHC-insured financing, provides us with the ability to capitalize on the current low interest rate environment to generate significant reductions in our interest costs.

In closing, we want to thank everyone at Chartwell for their hard work and dedication over the last year. 2008 was a transitional year for the REIT, and we are very proud of everything we accomplished. Most importantly, the effort and commitment from all of our people have positioned us strongly to capitalize on the significant progress made over the last year and to generate real value for our Unitholders over the long term.

Stephen A. Suske
Chief Executive Officer and Vice Chair

W. Brent Binions
President

Our Corporate 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

FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition
For the Years Ended December 31, 2008 and 2007

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 Unitholders' understanding of the financial results for the year ended December 31, 2008.This MD&A should be read in conjunction with Chartwell's audited financial statements for the years ended December 31, 2008 and 2007 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 17, 2009.

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; "2008" refers to the twelve months ended December 31, 2008; and "2007" refers to the twelve months ended December 31, 2007.

Unless otherwise indicated, all comparisons of results for Q4 2008 are in comparison to results from Q4 2007 and all comparisons of results for 2008 are in comparison to 2007.

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

Business Overview

Chartwell commenced operations on November 14, 2003 following the completion of its Initial Public Offering. Chartwell did not hold any material assets prior to November 14, 2003.

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. Chartwell indirectly owns and manages a portfolio of seniors housing communities across the complete spectrum of care from independent living communities ("IL Communities"), through retirement homes ("Retirement Homes"), to long-term care communities ("LTC Communities"), which are located in Canada and the United States. All references to "Chartwell", "we" 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 development management business. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust. As of December 31, 2008, Chartwell's portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 38,650 suites in 270 communities which are operating, under construction or in various stages of development. Chartwell's portfolio of owned and leased communities consisted of interests in 28,464 suites in 203 communities.

Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of our clients and the demands of their local marketplace.

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 life long learning
Commitment We value commitment to the Chartwell family
Trust We believe in keeping our promises and doing the right thing

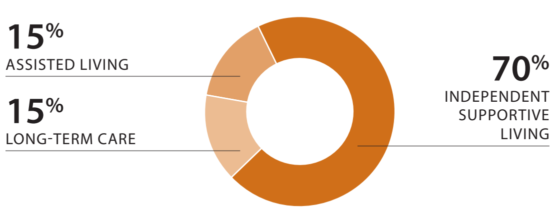
The following is the composition of Chartwell's owned, leased and managed portfolio of seniors housing communities in its four operating segments at December 31, 2008:

	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	98[2]	11,832	16	1,779	23	2,294	–	–	137	15,905
50% Owned	2	248	11[3]	1,700	26[4]	4,752	–	–	39	6,700
Total Owned	100	12,080	27	3,479	49	7,046			176	22,605
PROPERTIES UNDER OPERATING LEASE:										
100% Interest	–	–	–	–	2	237	–	–	2	237
49% Interest	–	–	–	–	25	5,622	–	–	25	5,622
Total Leased	–	–	–	–	27	5,859	–	–	27	5,859
Total Owned and Leased	100	12,080	27	3,479	76	12,905	–	–	203	28,464
OTHER:										
Managed Properties	–	–	–	–	8	2,426	48[6]	5,765	56	8,191
Mezzanine Loans[5]	–	–	–	–	–	–	11	1,995	11	1,995
Total Other	–	–	–	–	8	2,426	59	7,760	67	10,186
Total	100	12,080	27	3,479	84	15,331	59	7,760	270	38,650

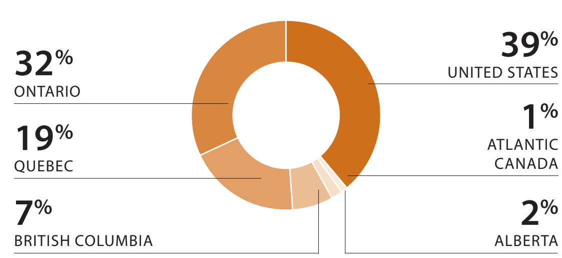
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Canadian Retirement Operations includes expansions of 105 suites under construction at two communities.
(3) Canadian Long-Term Care Operations includes three communities (315 suites) currently in the planning stage of development.
(4) United States Operations includes one community (98 suites) currently under development.
(5) Includes communities on which we have mezzanine loans outstanding and retain purchase options.
(6) Chartwell holds purchase options on 26 of these properties.

Composition of Portfolio of Owned, Leased and Managed Suites at December 31, 2008 by:

Level of Care

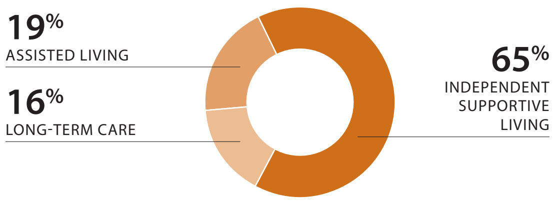


Geographic Location

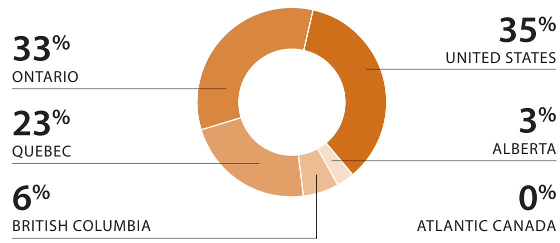


Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Interest at December 31, 2008 by:

Level of Care



Geographic Location



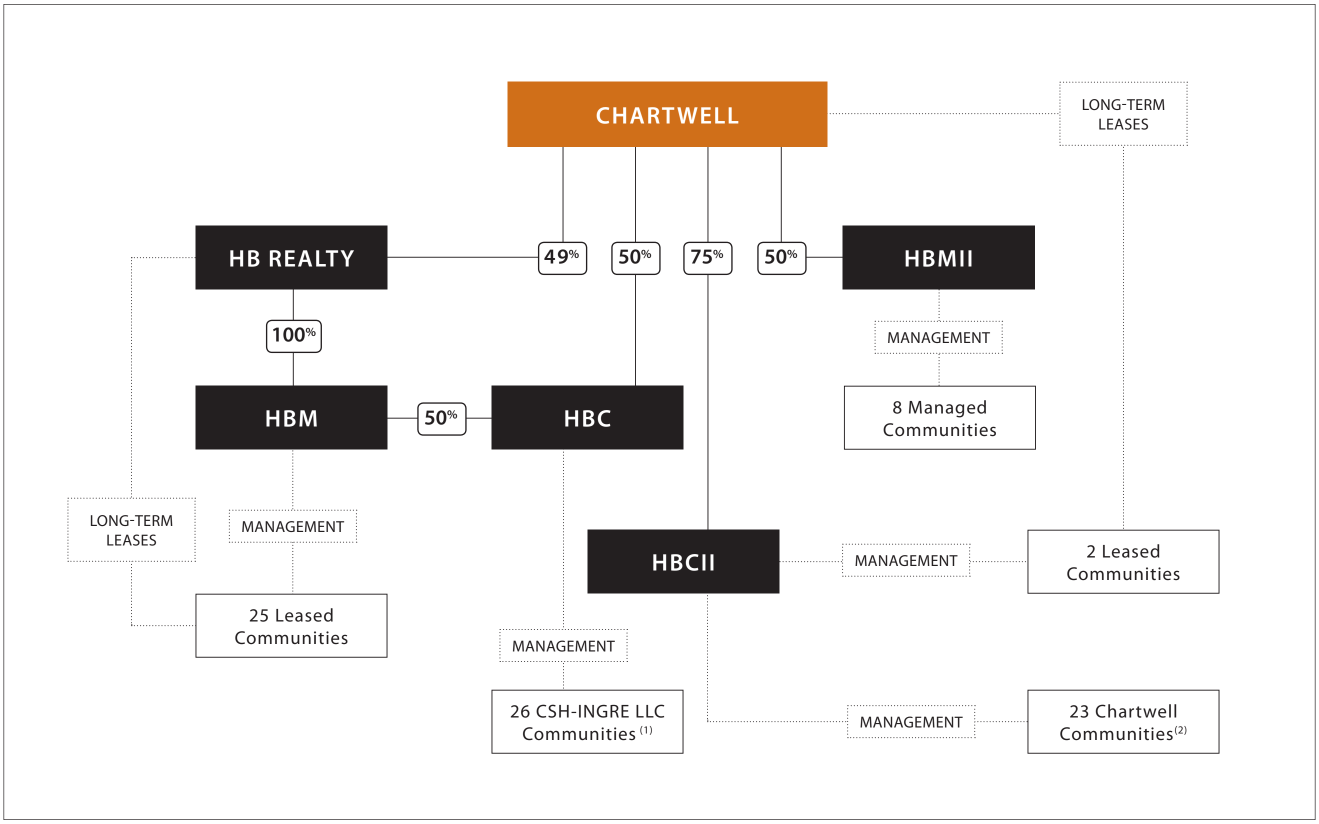
Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development program carried out by Spectrum Seniors Holdings LP ("Spectrum"), formerly Spectrum Seniors Housing Development LP, a development entity in which certain of the Trust's senior executives have an ownership interest. Chartwell provides mezzanine financing to Spectrum and to certain of Spectrum's joint venture partners for the development of seniors housing communities. In return, Chartwell has the ability to purchase Spectrum's interest in such communities, when stabilized, at a discount to the appraised value. Stabilization occurs when a community has had an average suite occupancy rate of 90% or greater for the three preceding calendar months. As part of its seniors housing operations and development management business, Chartwell also provides management, financing, and advisory services, for a fee, to Spectrum and its joint venture partners in respect of their communities and development program. In Q1 2009, Chartwell acquired Spectrum's interest in four communities and agreed to a limited waiver of its option to purchase additional seniors housing properties from Spectrum in order to facilitate the potential sale of such facilities by Spectrum to third parties. Chartwell is entitled to 5% of the purchase price, net of transaction costs of any such properties that are sold to third parties pursuant to Chartwell's limited waiver.

Chartwell also provides mezzanine financing to entities affiliated with Le Groupe Melior ("Melior") and its joint venture partners to develop seniors housing communities. Chartwell has a right to purchase these communities upon stabilization at their fair market value. Melior and its joint venture partners can require Chartwell to acquire their interests in 12 of these projects at their appraised value, subject to the satisfaction of certain conditions. The put option can only be exercised by the borrower if the project has attained stabilized occupancy and the acquisition of such project is accretive to Chartwell based on a formula defined in the option agreements.

Chartwell also provides due diligence project management and asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited (collectively with its affiliates: "ING"). At December 31, 2008, Chartwell and ING each held a 50% interest in CSH-INGRE LLC ("CSH-INGRE"), which owned 26 seniors housing communities (4,752 suites) in the United States. In addition, Chartwell and ING each owned a 50% interest in 11 seniors housing communities (1,700 suites) in Canada.

In 2007, Chartwell acquired a 49% interest in Horizon Bay Realty LLC ("HB Realty"), which, through its subsidiaries, owns leased interests in 25 seniors housing communities (5,622 suites). In addition, one of its subsidiaries – Horizon Bay Management LLC ("HBM") – owns long-term management contracts for these 25 communities. In addition, Chartwell owns 50% of HBMII which manages eight communities for third-party owners. HBM owns a 50% interest in Horizon Bay Chartwell LLC ("HBC"), a manager for CSH-INGRE properties in the United States. The remaining 50% interest in HBC is owned directly by Chartwell. Chartwell's wholly-owned properties in the United States are managed by HBCII Manager LLC ("HBCII"). Chartwell owns a 75% interest in HBCII.

The following chart shows the structure of Chartwell's U.S. portfolio:



(1) Management of five of these communities is currently performed by Ultimate Care Senior Living with financial management services provided by HBC.
(2) Management of one of these communities is currently performed by Merrill Gardens due to regulatory requirements.

2009 Outlook*

Over the last five years Chartwell has 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 with the majority of our properties less than 10 years old; 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. Chartwell's growth has also been based on the strong fundamentals present in the North American seniors housing market. Significant demand is being driven by powerful demographic trends that are resulting in the seniors population growing at approximately three to four times the general population.

Recognizing that Chartwell has reached a significant size and critical mass, our main objective is to generate strong and sustainable organic growth on an annual basis, as measured by increased Adjusted Funds from Operations ("AFFO") per unit, through a continued focus on the efficient management of our operations and assets, and ensuring we capture all of the available economies of scale and operating synergies resulting from our growth while maintaining and improving upon our high levels of service to residents.

During 2008, both the Canadian and U.S. capital markets experienced a high degree of volatility. Canadian economic growth slowed substantially and the U.S. recession has continued while credit markets have become tighter.

We believe seniors housing has historically been a defensive asset class due to the following factors:

- Corporate earnings do not directly affect demand or the financial ability of seniors to live in our communities. Demand for seniors housing is more closely linked to the care needs of seniors than their ability to pay.
- Seniors' sources of income are generally more stable due to the typically lower risk profile and sources of income at this stage of life. At Chartwell, our target market is the over 75-year-old senior whose income is typically dependent on inflation indexed pensions and fixed income investments. However, a component of their income may be reduced due to the current low interest rate climate.
- In addition, this current market cycle may affect seniors' overall net worth through a potential reduction in the value of their primary residence relative to what might have been realized on disposition over the last few years. Our target market has generally experienced very high capital appreciation in their primary residence from the time of their original purchase. We are finding that the disappointment experienced in realizing lower values on the sale of their primary residence appears to be delaying the decision to live in our supported environment in several markets in the U.S. and certain localized regional markets in Canada, but does not ultimately result in a decision not to join our community.
- Our residents are retired and as a result are generally not affected by layoffs and other employment security issues; nor do our residents move because of job transfers.
- Our communities are more than just bricks and mortar; they are the home in which our residents often spend the rest of their lives. Their fellow residents are their neighbours and their social network. Our staff provides the care and support that residents need to live with dignity and respect. This community environment makes it much less likely that residents will choose to leave for the competition or go back into a non-supported living environment. This is borne out by the fact that multi-family properties experience a turnover in the range of 55% to 65% while our turnover rates are far below this in the range of 30% to 40%, with much of this being attributed to residents' passing or moving to long-term care.
- Demand for our communities is needs-driven and Chartwell's strategy is to offer a comprehensive continuum of care in the markets we serve. We are not in the market to provide discretionary hotel-style seniors living. We are in the market to provide care and services to our residents in high-quality real estate. The majority of our portfolio is less than 10 years old and offers state-of-the-art buildings that meet and exceed the needs of today's discriminating senior. We continuously strive to exceed resident expectations for quality of life, addressing frailties and physical needs effectively and respectfully. We believe our reputation as the most trusted name in seniors housing gives our properties a significant competitive edge. Our residents need our staff's helping hands and care; it is not a discretionary choice, and we treat our responsibility to deliver this care with the utmost respect.

The recession in Canada and particularly in the U.S. is deeper and is lasting longer than most expected. As described below, this economic climate is affecting our results and we are implementing measures to mitigate its effects.

Property Operations

Our occupancies are higher than industry averages and our management team continues to be focused on implementing innovative marketing strategies and tightly controlling labour and supply costs. We are dedicated to customer contact and quality of service and believe this gives Chartwell a competitive advantage. The following summarizes our Outlook for 2009 for the markets we operate in:

Canadian Operations

Our Canadian Retirement Operations continue to perform strongly. Overall occupancies in Ontario continue to increase, with the waiting list for Ontario long-term care greater than 20,000 creating a spillover effect to support occupancies in retirement homes. Alberta and British Columbia have

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

significant potential for future growth due to positive demographic trends. Occupancy levels are projected to continue to remain high in Alberta. Due primarily to temporary oversupply conditions in two regional markets in British Columbia, combined with reduced occupancies in one long-term care property, we have seen a decrease in occupancy. We do not expect this decline to continue and expect to return to steady growth levels beginning in Q2 2009. Cost reduction initiatives are being implemented to offset this reduced revenue.*

Our Quebec properties have returned to the higher occupancy levels experienced in January 2008. We entered the Quebec market acquiring a number of properties in good locations, many with potential for expansion projects or repositioning. The vast majority of construction that we began in 2007 is now complete. Two expansion projects were opened in Q3 2008 and are now in lease-up with another 72-suite expansion completed in Q4 2008. In addition, the majority of the newly renovated suites in our repositioning projects are now available and upgrades to amenities and common area spaces are completed, improving the properties' marketability as a whole. In addition, in certain local markets in Quebec, challenging market conditions persisted through 2008. We anticipate steady improvement in these markets in 2009.* With our acquisition of Melior's 50% interest in the Quebec properties and management functions on October 27, 2008, we can now operate our Quebec properties under one platform. Having full control over management of our Quebec operations allows us to improve occupancies, increase operating margins and take advantage of significant synergies. Since gaining full control of our Quebec portfolio, total occupied units have steadily been increasing. We expect to deliver solid performance improvements in the Quebec portfolio going forward, consistent with our track record in the balance of our portfolio. We continue to forecast recovery of occupancy to over 90% by the end of 2009 in Quebec.*

U.S. Operations

During Q2 2008, we began to find it more difficult in some of our U.S. properties than it had been in the past eighteen months to replace residents on normal turnover. We typically experience a seasonal occupancy dip during both the summer months and the early part of the year with normal rebounding in mid-September through November and mid-March through April in the spring from each seasonal drop, respectively. Consistent with these trends, our occupancies increased in Q4 2008 from Q3 2008, reflecting typical seasonality described above despite the difficult economic times. During Q1 2009, we have experienced our typical seasonal decline; however, as we expressed previously due to the current economic environment in the U.S. we cannot be confident of the typical spring increase in occupancy.* We continue to monitor this platform very closely and have implemented cost reduction initiatives to offset decreased occupancy.

In addition, our U.S. management team has sourced new operations and development management contracts and continues to pursue further management contracts and other opportunities to augment future earnings in our U.S. Management Operations.*

Liquidity and Debt Profile

- At December 31, 2008, we had $10.5 million of cash on hand.
- At December 31, 2008, our $90.0 million credit facility with $62.2 million borrowing capacity was drawn down by $8.0 million.
- Our debt leverage ratio is stable at 61.7% including convertible debentures, below the 65% limitation set by our Declaration of Trust.
- At December 31, 2008, we had $1.7 billion of mortgages payable with a weighted average term to maturity of 8.7 years and a weighted average contractual rate of 5.65%.
- At December 31, 2008, our 2009 debt maturities amounted to $147.3 million. Subsequent to the year end, $57.1 million of this maturing debt was refinanced at a weighted average rate of approximately 3.39%, lower than the rates on the maturing mortgages.
- Of the remaining $90.2 million mortgage maturities in 2009, approximately 85% are CMHC-insured. We expect to renew loans maturing in 2009 in due course.*
- We have no U.S. debt maturities until 2013.
- Given current economic uncertainties, we are taking steps to improve our liquidity including deferring discretionary capital and other expenditures and arranging upward financing on mortgage renewals.

Development Management Activities

- It is Chartwell's understanding that Spectrum's current plan calls for reduced development activity while it is pursuing sales opportunities on a number of its assets.
- In light of the current market conditions, we are reviewing the size and scale of our development management activities.

Management of General, Administrative and Trust Expenses

Through 2008 we have been very successful in strictly managing spending on our general, administrative and trust ("G&A") expenses. We continue to delay or cancel certain corporate activities and are actively reducing costs to the extent possible while ensuring that support to our field operations driving the business continues to be strong.

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

Summary

In summary, we expect to continue our track record of strong property operating performance. Our industry, and in particular, Chartwell's market segment of the seniors housing industry, offers many defensive characteristics. Our financial position is stable and our debt portfolio is well managed. We will be cautious, however, in these uncertain times, reducing discretionary capital and other expenditures and evaluating other options to improve our liquidity, including new mortgage financings.*

We believe that the outcome of the current economic climate will be positive in the mid-term for our sector as current significant reductions in new seniors housing starts due to tight credit markets will reduce supply from previously anticipated levels. Demographics show increasingly strong demand over time which, combined with lower supply, will result in very favourable market dynamics. As a result, for those industry participants that manage prudently through these difficult times, significant opportunities will be available.*

Significant Events

The following events have had a significant effect on our financial results in 2008 or may be expected to affect our results in the future.

Acquisitions

The following table summarizes acquisitions completed in 2008:

($millions)	First nine months of 2008	Q4 2008	2008
Number of communities	3(1)	7(3)	10
Number of suites	317(1)	1,230	1,547
Purchase price (including closing costs)	41.0	65.6	106.6
Financed as follows:			
Mortgage debt assumed	7.8	46.5	54.3
Discharge of mezzanine loans receivable	5.9	2.7	8.6
Cash	27.3	16.4	43.7
Total	41.0(2)	65.6	106.6

(1) Includes 80 suites in which Chartwell acquired the remaining 50% interest.
(2) Subsequent to closing, Chartwell arranged mortgage financing on one of the acquisitions in the amount of $21.8 million. The loan bears an interest rate of 4.71% and matures in April 2038.
(3) Includes 1,230 suites in which Chartwell acquired the remaining 50% interest.

2008 Acquisitions

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1.	Cite Jardin IIIA	Gatineau, QC	Retirement	January 9, 2008	173
2.	Chateau Gardens Elmira	Elmira, ON	Retirement	April 24, 2008	64
3.	Brookside Manor(1)	Kanata, ON	Retirement	May 29, 2008	80
4.	Residences St-Pierre(1)	Rouyn-Noranda, QC	Retirement	October 27, 2008	121
5.	La Monastere d'Aylmer(1)	Aylmer, QC	Retirement	October 27, 2008	273
6.	Residence Principale(1)	Cowansville, QC	Retirement	October 27, 2008	197
7.	Residence Notre-Dame de Hull(1)	Hull, QC	Retirement	October 27, 2008	224
8.	Le Domaine de Chateau de Bordeaux(1)	Sillery, QC	Retirement	October 27, 2008	153
9.	Marquis de Tracy II(1)	Sorel, QC	Retirement	October 27, 2008	137
10.	Marquis de Tracy I(1)	Sorel, QC	Retirement	October 27, 2008	125
Total 2008 Acquisitions					1,547

(1) Chartwell acquired the remaining 50% interest in these communities and CM Management LP, the management entity that provided management services to these homes as well as our other Quebec properties.

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

2007 Acquisitions

In 2007, Chartwell completed acquisitions of varying interests in 72 seniors housing communities described below. The aggregate asset value of these acquisitions and related management contracts amounted to approximately $911.0 million. Property specific debt associated with these acquisitions was approximately $551.8 million. The following table summarizes properties and leasehold interests acquired in 2007:

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1.-25.	HB Realty[1]	U.S. (various locations)	Retirement	January 1, 2007	5,631
26.	Bankside Terrace	Kitchener, ON	Retirement	February 1, 2007	91
27.	Queens Square Terrace	Cambridge, ON	Retirement	February 1, 2007	83
28.	Terrace on the Square	Waterloo, ON	Retirement	February 1, 2007	92
29.	Wellington Park Terrace	Guelph, ON	Retirement	February 1, 2007	116
30.	The Bristal at East Meadow[2]	East Meadow, NY	Retirement	February 21, 2007	121
31.	The Bristal at Westbury[2]	Westbury, NY	Retirement	February 21, 2007	140
32.	The Bristal at North Hill[2]	North Hills, NY	Retirement	February 21, 2007	141
33.	The Bristal at North Woodmere[2]	North Woodmere, NY	Retirement	February 21, 2007	118
34.	The Bristal at Massapequa[2]	Massapequa, NY	Retirement	February 21, 2007	120
35.	Trilogy LTC Residence	Scarborough, ON	Long-term care	February 23, 2007	197
36.	Conservatory Pond Retirement Residence[3]	Kingston, ON	Retirement	March 29, 2007	85
37.	Jardins de la Gare	Saint-Hyacinthe, QC	Retirement	April 27, 2007	296
38.	Merrill Gardens at Northport	Northport, AL	Retirement	April 30, 2007	78
39.	Merrill Gardens at Apache Junction	Apache Junction, AZ	Retirement	April 30, 2007	123
40.	Merrill Gardens at Chandler	Chandler, AZ	Retirement	April 30, 2007	88
41.	Merrill Gardens at Altamonte Springs	Altamonte Springs, FL	Retirement	April 30, 2007	95
42.	Merrill Gardens at Lutz	Lutz, FL	Retirement	April 30, 2007	85
43.	Merrill Gardens at Orange City	Orange City, FL	Retirement	April 30, 2007	84
44.	Merrill Gardens at Port St. Lucie	Port St. Lucie, FL	Retirement	April 30, 2007	82
45.	Merrill Gardens at Sarasota	Sarasota, FL	Retirement	April 30, 2007	146
46.	Merrill Gardens at Tamarac	Tamarac, FL	Retirement	April 30, 2007	95
47.	Merrill Gardens at Vero Beach	Vero Beach, FL	Retirement	April 30, 2007	104
48.	Merrill Gardens at Carrollton	Carrollton, GA	Retirement	April 30, 2007	69
49.	Merrill Gardens at Rome	Rome, GA	Retirement	April 30, 2007	69
50.	Merrill Gardens at Bossier City	Bossier City, LA	Retirement	April 30, 2007	84
51.	Merrill Gardens at Ten Oaks	Lawton, OK	Retirement	April 30, 2007	100
52.	Merrill Gardens at The Parkview	Memphis, TN	Retirement	April 30, 2007	128
53.	Merrill Gardens at Graham	Graham, TX	Retirement	April 30, 2007	68
54.	Merrill Gardens at Grand Prairie	Grand Prairie, TX	Retirement	April 30, 2007	85
55.	Merrill Gardens at N. Richland Hills	N. Richland Hills, TX	Retirement	April 30, 2007	105
56.	Merrill Gardens at Round Rock	Austin, TX	Retirement	April 30, 2007	68
57.	Merrill Gardens at San Antonio	San Antonio, TX	Retirement	April 30, 2007	112
58.	Merrill Gardens at San Marcos	San Marcos, TX	Retirement	April 30, 2007	68
59.	Merrill Gardens at Wichita Falls	Wichita Falls, TX	Retirement	April 30, 2007	69
60.	Merrill Gardens at Clearwater[4]	Clearwater, FL	Retirement	May 31, 2007	96
61.	Merrill Gardens at Lake Orienta[4]	Altamonte Springs, FL	Retirement	May 31, 2007	137
62.	Regency Care – The WaterFord[2]	Oakville, ON	Long-term care	June 30, 2007	168
63.	Regency Care – The WenLeigh[2]	Mississauga, ON	Long-term care	June 30, 2007	161
64.	Regency Care – The WestBury[2]	Etobicoke, ON	Long-term care	June 30, 2007	187
65.	Regency Care – The WoodHaven[2]	Markham, ON	Long-term care	June 30, 2007	192
66.	Regency Care – The WynField[2]	Oshawa, ON	Long-term care	June 30, 2007	172
67.	Regency Care – The WestMount[2]	Kitchener, ON	Long-term care	June 30, 2007	160

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
68.	Regency Care – The WillowGrove(2)	Ancaster, ON	Long-term care	June 30, 2007	169
69.	Regency Care – The Brant Centre(2)	Burlington, ON	Long-term care	June 30, 2007	175
70.	Chateau Vincent D'Indy	Montreal, QC	Retirement	July 23, 2007	96
71.	Rouge Valley Retirement Residence(3)	Markham, ON	Retirement	July 31, 2007	88
72.	Constantia Retirement Residence(2)(3)	Thornhill, ON	Retirement	November 15, 2007	121
Total 2007 Acquisitions					11,158

(1) Chartwell acquired a 49% leased interest and related management contracts for these communities, as they were acquired January 1, 2007. These leased properties are included in our Same Property Portfolio for analysis purposes in this MD&A.
(2) Chartwell acquired a 50% interest in these communities.
(3) These communities were acquired from Spectrum.
(4) Chartwell acquired a leased interest in these communities.

Internal Growth Initiatives

Chartwell is continuously seeking ways to improve its 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.

Completed Internal Growth Projects

Chartwell completed the following internal growth projects in 2006, 2007 and 2008:

Project	Location	Suites	Total Cost ($millions)	Debt ($millions)	Construction Completion	Leased Suites at December 31, 2008
2008						
Collegiate Heights Retirement Residence	Sault Ste. Marie, ON	32	6.7	4.3	Q3 2008	14
Residence Ste-Marthe	St. Hyacinthe, QC	135	14.8	10.5	Q3 2008	57
Manoir Pierrefonds	Montreal, QC	83	9.8	7.0	Q3 2008	9
Maison Herron	Dorval, QC	72	9.7	5.4	Q4 2008	–
Total 2008		322	41.0	27.2		80
2007						
Birchwood Retirement Residence	Chilliwack, BC	12	2.5	2.5	Q4 2007	12
Hartford Retirement Centre	Morrisburg, ON	22	5.9	5.5	Q3 2007	22
Total 2007		34	8.4	8.0		34
2006						
L'Oasis	St. Jean, QC	86	14.5	10.4	Q4 2006	69
Marquis de Tracy II, Ph II(1)	Sorel, QC	72	10.0	7.7	Q4 2006	36
New Edinburgh Square	Ottawa, ON	16	3.6	1.0	Q1 2006	16
Total 2006		174	28.1	19.1		121
Total		**530**	**77.5**	**54.3**		**235**

(1) During Q4 2008, Chartwell acquired the remaining 50% interest in this community.

Internal Growth Projects in Progress

There are currently three internal growth projects (203 suites) in various stages of development, as follows:

Project	Location	Suites	Estimated Total Cost ($millions)*	Estimated Construction Financing ($millions)*	Estimated Construction Completion*
CANADA					
Quail Creek Retirement Centre	Renfrew, ON	34	6.3	5.5	Q2 2009
Carrington Place	Vernon, BC	71	10.9	9.2	Q1 2010
Total Canada		105	$17.2	$14.7	
UNITED STATES					
Gayton Terrace[1]	Richmond, VA	98	U.S.$ 22.1	U.S.$ 17.7	Q2 2009
Total United States		98	U.S.$ 22.1	U.S.$ 17.7	

(1) Chartwell owns a 50% interest in this property.

We are currently in the planning stage of construction of 315 suites in three Ontario sites. In addition, we have identified further potential to add over 1,100 suites at our communities in the markets with significant demand for new seniors housing suites. We will continue our evaluation of these internal growth projects in 2009.*

Mezzanine Loans

The following table summarizes the changes in our investments in mezzanine loans for the years ended:

($millions)	2008	2007
Gross mezzanine loans outstanding (beginning of period)	**112.0**	101.3
Advances in the period to Spectrum, Melior and their joint venture partners	**8.5**	17.9
Discharge of mezzanine loans on our acquisition of an interest in the related properties	**(8.6)**[2]	(3.8)[1]
Other repayments of mezzanine loans	**(3.8)**	(3.4)
	108.1	112.0
Fees, net of costs recorded as a reduction of mezzanine loan balances	**(4.9)**	(4.4)
Provision for impairment of mezzanine loans	**(6.4)**	–
Gross mezzanine loans outstanding (end of period)	**96.8**	107.6

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

With the continuing deterioration of general credit conditions affecting the availability of debt for development, completion of three development projects in Quebec on which Chartwell advanced mezzanine loans to Melior became uncertain. In Q4 2008, the borrower failed to make interest payments on these three loans. The investment in these three loans was $10.5 million, net of unamortized placement fees of $2.5 million. Chartwell obtained independent valuations of the underlying security for these mezzanine loans and recorded a provision for impairment of mezzanine loans of $6.4 million before future tax recoveries. Chartwell is working with Melior on settlement arrangements for these loans, failing which we will exercise our rights under the loan agreements.*

Offerings of Trust Units and Convertible Debentures

On April 20, 2007, Chartwell completed a public offering of Trust Units and convertible debentures. Including the over-allotment option exercised by the underwriters on May 17, 2007, Chartwell issued 16.2 million Trust Units at $14.25 per unit and $75.0 million of convertible subordinated unsecured debentures, bearing a 5.9% coupon, $16.25 conversion price and maturing on May 1, 2012 (the "5.9% Convertible Debentures"). The net proceeds from this offering of approximately $291.5 million, net of issue related costs of approximately $14.5 million, were used to finance certain acquisitions, to advance certain mezzanine loans and for general business purposes.

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

Taxation Related Matters

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT" and together with the legislation, the "SIFT Rules") received Royal assent. A SIFT includes certain publicly-listed or traded partnerships and trusts, such as an income trust and a real estate investment trust (a "REIT").

Under the SIFT Rules, the new taxation regime does not apply to a REIT that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Chartwell does not meet the REIT Conditions and therefore is a SIFT.

Under the SIFT Rules, following a transition period for SIFTs existing on October 31, 2006, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. In 2008, 100% of Chartwell's distributions were non-taxable returns of capital compared to approximately 97.7% in 2007.

A SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") is subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain safe harbour limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). On April 20, 2007, Chartwell issued equity capital in excess of these Safe Harbour Limits. Therefore, commencing in fiscal 2007, Chartwell became subject to tax on certain income.

A flow-through subsidiary of Chartwell may also have been considered a SIFT prior to December 31, 2008. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. Enabling legislation received Royal assent on March 12, 2009. The technical amendment to the SIFT definition excludes trusts and partnerships whose equity is not publicly traded, and/or is wholly-owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. A subsidiary partnership of Chartwell may not meet this ownership requirement and therefore this entity may be a SIFT. Due to this uncertainty, we have provided for SIFT tax on the taxable income of this subsidiary and have recorded a current income tax provision of $0.6 million for 2008 and $1.8 million for 2007. This entity has been restructured such that it will not be subject to SIFT tax 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, Chartwell's 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. 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 uses Chartwell's publicly traded unit price to determine fair value; the multiples approach uses comparable market multiples to arrive at a fair value; and the discounted cash flow method uses revenue and expense projections and risk-adjusted discount rates.

As described in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair value is highly subjective and requires management to exercise a significant amount of judgment in determining future growth, discount and capitalization rates among other factors. Consequently, given the uncertainty in the current economic environment, Chartwell has relied on the publicly traded market price of Chartwell units as at December 31, 2008 allocated to each reporting unit based on 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 this 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 $64.5 million.

The impairment related to the following segments:

($millions)	Value of Goodwill before Impairment	Impairment Provision	Goodwill Balance as at December 31, 2008
Canadian Retirement Operations	33.3	33.3	–
Canadian Long-Term Care Operations	2.7	2.7	–
U.S. Operations	16.9	16.9	–
Canadian Management Operations	11.6	11.6	–
Total	64.5	64.5	–

Distributions

Chartwell intends to manage its distributions over time to a level which will allow Chartwell to continue to fund the maintenance of its properties to the high standards to which our residents are accustomed, while providing an appropriate reserve to recognize the operating nature of Chartwell's business and allow funds to be allocated to the growth and enhancement of the portfolio.*

Effective with the payment to Unitholders for March 2008, which was paid on April 17, 2008, cash distributions were reduced to $0.74 per unit per annum from the previous level of $1.065 per unit per annum.

Key Performance Indicators

Chartwell uses a number of key performance indicators for monitoring and analyzing its financial results. 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. Key financial performance measures are described below.

Funds from Operations

Funds from Operations ("FFO") is not a recognized measure under 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, Chartwell presents 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 the operating results of Chartwell. Management generally considers FFO to be a useful measure for reviewing Chartwell's 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 Chartwell's consolidated financial statements.

Normalized Funds from Operations

In addition to presenting FFO in accordance with the definition adopted by REALpac, Chartwell also discloses Normalized FFO which excludes the effects of recording operating lease expense on a straight-line basis and unrealized foreign exchange gains and losses to allow for better comparability to prior periods.

Normalized Funds from Operations ("NFFO") is not a GAAP measure and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by GAAP. NFFO as presented may not be comparable to similar measures presented by other companies. Management believes NFFO is useful in the assessment of the operating performance of Chartwell and that this measure is also useful for valuation purposes. Management calculates NFFO by adding or subtracting certain items to 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 NFFO calculations.

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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.

SIFT income tax expense: Current income tax expense arising from the probability that one of Chartwell's subsidiaries will be taxed as a SIFT is added back to income in our calculation of NFFO. We restructured such that this entity will not be subject to the SIFT tax in 2009.

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

Adjusted Funds from Operations

Adjusted Funds from Operations ("AFFO") is not a GAAP measure 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 companies. Management believes AFFO is useful in the assessment of the operating performance of Chartwell and that this measure is also useful for valuation purposes. 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 Ontario Ministry of Health and Long-Term Care to communities which meet certain design criteria. We include this item in AFFO calculations.

Amounts received under income guarantees: This item represents cash flow received from vendors of acquired communities. 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 the 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, NFFO and AFFO per unit, we include the Class B Units of Chartwell Master Care LP ("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

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), less direct operating expenses and is reported for each operating segment. Management uses this measure to evaluate individual and divisional property performance.

In Q3 2008, we reclassified three properties previously included in the Canadian Long-Term Care Operations segment to the Canadian Retirement Operations segment to more accurately reflect how the properties are managed. The comparative figures have been reclassified to reflect this change.

Same Property Performance

The Trust evaluates its financial performance by analyzing a same property portfolio. In this MD&A, same property statistics refer to properties Chartwell owned or leased continuously since January 1, 2007, which is comprised as follows: 85 Canadian retirement properties; 14 Canadian long-term care; and 46 (21 owned and 25 leased) U.S. retirement communities.

Operating Margins

Operating margins are calculated as revenue less direct operating expenses divided by revenue. This measure is used as an indicator of segment performance as management monitors its ability to translate changes in revenue into net operating income. However, as operating margins typically vary by the level of care offered, the mix of our portfolio's various levels of care needs to be considered when conducting performance analysis. In addition, as higher acuity levels of service often have lower margins, this can affect this performance measure while these services may add incremental NOI.

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.

General, Administrative and Trust Expenses as a Percentage of Revenue

Chartwell monitors general, administrative and trust expenses on a consolidated basis as a percentage of revenue.

Consolidated Results of Operations

Overview of Consolidated Results of Operations

Same Property Portfolio Highlights[1]

Same property NOI increased $5.9 million or 3.8% for 2008 compared to 2007. The successful execution of our 2008 business operating strategies, including taking advantage of the opportunities the size of our portfolio provides both in managing our supply chain and in implementing best practice staffing and operating models, is delivering improved results, both financially and by increasing the quality of the products and services we deliver, across our operating platforms. In 2008 compared to 2007:

- Our Canadian retirement portfolio same property NOI growth amounted to $2.6 million or 2.9%. Average rate increases achieved have been between 2% and 6% and our yield management program continues to generate rent increases on turnover in excess of inflationary rate increases for existing residents. Strong improvements in our Ontario and Western Canadian results were offset by reduced occupancy in our Quebec platform. As described in the "Outlook" section of the MD&A, with full control of our Quebec platform we anticipate delivering improved results in Quebec in 2009.*
- In our U.S. same property portfolio, regular annual rent increases and tight management of expenses have improved same property NOI which increased U.S.$2.8 million or 5.0%.
- In addition, our same property Canadian long-term care portfolio increased same property NOI by $0.5 million or 5.9% for 2008 compared to 2007.

Overall, occupancy was high at 92.5% in 2008, a decrease from 93.4% in 2007. Excluding the newly available internal growth suites, occupancy decreased to 93.1% or 0.6 percentage points compared to 2007.

Same property portfolio operating margins were 32.2% in 2008, an increase of 0.1 percentage points compared to 2007.

FOURTH QUARTER: Same property NOI decreased $0.2 million or 0.4% for Q4 2008 compared to Q4 2007 as follows:

- Our Canadian retirement portfolio same property NOI grew by $0.5 million or 2.6%.
- In our U.S. same property portfolio, regular annual rent increases and tight management of expenses have offset the decrease in occupancy to 92.5% or 1.8 percentage points, mitigating the impact on same property NOI which decreased U.S.$0.7 million or 4.6%.
- In addition, our same property Canadian long-term care portfolio NOI was stable in Q4 2008 compared to Q4 2007.

Overall, occupancy was 91.8% in Q4 2008, a decrease compared to 93.9% in Q4 2007. Excluding the newly available internal growth suites, occupancy decreased to 92.4% or 1.3 percentage points compared to Q4 2007.

Same property portfolio operating margins were 30.3% in Q4 2008, a decrease of 1.1 percentage points compared to Q4 2007.

Acquisition Portfolio Highlights

For 2008, acquisitions contributed $56.7 million of NOI, or an additional $21.0 million compared to 2007, excluding the impact of foreign exchange.

In Q4 2008, acquisitions delivered NOI of $14.2 million, or an additional $1.5 million compared to Q4 2007, excluding foreign exchange.

General, Administrative and Trust Expenses

Excluding Special Committee and related advisory costs, G&A expenses remained flat for 2008 compared to 2007 and decreased as a percentage of revenues to 2.6% for 2008 compared to 2.9% for 2007. Overall G&A expenses decreased by $1.9 million or 8.8% in 2008 compared to 2007 due primarily to lower Board of Directors' Special Committee and related advisory costs.

Provision for Impairment of Mezzanine Loans

As described more fully in the "Significant Events" section of this MD&A, Chartwell recorded a provision for impairment of mezzanine loans of $6.4 million before future tax recoveries.

(1) Note: statistics in this section exclude the effects of foreign exchange translation.

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

Provision for Impairment of Goodwill

As described more fully in the "Significant Events" section of this MD&A, Chartwell recorded a provision for impairment of goodwill of $64.5 million during Q4 2008.

Per Unit Analysis

AFFO for 2008 was $0.64 per unit diluted, a decrease of $0.08 per unit diluted compared to $0.72 per unit diluted for 2007 primarily due to a provision for mezzanine loan impairment, reduced fee and other income which was offset by improved contributions from property-based AFFO and a lower SIFT income tax provision as follows:

- As described above, during Q4 2008 we recorded a provision for impairment of mezzanine loans of $6.4 million or $0.06 per unit diluted in respect of three loans to Melior.

Fee-related AFFO decreased as follows:

- Management fees for due diligence project management and asset management from ING decreased by $2.3 million and development services from Spectrum decreased by $3.1 million or, together, $0.05 per unit diluted.
- Amortization of placement fees decreased by $2.1 million or $0.02 per unit diluted in 2008 compared to 2007.
- Lower invested cash balances reduced bank interest income by $4.2 million or $0.04 per unit diluted.
- Our same property portfolio delivered improved NOI of $5.9 million or $0.06 of additional AFFO per unit diluted.
- Reduced G&A expenses, primarily as a result of a one-time adjustment related to acquisition costs combined with reduced Special Committee costs, increased AFFO by $1.7 million or $0.02 per unit diluted for 2008 compared to 2007.
- As described in the "Significant Events" section of this MD&A, in 2008, one of Chartwell's subsidiaries may be subject to SIFT tax. Accordingly, we have recorded a provision for current income tax expense of $0.6 million or $0.006 per unit diluted in 2008 as a SIFT tax provision compared to $1.8 million recorded in 2007.

Excluding a provision for mezzanine loan impairment of $6.4 million or $0.06 per unit diluted, pre-tax AFFO was $0.72, higher than our guidance for 2008 of pre-tax AFFO of $0.69 to $0.71 per unit diluted.

FOURTH QUARTER: AFFO for Q4 2008 was $0.11 per unit diluted, a decrease of $0.04 per unit diluted compared to Q4 2007. As described above, a provision for impairment of mezzanine loans reduced AFFO by $0.06 per unit diluted in Q4 2008. Excluding this provision, AFFO increased $0.02 per unit diluted for Q4 2008 compared to Q4 2007 as follows:

- A recovery of SIFT tax recorded during Q4 2008 of $0.6 million compared to an expense of $1.8 million in Q4 2007. This resulted in an increase in AFFO of $2.4 million or $0.02 per unit in Q4 2008 compared to Q4 2007.
- Realized foreign exchange gains contributed an additional $1.0 million or $0.01 per unit diluted for Q4 2008 compared to Q4 2007.
- Increased amortization of placement fees of $0.7 million or $0.01 per unit diluted in Q4 2008 compared to Q4 2007.
- Reduced G&A expenses, primarily as a result of continued focus on cost control measures combined with reduced Special Committee costs, increased AFFO by $0.6 million or $0.004 per unit diluted for Q4 2008 compared to Q4 2007.

These increases to AFFO were partially offset by the following factors:

- Lower management and other fee income resulting from reduced development fee income attributed to delays in various projects. Development fees were $1.1 million lower in Q4 2008 compared to Q4 2007.
- Lower invested cash balances reduced bank interest income by $1.1 million or $0.01 per unit diluted.
- Reduced income guarantees on acquired properties of $0.8 million or $0.01 per unit diluted.

For 2008, FFO was $83.1 million or $0.24 per unit diluted, higher than 2007. FFO diluted per unit was $0.23 for Q4 2008, an increase of $0.09 per unit diluted compared to $0.14 for Q4 2007. FFO diluted per unit is described more fully in the "Funds from Operations" section of this MD&A.

For 2008, normalized FFO, which excludes the effect of unrealized foreign exchange gains and losses, straight-line lease expense adjustments and current SIFT income tax expense, diluted per unit was $0.73 or $0.07 per unit diluted lower than 2007. Normalized FFO was $0.13 per unit diluted for Q4 2008, compared to $0.18 per unit diluted for Q4 2007.

Net loss increased to $1.06 per unit diluted for 2008 compared to $0.78 per unit diluted for 2007 and increased to $0.72 per unit diluted for Q4 2008 from $0.11 per unit diluted in Q4 2007. Net loss for 2008 increased in comparison to 2007 by $35.3 million due to a provision for impairment of goodwill of $64.5 million, a provision for impairment of mezzanine loans, increased depreciation and amortization, interest and lease expenses. This was partially offset by improvements in net operating income compared to prior periods, changes in unrealized foreign exchange gains and losses, lower SIFT tax-related provisions for current income tax expense and reduced future income tax expense as the initial provision for future income tax expense which was recorded in Q2 2007. In addition to the trends affecting the comparison of 2008 to 2007, Q4 2008 compared to Q4 2007 was affected by the SIFT tax provision for current income tax expense recorded in Q4 2007 while in Q4 2008 we recorded a recovery.

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

($000s, except per unit amounts, occupancy rates, and operating margins)	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
Property revenue	**188,973**	163,814	25,159	**695,970**	604,195	91,775
Total revenues	**195,943**	173,165	22,778	**725,309**	645,037	80,272
Net loss	**(69,128)**	(10,116)	(59,012)	**(99,472)**	(67,339)	(32,133)
Net loss per unit (basic and diluted)	**(0.72)**	(0.11)	(0.61)	**(1.06)**	(0.78)	(0.28)
Distributions declared	**18,555**	26,417	(7,862)	**79,265**	100,984	(21,719)
Distributions declared per unit	**0.1850**	0.2700	(0.0850)	**0.7942**	1.0650	(0.2708)
FFO(1)	**23,249**	14,317	8,932	**83,124**	55,176	27,948
Diluted FFO per unit	**0.23**	0.14	0.09	**0.82**	0.58	0.24
Normalized FFO(2)	**13,000**	18,024	(5,024)	**73,411**	75,939	(2,528)
Diluted Normalized FFO per unit	**0.13**	0.18	(0.05)	**0.73**	0.80	(0.07)
AFFO(3)	**11,289**	15,335	(4,046)	**65,248**	68,395	(3,147)
Diluted AFFO per unit	**0.11**	0.15	(0.04)	**0.64**	0.72	(0.08)
Weighted average occupancy rate:						
Same property portfolio	**91.2%**	93.7%	(2.5pp)	**92.0%**	93.3%	(1.3pp)(4)
Same property portfolio excluding internal growth suites	**92.4%**	93.7%	(1.3pp)	**93.1%**	93.7%	(0.6pp)
Operating margin – same property portfolio	**30.3%**	31.4%	(1.1pp)	**32.2%**	32.1%	0.1pp
Weighted average number of units including Class B Units of Chartwell Master Care LP:(5)						
Basic	**99,041,007**	97,831,693	1,209,314	**98,543,804**	92,528,560	6,015,244
Diluted (includes LTIP)	**101,674,442**	100,180,041	1,494,401	**101,185,111**	94,950,032	6,235,079

(1) Refer to the "Non-GAAP Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to Net Loss.
(2) Refer to the "Key Performance Indicators – Normalized Funds from Operations" section of this MD&A for the details of the NFFO calculation.
(3) Refer to the "Key Performance Indicators – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.
(4) Percentage points.
(5) Refer to the "Non-GAAP Measures – Funds from Operations; Normalized Funds from Operations; and Adjusted Funds from Operations" sections of this MD&A.

Summary of Property Revenue

($000s, except occupancy rates)	**Q4 2008**	Q4 2007	Increase/ (Decrease)	**2008**	2007	Increase/ (Decrease)
Same property[1]	**126,131**	122,148	3,983	**495,643**	479,041	16,602
Acquisitions[1]	**50,845**	45,674	5,171	**193,949**	122,798	71,151
Foreign exchange on U.S. dollar revenue	**13,012**	(983)	13,995	**16,473**	13,984	2,489
Equity-accounted VIEs	**(1,015)**	(3,025)	2,010	**(10,095)**	(11,628)	1,533
Total property revenue	**188,973**	163,814	25,159	**695,970**	604,195	91,775
Weighted average occupancy same property portfolio	**91.5%**	93.7%	(2.2pp)	**92.1%**	93.3%	(1.2pp)
Weighted average occupancy same property portfolio excluding internal growth suites	**92.4%**	93.7%	(1.3pp)	**93.1%**	93.8%	(0.7pp)

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

Total property revenue increased by 15.2% in 2008 compared to 2007 due to contributions from acquisitions completed subsequent to January 1, 2007 and same property revenue growth. In addition, our U.S. Operations benefited from an adjustment to the amortization of deferred community fee revenue of approximately U.S.$0.6 million and a strengthening of the U.S. dollar in 2008.

Same property revenue increased by approximately $16.6 million or 3.5% in 2008 compared to 2007. We continue to drive revenue growth with our proven strategies as follows:

- Yield management programs in the Canadian retirement home portfolio to establish increased market-based rates on suite turnover.
- Regular annual rent increases that are competitive to local market conditions.
- The addition of new services for residents at some of Chartwell's communities.
- Maximizing asset performance through investment in internal growth projects.

On October 27, 2008, Chartwell acquired from Melior the remaining 50% interest in seven operating companies in the Province of Quebec (the "Co-ownerships"). Prior to the acquisition, the Co-ownerships were structured to lease the respective communities from the co-owners and were considered Variable Interest Entities ("VIEs") under GAAP. As Chartwell was not considered to be the primary beneficiary of these entities, we were required to account for them using the equity method of accounting. Operating results of these communities are now included in the acquisition portfolio for presentation purposes in the above table.

Weighted average occupancy rates in the same property portfolio excluding internal growth suites were 93.1% in 2008, a decrease of 0.7 percentage points from 93.8% in 2007. As described in our Q2 2008 MD&A:

- We noted a softening of occupancies primarily in the U.S. toward the end of Q2 2008.
- In addition, due primarily to construction delays, lease-up plans in certain of our Quebec properties were behind schedule. Our Quebec business continues to strengthen as we fully integrate the portfolio subsequent to acquiring the remaining 50% interest, with NOI improving on a sequential quarter basis.

FOURTH QUARTER: Total property revenue increased by 15.4% in Q4 2008 compared to Q4 2007 due to contributions from acquisitions completed subsequent to January 1, 2007, same property revenue growth and a strengthening of the U.S. dollar in Q4 2008.

Same property revenue increased by approximately $4.0 million or 3.3% in Q4 2008 compared to Q4 2007.

Weighted average occupancy rates in the same property portfolio excluding internal growth suites were 92.4% in Q4 2008, a decrease of 1.3 percentage points from 93.7% in Q4 2007.

Summary of Direct Operating Expenses

($000s)	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
Same property[1]	**87,951**	83,815	4,136	**336,097**	325,397	10,700
Acquisitions[1]	**36,642**	32,936	3,706	**137,274**	87,146	50,128
Foreign exchange on U.S. dollar expenses	**8,230**	(690)	8,920	**10,404**	8,726	1,678
Equity-accounted VIEs	**(786)**	(2,109)	1,323	**(7,009)**	(7,854)	845
Total direct operating expenses – properties	**132,037**	113,952	18,085	**476,766**	413,415	63,351
Direct operating expenses – management operations	**1,025**	1,112	(87)	**4,100**	3,995	105
Total direct operating expenses	**133,062**	115,064	17,998	**480,866**	417,410	63,456

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

Total direct operating expenses increased by 15.2% in 2008 compared to 2007 primarily due to additional expenses from acquisitions completed subsequent to January 1, 2007 and the strengthening of the U.S. dollar and the corresponding effect on U.S. dollar-denominated expenses.

Same property direct operating expenses increased by approximately $10.7 million or 3.3% for 2008 compared to 2007.

We are pleased with the slower growth in direct operating expense which is a result of ongoing cost management programs and continued focus on labour cost control. In addition, our U.S. operations benefited from a refund of premiums for general and professional liability of approximately U.S.$0.6 million during Q1 2008 as a result of favourable claims experience during the policy period. This was offset by increased costs associated with the additional day in 2008 (February 29) compared to 2007. As a result of the additional day, many of our variable costs, primarily staffing, increased by approximately $0.7 million without a corresponding increase in rent which is generally a set monthly fee.

FOURTH QUARTER: Total direct operating expenses increased by 15.6% in Q4 2008 compared to Q4 2007 primarily due to additional expenses from acquisitions completed subsequent to January 1, 2007 and the strengthening of the U.S. dollar and the corresponding effect on U.S. dollar-denominated expenses. Same property direct operating expenses increased by approximately $4.1 million or 4.9% in Q4 2008 compared to Q4 2007.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
General, administrative and trust expenses ("G&A")	**4,936**	5,112	(176)	**18,770**	18,804	(34)
Special Committee and related advisory fees	**366**	823	(457)	**1,132**	3,026	(1,894)
Total G&A per financial statements	**5,302**	5,935	(633)	**19,902**	21,830	(1,928)
As % of revenue:						
Including Special Committee costs	**2.7%**	3.4%	(0.7pp)	**2.7%**	3.4%	(0.7pp)
Excluding Special Committee costs	**2.5%**	3.0%	(0.5pp)	**2.6%**	2.9%	(0.3pp)

For 2008, G&A costs, excluding the costs of the Special Committee, slightly decreased compared to 2007. This is primarily due to cost control initiatives.

G&A excluding Special Committee costs and related advisory fees decreased as a percentage of total revenues to 2.6% for 2008 from 2.9% in 2007. This is primarily due to significant growth in total revenues and management of our costs.

Including Special Committee costs, G&A decreased by $1.9 million for 2008 compared to 2007 due to the reduction in Special Committee and related advisory fee costs.

FOURTH QUARTER: G&A excluding Special Committee and related advisory fees decreased $0.2 million in Q4 2008 compared to Q4 2007.

G&A excluding Special Committee costs and related advisory fees decreased as a percentage of total revenues to 2.5% for Q4 2008.

Including Special Committee costs, G&A decreased $0.6 million for Q4 2008 compared to Q4 2007.

Interest and Property Lease Expense

($000s)	**Q4 2008**	Q4 2007	Increase/ (Decrease)	**2008**	2007	Increase/ (Decrease)
INTEREST EXPENSE						
Mortgages and loans payable	**23,449**	20,732	2,717	**86,979**	75,153	11,826
Convertible debentures	**2,979**	2,930	49	**11,918**	10,568	1,350
Operating credit facility and other	**40**	40	–	**269**	142	127
Interest capitalized to properties under development	**(797)**	(221)	(576)	**(1,846)**	(604)	(1,242)
	25,671	23,481	2,190	**97,320**	85,259	12,061
Accretion adjustment to convertible debenture liability	**715**	657	58	**2,772**	2,075	697
Amortization of debt mark-to-market adjustments arising on acquisition	**(229)**	(310)	81	**(1,066)**	(837)	(229)
Amortization of financing costs	**1,151**	1,103	48	**4,762**	4,485	277
Total Interest Expense	**27,308**	24,931	2,377	**103,788**	90,982	12,806
PROPERTY LEASE EXPENSE						
Contractual lease payments for the period	**11,586**	8,916	2,670	**41,094**	38,400	2,694
Adjustment to record lease expense on a straight-line basis over the lease term	**1,943**	1,815	128	**6,865**	8,068	(1,203)
Total Property Lease Expense	**13,529**	10,731	2,798	**47,959**	46,468	1,491

The increase in interest expense is consistent with the growth in Chartwell's debt portfolio. Mortgages payable increased significantly during 2007 primarily due to mortgages assumed on the acquisition of properties. In addition, on April 20, 2007, Chartwell issued approximately $75.0 million of 5.9% subordinated convertible debentures which results in increased interest expense in 2008 as these convertible debentures were outstanding for the full period in 2008.

During 2008, we capitalized interest of $1.9 million, which relates to our net investment in internal growth projects.

Contractual property lease expense increased $2.7 million for 2008 compared to 2007 primarily due to foreign exchange.

FOURTH QUARTER: During Q4 2008, we capitalized interest of $0.8 million, which relates to our net investment in internal growth projects.

Contractual property lease expense increased $2.7 million for Q4 2008 compared to Q4 2007, primarily due to foreign exchange translation.

Mezzanine Loans, Mezzanine Loan Interest Income and Provision for Impairment of Mezzanine Loans

($000s)	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
Gross mezzanine loan balances outstanding (end of the period)				**108,090**	112,037	(3,947)
Fees net of costs recorded as a reduction of mezzanine loan balances				**(4,862)**	(4,413)	(449)
Provision for impairment of mezzanine loans				**(6,406)**	–	(6,406)
Net mezzanine loan receivable				**96,822**	107,624	(10,802)
Mezzanine loan interest based on gross loan balances	**2,869**	3,076	(207)	**11,833**	11,958	(125)
Effective yield adjustments for:						
Placement fees integral to lending activities	**485**	(220)	705	**230**	2,286	(2,056)
Legal costs integral to lending activities	**(186)**	(288)	102	**(676)**	(902)	226
Total Mezzanine Loan Interest Income	**3,168**	2,568	600	**11,387**	13,342	(1,955)
Provision for impairment of mezzanine loans	**(6,406)**	–	(6,406)	**(6,406)**	–	(6,406)

Mezzanine loan interest decreased $2.0 million for 2008 compared to 2007 and increased by $0.6 million for Q4 2008 compared to Q4 2007. Mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method of accounting for interest expense. 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. Delays in expected stabilization dates of certain of the properties resulted in a reduction in revenue for 2008 compared to 2007.

As described more fully in the "Significant Events" section of this MD&A, Chartwell recorded a provision for impairment of mezzanine loans of $6.4 million before future tax recoveries.

Other Items

($000s)	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
Bank interest and other income	**870**	1,956	(1,086)	**3,927**	8,152	(4,225)
Below-market lease amortization revenue	**525**	258	267	**1,846**	1,394	452
Gain/(Loss) on sale of assets	**63**	(413)	476	**95**	(82)	177
Write-down of assets	**–**	(1,284)	1,284	**–**	(1,456)	1,456
Provision for impairment of goodwill	**(64,506)**	–	(64,506)	**(64,506)**	–	(64,506)
Unrealized/realized gains and (losses) on derivative financial instruments and unrealized foreign exchange gains and losses	**12,534**	(122)	12,656	18,182	(10,925)	29,107
Depreciation of properties	**(18,920)**	(16,016)	(2,904)	**(69,628)**	(58,359)	(11,269)
Amortization of limited life intangible assets	**(12,687)**	(12,227)	(460)	**(52,752)**	(53,944)	1,192
Current income tax (expense) recovery	**496**	(2,004)	2,500	**(999)**	(2,004)	1,005
Future income tax (expense) recovery	**1,568**	4,267	(2,699)	**(169)**	(13,924)	13,755
Non-controlling interest	**1,989**	1,179	810	**3,918**	5,008	(1,090)
Net loss	**(69,128)**	(10,116)	(59,012)	**(99,472)**	(67,339)	(32,133)

Bank Interest and Other Income

The decrease in bank interest and other income for 2008 compared to 2007 and for Q4 2008 compared to Q4 2007 is primarily due to lower invested cash balances and non-property miscellaneous income in 2008.

Unrealized/Realized Gains and Losses on Derivative Financial Instruments and Unrealized Foreign Exchange Gains and Losses

Chartwell recorded an unrealized foreign exchange gain of $17.2 million for 2008 and an unrealized foreign exchange gain of $11.6 million for Q4 2008. Of these amounts, an unrealized foreign exchange gain of $11.8 million for 2008 and an unrealized foreign exchange gain of $8.2 million for Q4 2008 related to the intercompany cross-border U.S. dollar-denominated loans receivable and payable used by Chartwell to finance its operations in a tax-efficient manner. At December 31, 2008, Chartwell had net loans outstanding of approximately U.S.$46.8 million from our U.S. subsidiaries and loans payable of $1.2 million to 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. For 2008, unrealized gains on U.S. cash were approximately $4.6 million and for Q4 2008 were approximately $3.4 million. In addition, during Q4 2008, we realized a foreign exchange gain on U.S. cash used in the period of approximately $0.9 million.

Depreciation and Amortization

The increase in depreciation and amortization is consistent with the growth in Chartwell's property portfolio.

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, Chartwell's 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. 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 uses Chartwell's publicly traded unit price to determine fair value;

the multiples approach uses comparable market multiples to arrive at a fair value; and the discounted cash flow method uses 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.

As described in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair value is highly subjective and requires 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 current economic environment, Chartwell has relied on the publicly traded market price of Chartwell units as at December 31, 2008 allocated to each reporting unit based on 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 this 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 $64.5 million.

Current and Future Income Tax (Expense) Recovery

Under the SIFT Rules, Chartwell became subject to tax on certain income beginning in 2007 as described in the "Significant Events" section of this MD&A. During 2008, we recorded a future income tax expense of $0.2 million and a future income tax recovery of $1.6 million for Q4 2008. 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, 2008. These temporary differences are tax-effected using the estimated substantively enacted SIFT tax rate at the time that these differences are expected to reverse.

As described in the "Significant Events" section of this MD&A, 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 REIT being considered to be a SIFT in 2007 and 2008. Consequently, Chartwell has recorded a provision for current income tax provision of approximately $0.6 million for 2008 related to SIFT income taxes. During Q4 2008, a reduction to the SIFT income tax expense provision of $0.6 million was recorded to reflect the increased tax deductions attributed to capital cost allowance in respect to our acquisition of the remaining 50% interest in seven Quebec properties.

Net Loss

Net loss for 2008 increased in comparison to 2007 by $32.1 million due to a provision for impairment of goodwill of $64.5 million, a provision for impairment of mezzanine loans, increased depreciation and amortization, interest and lease expenses. This was partially offset by improvements in net operating income, changes in unrealized foreign exchange gains and losses, lower SIFT tax provisions and reduced future income tax expense as the initial provision for future income tax expense was recorded in Q2 2007.

In addition to the trends affecting the comparison of 2008 to 2007, Q4 2008 compared to Q4 2007 was affected by the SIFT tax provision for current income tax expense recorded in Q4 2007 while in Q4 2008 we recorded a recovery.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for 2008 compared to 2007 and Q4 2008 compared to Q4 2007.

In 2008, we reclassified three properties previously included in the Canadian Long-Term Care Operations segment to the Canadian Retirement Operations segment to more accurately reflect how the properties are managed. The comparative figures have been reclassified to reflect this change.

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(1)	83	6,840	1,797	1,011	9,648
Acquisitions	17	1,825	464	143	2,432
Total	100	8,665	2,261	1,154	12,080

(1) Includes expansion of 105 suites under construction at two communities.

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

($000s, except occupancy rates and operating margins)	**Q4 2008**	Q4 2007	Increase/ (Decrease)	**2008**	2007	Increase/ (Decrease)
REVENUES						
Same property	**66,307**	63,099	3,208	**257,122**	248,155	8,967
Acquisitions	**11,759**	5,502	6,257	**34,090**	14,501	19,589
Equity-accounted VIEs	**1,015**	3,025	(2,010)	**10,095**	11,628	(1,533)
Total Acquisitions	**12,774**	8,527	4,247	**44,185**	26,129	18,056
Total Revenue	**79,081**	71,626	7,455	**301,307**	274,284	27,023
EXPENSES						
Same property	**44,326**	41,667	2,659	**166,267**	159,869	6,398
Acquisitions	**7,807**	3,557	4,250	**21,224**	9,424	11,800
Equity-accounted VIEs	**786**	2,109	(1,323)	**7,009**	7,854	(845)
Total Acquisitions	**8,593**	5,666	2,927	**28,233**	17,278	10,955
Total Expenses	**52,919**	47,333	5,586	**194,500**	177,147	17,353
NET OPERATING INCOME						
Same property	**21,981**	21,432	549	**90,855**	88,286	2,569
Acquisitions	**3,952**	1,945	2,007	**12,866**	5,077	7,789
Equity-accounted VIEs	**229**	916	(687)	**3,086**	3,774	(688)
Total Acquisitions	**4,181**	2,861	1,320	**15,952**	8,851	7,101
Total Net Operating Income	**26,162**	24,293	1,869	**106,807**	97,137	9,670
Overall operating margins	**33.1%**	33.9%	(0.8pp)	**35.4%**	35.4%	–
SAME PROPERTY STATISTICS						
Operating margins	**33.2%**	34.0%	(0.8pp)	**35.3%**	35.6%	(0.3pp)
Weighted average occupancy rate	**88.9%**	92.5%	(3.6pp)	**90.2%**	92.2%	(2.0pp)
Weighted average occupancy rate excluding internal growth suites	**91.3%**	92.4%	(1.1pp)	**91.6%**	92.7%	(1.1pp)

Same property NOI increased by 2.9% in 2008 compared to 2007 due to revenue growth, contributions from completed internal growth projects, and benefits yielded from the new cost management programs that we began implementing in mid-2007.

Growth in same property NOI in our Eastern Canadian retirement properties (outside Quebec) for 2008 was 8.9% and our Western Canadian platform increased by 6.3%. These increases were partially offset by a 16.6% decrease in same property NOI in our Quebec platform as discussed below.

In 2008, our Quebec platform has been undergoing significant renovation and construction activity. Typically, where we are adding new capacity to a property, the significant construction activity temporarily depresses occupancy in the existing building. In addition, in some cases, existing suites needed to be removed from inventory as part of the construction program. A similar situation exists in properties we reposition. For example, where we are upgrading key service amenities, such as dining and kitchen facilities, the temporary services will not be of the same quality. As a result, until the newly renovated amenities are available, the building is temporarily less marketable. The majority of construction activity was completed in the second half of 2008 and we are beginning to see the benefits.*

In addition, on October 27, 2008, we obtained full control over our Quebec platform through the acquisition of Groupe Melior's 50% interest in the Quebec properties and management company. Owning and managing our Quebec seniors housing portfolio allows Chartwell and our Quebec team to improve occupancies increase operating margins and take advantage of significant synergies. We expect to deliver solid performance improvements in the Quebec portfolio going forward, consistent with our track record in the balance of our portfolio.*

Same property revenues increased by 3.6% in 2008 as compared to 2007 due to regular annual rent increases of between 2% and 6%, the continued implementation of yield management programs to establish increased market-based rates on suite turnover, and higher contributions from internal growth suites.

Weighted average occupancy rates, excluding internal growth suites in lease-up, decreased to 91.6% in 2008 from 92.7% in 2007 or 1.1 percentage points. Outside of Quebec, occupancies in our Canadian retirement platform have improved compared to 2007 by approximately 0.6 percentage points.

Same property operating expenses increased by 4.0% in 2008 compared to 2007, in line with revenue growth and general inflation.

Overall operating margins remained flat for 2008 compared to 2007. Same property operating margins decreased slightly in 2008 compared to 2007 by 0.3 percentage points to 35.3%.

FOURTH QUARTER: Same property NOI increased by 2.6% in Q4 2008 compared to Q4 2007 due to revenue growth, contributions from completed internal growth projects, and benefits yielded from the new cost management programs that we began implementing in mid-2007.

Same property revenues increased by 5.1% in Q4 2008 as compared to Q4 2007, driven primarily by annual rent increases of between 2% and 6%.

Weighted average occupancy rates excluding internal growth suites in lease-up decreased to 91.3% in Q4 2008 from 92.4% in Q4 2007, or 1.1 percentage points. Outside of Quebec, occupancies in our Canadian retirement platform have improved compared to Q4 2007 by approximately 0.2 percentage points.

Same property operating expenses increased by 6.4% in Q4 2008 compared to Q4 2007, primarily driven by increased utility costs.

Overall same property operating margins decreased by 0.8 percentage points for Q4 2008 compared to Q4 2007, however remained healthy at 33.1%.

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

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	14	–	99	1,419	1,518
Acquisitions[1]	13	379	–	1,582	1,961
Total	27	379	99	3,001	3,479

(1) Includes three communities (315 suites) currently in the planning stage of development.

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

($000s, except occupancy rates and operating margins)	**Q4 2008**	Q4 2007	Increase/ (Decrease)	**2008**	2007	Increase/ (Decrease)
REVENUES						
Same property	**21,778**	21,126	652	**84,080**	81,076	3,004
Acquisitions	**14,380**	13,757	623	**54,672**	30,621	24,051
Total revenues	**36,158**	34,883	1,275	**138,752**	111,697	27,055
DIRECT OPERATING EXPENSES						
Same property	**19,760**	19,091	669	**74,954**	72,460	2,494
Acquisitions	**12,292**	11,908	384	**46,310**	26,171	20,139
Total expenses	**32,052**	30,999	1,053	**121,264**	98,631	22,633
NET OPERATING INCOME						
Same property	**2,018**	2,035	(17)	**9,126**	8,616	510
Acquisitions	**2,088**	1,849	239	**8,362**	4,450	3,912
Total Net Operating Income	**4,106**	3,884	222	**17,488**	13,066	4,422
Overall operating margins	**11.4%**	11.1%	0.3pp	**12.6%**	11.7%	0.9pp
SAME PROPERTY STATISTICS						
Operating margins	**9.3%**	9.6%	(0.3pp)	**10.9%**	10.6%	0.3pp
Weighted average occupancy rate	**99.1%**	98.5%	0.6pp	**98.9%**	97.5%	1.4pp

Same property NOI increased $0.5 million for 2008 compared to 2007.

Operating margin in the same property portfolio was 10.9% in 2008, an increase of 0.3 percentage points over 2007.

Weighted average occupancies in the same property portfolio are at 98.9% for 2008, an increase of 1.4 percentage points from 2007. Occupancy in the Ontario long-term care communities exceeded 97% for 2008 in all properties. As a result, these communities receive funding as though fully occupied.

FOURTH QUARTER: Same property NOI was flat for Q4 2008 compared to Q4 2007.

Operating margin in the same property portfolio was 9.3% in Q4 2008, a decrease of 0.3 percentage points from Q4 2007.

Weighted average occupancies in the same property portfolio are at 99.1% for Q4 2008, an increase of 0.6 percentage points over Q4 2007.

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[(1)]	55	10,687	1,267	341	12,295
Acquisitions	29	1,396	1,640	–	3,036
Total	84	12,083	2,907	341	15,331

(1) Includes expansion of 98 suites under construction at one community.

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

(U.S. $000s, except as noted otherwise)	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
REVENUES						
Same property	**38,046**	37,923	123	**154,441**	149,861	4,580
Acquisitions and other	**23,691**	23,390	301	**95,092**	66,048	29,044
Total revenues	**61,737**	61,313	424	**249,533**	215,909	33,624
DIRECT OPERATING EXPENSES						
Same property	**23,865**	23,057	808	**94,876**	93,070	1,806
Acquisitions and other	**15,757**	15,362	395	**62,731**	43,697	19,034
Total expenses	**39,622**	38,419	1,203	**157,607**	136,767	20,840
NET OPERATING INCOME						
Same property	**14,181**	14,866	(685)	**59,565**	56,791	2,774
Acquisitions and other	**7,934**	8,028	(94)	**32,361**	22,351	10,010
Total Net Operating Income	**22,115**	22,894	(779)	**91,926**	79,142	12,784
Foreign Exchange in CDN	**4,782**	(293)	5,075	**6,069**	5,210	859
Total Net Operating Income in CDN	**26,897**	22,601	4,296	**97,995**	84,352	13,643
Overall operating margins[(1)]	**36.0%**	37.5%	(1.5pp)	**36.8%**	36.7%	0.1pp
SAME PROPERTY STATISTICS						
Operating margins[(1)]	**37.3%**	39.2%	(1.9pp)	**38.6%**	37.9%	0.7pp
Weighted average occupancy rate	**92.5%**	94.3%	(1.8pp)	**92.9%**	93.8%	(0.9pp)

(1) Calculated based on U.S. dollars.

Same property NOI increased by U.S.$2.8 million or 5.0% in 2008 compared to 2007.

Same property revenue increased by U.S.$4.6 million or 3.1% for 2008 compared to 2007 as a result of regular annual rent increases which ranged between 4% and 7%, slightly higher average occupancies and increased amortization of deferred community fees.

During Q2 2008, we began to find it more difficult in some of our U.S. properties than it had been in the past eighteen months to replace residents on normal turnover. We typically experience a seasonal occupancy dip during both the summer months and the early part of the year with normal rebounding in mid-September through November and subsequently through mid-April in the spring from each seasonal drop, respectively. Consistent with these trends, our occupancies increased in Q4 2008 from Q3 2008, reflecting typical seasonality described above despite the difficult economic times. During Q1 2009, we have experienced our typical seasonal decline; however, as we expressed previously due to the current economic environment in the U.S. we cannot be confident of the typical spring increase in occupancy.*

To mitigate the risks during the U.S. slowdown, we continue the implementation of strategies to provide more payment flexibility to existing and potential residents, and continue to invest in marketing and advertising initiatives. We also continue to focus on cost control through new procurement and labour management programs. In addition, our U.S. management team has sourced new operations and development management contracts and continues to pursue further management contracts and other opportunities to augment future earnings in our U.S. Management Operations.*

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

Same property direct operating expenses have increased by 1.9% for 2008 compared to 2007. 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 and insurance expense. In addition, the 2008 results benefited from a one-time insurance premium refund of $0.6 million achieved due to the positive claims experienced during the policy period.

Acquisitions completed subsequent to January 1, 2007 and U.S. management operations added U.S.$32.4 million of NOI in 2008.

Same property operating margins increased by 0.7 percentage points in 2008 to 38.6% as compared to 37.9% in 2007.

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

	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	**1.212**	0.981	0.231	**1.066**	1.075	(0.009)

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

FOURTH QUARTER: Same property NOI decreased by U.S.$0.7 million or 4.6% in Q4 2008 compared to Q4 2007.

Same property revenue increased by U.S.$0.1 million or 0.3% for Q4 2008 compared to Q4 2007. Regular annual rent increases which ranged between 4% and 7% helped to offset the impact of an occupancy decline from 94.3% in Q4 2007 to 92.5% in Q4 2008.

Same property direct operating expenses have increased by 3.5% for Q4 2008 compared to Q4 2007. 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.

Acquisitions completed subsequent to January 1, 2007 and the U.S. management operations added U.S.$7.9 million of NOI in Q4 2008.

Same property operating margins decreased by 1.9 percentage points in Q4 2008 to 37.3% as compared to 39.2% in Q4 2007.

Canadian Management Operations

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

($000s)	Q4 2008	Q4 2007	Increase/ (Decrease)	2008	2007	Increase/ (Decrease)
MANAGEMENT AND OTHER FEE REVENUE						
Spectrum:						
Development management	**154**	1,207	(1,053)	**1,405**	4,477	(3,072)
Operations management	**610**	497	113	**2,167**	1,590	577
Other	**17**	17	–	**119**	330	(211)
Total Spectrum	**781**	1,721	(940)	**3,691**	6,397	(2,706)
ING	**665**	1,051	(386)	**2,453**	4,787	(2,334)
Other	**732**	881	(149)	**2,948**	2,996	(48)
Total Management and Other Fee Revenue	**2,178**	3,653	(1,475)	**9,092**	14,180	(5,088)
Direct operating expenses	**1,025**	1,112	(87)	**4,100**	3,995	105
Income from Management Operations	**1,153**	2,541	(1,388)	**4,992**	10,185	(5,193)

In 2008, management operations revenue decreased by $5.1 million as compared to 2007 primarily due to lower fees earned from Spectrum, ING and other third parties.

In 2008, development management fees from Spectrum decreased by $3.1 million as compared to 2007. Operations management fees from Spectrum increased due to a larger number of projects currently in the lease-up phase.

Fees from ING decreased in 2008 as compared to 2007 primarily as a result of reduced due diligence fees.

FOURTH QUARTER: In Q4 2008, management operations revenue decreased by $1.5 million as compared to Q4 2007 primarily due to lower fees earned from Spectrum, ING and other third parties.

In Q4 2008, development management fees from Spectrum decreased by $1.1 million as compared to Q4 2007. Operation management fees increased due to a larger number of projects currently in the lease-up phase.

Fees from ING decreased in Q4 2008 as compared to Q4 2007 primarily as a result of reduced asset management fees.

Revenue from other third parties was lower in Q4 2008 as compared to Q4 2007.

Management Operations Direct Operating Expenses

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

Non-GAAP Measures

The following measures included in this MD&A do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP"):

- Funds from Operations ("FFO")
- Normalized Funds from Operations ("NFFO")
- Adjusted Funds from Operations ("AFFO")

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, NFFO and AFFO, along with Management's discussion of the usefulness of these measures in evaluating our performance.

Funds from Operations (FFO)

The following table provides a reconciliation of funds from operations to net loss:

($000s, except per unit amounts)	**Q4 2008**	Q4 2007	Increase/ (Decrease)	**2008**	2007	Increase/ (Decrease)
Net loss per financial statements	**(69,128)**	(10,116)	(59,012)	**(99,472)**	(67,339)	(32,133)
Add (Subtract):						
Depreciation of properties	**18,920**	16,016	2,904	**69,628**	58,359	11,269
Amortization of management contracts, resident contracts and customer relationships	**12,687**	12,227	460	**52,752**	53,944	(1,192)
Depreciation of leasehold improvements included in depreciation of properties	**(116)**	(61)	(55)	**(446)**	(242)	(204)
Loss/(Gain) on sale of assets	**(63)**	413	(476)	**(95)**	82	(177)
Provision for impairment of goodwill	**64,506**	–	64,506	**64,506**	–	64,506
Write-down of carrying value of assets	**–**	1,284	(1,284)	**–**	1,456	(1,456)
Future income tax expense/(recovery)	**(1,568)**	(4,267)	2,699	**169**	13,924	(13,755)
Non-controlling interest	**(1,989)**	(1,179)	(810)	**(3,918)**	(5,008)	1,090
Funds from operations[1]	**23,249**	14,317	8,932	**83,124**	55,176	27,948
Funds from operations per unit:						
Basic	**0.23**	0.15	0.08	**0.84**	0.60	0.24
Diluted	**0.23**	0.14	0.09	**0.82**	0.58	0.24

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

FFO and FFO diluted per unit increased by $27.9 million or $0.24 per unit diluted for 2008 compared to 2007 and $8.9 million or $0.09 per unit diluted for Q4 2008 compared to Q4 2007 as follows:

- As described more fully in the "Significant Events" section of this MD&A, during Q4 2008 we recorded a provision for impairment of mezzanine loans of $6.4 million.
- For 2008 compared to 2007, changes in realized and unrealized foreign exchange gains and losses increased FFO by $29.1 million or $0.288 per unit diluted. Changes in realized and unrealized foreign exchange gains and losses of approximately

$12.7 million or $0.124 per unit diluted increased FFO for Q4 2008 compared to Q4 2007. These realized and unrealized gains and losses primarily relate to cross-border U.S. dollar-denominated loans used by Chartwell's Canadian subsidiaries to finance its investments in our U.S. operations in a tax-efficient manner. Under GAAP, changes in the underlying value of these loans resulting from the changes in foreign exchange rates are required to be recorded in income.

- FFO in 2008 and Q4 2008 reflected strong, positive contributions from our property portfolio resulting from rate increases and cost management programs.

Normalized and Adjusted Funds from Operations (NFFO and AFFO)

The following table provides the calculation of NFFO and AFFO:

($000s, except per unit amounts)	**Q4 2008**	Q4 2007	Increase/ (Decrease)	**2008**	2007	Increase/ (Decrease)
FFO[1]	**23,249**	14,317	8,932	**83,124**	55,176	27,948
Add (Subtract):						
Adjustment to record lease expense on a straight-line basis over the lease term	**1,943**	1,815	128	**6,865**	8,068	(1,203)
Unrealized foreign exchange and derivative (gains)/losses	**(11,575)**	122	(11,697)	**(17,223)**	10,925	(28,148)
SIFT Income Tax Expense (Recovery)	**(617)**	1,770	(2,387)	**645**	1,770	(1,125)
NFFO[2]	**13,000**	18,024	(5,024)	**73,411**	75,939	(2,528)
Add (Subtract):						
SIFT Income Tax (Expense) Recovery	**617**	(1,770)	2,387	**(645)**	(1,770)	1,125
Amortization of below-market leases	**(525)**	(259)	(266)	**(1,846)**	(1,394)	(452)
Principal portion of capital subsidy receivable from Health Authorities	**528**	502	26	**2,077**	1,343	734
Amounts received under income guarantees	**99**	888	(789)	**740**	1,548	(808)
Amortization of financing costs	**1,151**	1,102	49	**4,762**	4,484	278
Accretion adjustment to convertible debenture liability	**715**	657	58	**2,772**	2,075	697
Amortization of debt mark-to-market adjustments arising on acquisition	**(229)**	(310)	81	**(1,066)**	(837)	(229)
Deferred financing fee reserve[3]	**(288)**	(238)	(50)	**(1,038)**	(909)	(129)
AFFO before Capex reserve	**15,068**	18,596	(3,528)	**79,167**	80,479	(1,312)
Maintenance Capex reserve – 2% of property revenue	**(3,779)**	(3,261)	(518)	**(13,919)**	(12,084)	(1,835)
AFFO[4]	**11,289**	15,335	(4,046)	**65,248**	68,395	(3,147)
NFFO PER UNIT						
Basic	**0.13**	0.18	(0.05)	**0.74**	0.82	(0.08)
Diluted	**0.13**	0.18	(0.05)	**0.73**	0.80	(0.07)
AFFO PER UNIT						
Basic	**0.11**	0.16	(0.05)	**0.66**	0.74	(0.08)
Diluted	**0.11**	0.15	(0.04)	**0.64**	0.72	(0.08)

(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) Refer to the "Key Performance Indicators – Normalized Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in the NFFO calculations.
(3) Deferred financing fee reserve is calculated quarterly as 0.6 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.
(4) Refer to the "Key Performance Indicators – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.

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

Quarterly Financial Information

The following table summarizes Chartwell's quarterly unaudited financial information:

($000s, except per unit amounts)	Q4	Q3	Q2	2008 Q1	Q4	Q3	Q2	2007 Q1
Revenues	**195,943**	**180,319**	**174,698**	**174,349**	173,165	177,231	156,299	138,342
Direct operating expenses	**(133,062)**	**(117,428)**	**(115,155)**	**(115,221)**	(115,064)	(113,240)	(99,840)	(89,266)
General, administrative and trust expenses	**(5,302)**	**(4,098)**	**(5,302)**	**(5,200)**	(5,935)	(5,832)	(5,129)	(4,934)
	57,579	**58,793**	**54,241**	**53,928**	52,166	58,159	51,330	44,142
Interest expense	**(27,309)**	**(25,287)**	**(25,841)**	**(25,352)**	(24,931)	(25,483)	(23,426)	(17,142)
Property lease expenses	**(13,529)**	**(11,670)**	**(11,339)**	**(11,421)**	(10,731)	(11,565)	(11,785)	(12,387)
Foreign exchange gains/(losses)	**12,534**	**3,358**	**(559)**	**2,849**	(122)	(4,898)	(5,279)	(626)
Depreciation and amortization	**(31,607)**	**(29,520)**	**(30,191)**	**(31,062)**	(28,243)	(32,344)	(27,869)	(23,847)
Write-down of carrying value of management contracts	**–**	**–**	**–**	**–**	(1,284)	–	(172)	–
Provision for impairment of goodwill	**(64,506)**	**–**	**–**	**–**	–	–	–	–
Provision for impairment of mezzanine loans	**(6,406)**	**–**	**–**	**–**	–	–	–	–
(Loss)/Gain on sale of assets	**63**	**126**	**(102)**	**8**	(413)	11	320	–
Non-controlling interest	**1,989**	**378**	**786**	**765**	1,179	982	2,117	730
Current income tax (expense) recovery	**496**	**(629)**	**133**	**(999)**	(2,004)	–	–	–
Future income tax (expense) recovery	**1,568**	**(1,500)**	**–**	**(237)**	4,267	(1,802)	(16,389)	–
Net loss for the period	**(69,128)**	**(5,951)**	**(12,872)**	**(11,521)**	(10,116)	(16,940)	(31,153)	(9,130)
Net loss per unit, diluted	**(0.72)**	**(0.06)**	**(0.14)**	**(0.13)**	(0.11)	(0.19)	(0.36)	(0.12)
FFO	**23,249**	**24,451**	**16,524**	**18,900**	14,317	16,160	10,785	13,914
FFO per unit, diluted	**0.23**	**0.24**	**0.16**	**0.19**	0.14	0.16	0.11	0.17

Chartwell's quarterly results for the past eight quarters have been affected by the acquisitions of new seniors housing communities and the corresponding revenue increases from management and lending activities.

Per unit amounts on a quarterly basis were affected by the timing of the issuance of Trust Units and Convertible Debentures by Chartwell, as well as by the timing of fee income from development and other activities.

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)	2008	2007	2006
Property revenues	**695,970**	604,195	318,977
Total revenues	**725,309**	645,037	350,575
Direct operating expenses	**480,866**	417,410	226,066
Net loss	**(99,472)**	(67,339)	(14,698)
Total assets	**2,705,487**	2,603,199	1,977,750
Total liabilities	**2,038,807**	1,798,590	1,215,798
Net loss per unit, diluted	**(1.06)**	(0.78)	(0.25)
Cash distributions declared per unit	**0.7930**	1.0650	1.0650

Chartwell's 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.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity for December 31, 2008 compared to December 31, 2007:

	Increase/(Decrease) ($millions)	Explanation
Properties	**251.9**	Properties increased as follows: properties acquired in 2008 added $95.6 million; internal growth developments and building improvements added $44.6 million; acquisition related capital expenditures increased properties by $12.4 million; capital additions increased properties by $15.6 million; contingent deferred purchase consideration of $4.3 million and foreign exchange translation added $157.3 million. These increases were offset by depreciation and amortization of $69.8 million and a purchase price re-allocation to intangible assets of $8.1 million.
Mezzanine loans	**(10.8)**	Mezzanine loans decreased due to the discharge of $8.6 million of mezzanine loans on the acquisition of the related property, a provision for impairment of mezzanine loans of $6.4 million, repayment of loans of $3.8 million and amortization of placement fees of $0.5 million. The decrease was offset by new advances of $8.5 million.
Goodwill	**(56.4)**	As described more fully in the "Significant Events" section of this MD&A, during Q4 2008, we recorded a provision for impairment of goodwill of $64.5 million, reducing our goodwill balance to nil.
Total assets	**102.3**	The increase in total assets in 2008 is principally due to the increase in properties, which was offset by the provision for impairment of goodwill noted above and a decrease in management contracts, resident contracts, customer relationships and other intangibles and cash.
Mortgages payable	**222.7**	Mortgages payable increased as a result of new mortgage financings of $73.6 million, assumed mortgages on acquired properties of $54.4 million and foreign exchange translation of $124.4 million. These increases were offset by regular amortizing principal repayments of $28.3 million and amortization of financing costs, net of additions, of $1.4 million.

	Increase/(Decrease) ($millions)	Explanation
Total liabilities	**240.2**	The increase in total liabilities is primarily due to increases in mortgages payable, as discussed above.
Non-controlling interest	**(30.6)**	Non-controlling interest decreased primarily due to exchanges of Class B Units of Master LP for Trust Units of $24.3 million and distributions to the holders of the Class B Units of Master LP of $3.6 million.
Unitholders' equity	**(107.4)**	The decrease in Unitholders' equity in 2008 is due primarily to cash distributions and the allocation of the net loss to the Trust's Unitholders which were offset by income from foreign exchange translation in other comprehensive income and the exchange of Class B Units of Master LP for Trust Units described above.

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2008.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2009	27,233	147,340	174,573	11.53%	5.17%
2010	26,570	65,305	91,875	5.11%	5.40%
2011	27,258	33,013	60,271	2.58%	5.67%
2012	29,296	80,507	109,803	6.30%	5.45%
2013	29,395	114,696	144,091	8.97%	5.34%
2014	26,074	37,709	63,783	2.95%	4.95%
2015	25,739	94,225	119,964	7.37%	5.38%
2016	21,940	196,332	218,272	15.36%	6.04%
2017	17,764	292,847	310,611	22.91%	5.69%
2018	15,356	32,598	47,954	2.55%	5.56%
2019–2023	67,243	139,217	206,460	10.89%	6.14%
Thereafter	81,003	44,409	125,412	3.48%	5.43%
Total	394,871	1,278,198	1,673,069	100.00%	
Mark-to-market adjustments arising on acquisition			15,528		
Less: Financing costs			(20,152)		
Total Mortgage Debt			1,668,445		

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

	As at December 31, 2008	As at December 31, 2007
Average term to maturity	**8.7 years**	9.1 years
Weighted average contractual interest rate	**5.65%**	5.81%
Variable rate mortgage debt	**$28.9 million**	$35.0 million

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

Chartwell's variable rate mortgage debt primarily relates to internal growth projects and communities in lease-up. We anticipate that we will convert these loans into fixed-rate debt upon completion of the internal growth projects and stabilization of the communities in lease-up.*

Debt maturing in 2009 through to 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. Subsequent to year end, we refinanced $57.1 million of 2009 maturing debt with 3 to 5 year CMHC-insured mortgages bearing interest at the weighted average rate of 3.39% to take advantage of current low rates as well as to improve the balance of our maturity schedule. Of the remaining $90.2 million 2009 maturities, 85% are already CMHC-insured. We anticipate renewing this maturing debt in due course.*

Convertible Debentures

At December 31, 2008 Chartwell 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.

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

Debt Leverage

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

The following table presents the calculation of the debt leverage ratio as at December 31, 2008, including the indebtedness of third parties guaranteed by Chartwell:

($000s)	December 31, 2008
Mortgages payable	**1,673,069**
Loans payable(1)	**1,848**
Guarantees	**18,008**
Revolving operating credit facility	**8,000**
Total indebtedness excluding convertible debentures	**1,700,925**
Convertible debentures (face value)	**199,925**
Indebtedness	**1,900,850**
Total assets	**2,705,487**
Accumulated depreciation and amortization(2)	**398,385**
Gross book value ("GBV") of assets	**3,103,872**
Less: Assets financed by deferred purchase consideration on acquisition properties	**23,649**
Gross book value of assets (net of deferred consideration)	**3,080,223**
Debt to GBV before convertible debentures	**55.2%**
Debt to GBV including convertible debentures	**61.7%**

(1) Included in accounts payable and accrued liabilities as described in note 11 to the financial statements.

(2) Includes accumulated depreciation and amortization related to fully amortized intangible assets of $82,804.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units in 2008:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2007	91,625,701	2,336,323	6,273,378	100,235,402
Trust Units issued pursuant to Dividend Reinvestment Plan ("DRIP")	1,265,991	–	–	1,265,991
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	–	656,667	–	656,667
LTIP Units under subscription surrendered	–	(15,000)	–	(15,000)
Trust Units issued on disposition of LTIP Units surrendered	70,000	–	–	70,000
Units transferred to treasury	–	(406,000)	–	(406,000)
Exchange of Class B Units of Master LP[1]	3,407,906	–	(3,407,906)	–
Balance December 31, 2008	**96,369,598**	**2,571,990**	**2,865,472**	**101,807,060**

(1) Spectrum has exchanged 3,080,766 of Class B Units of Master LP into Trust Units in Q2 2008 pursuant to a corporate reorganization of Spectrum.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between the years ended December 31, 2008 and 2007:

Cash Provided by (Used in):	Increase/(Decrease) ($millions)	Explanation
Operating activities	**0.1**	Cash flows from operating activities did not change significantly.
Financing activities	**(533.0)**	Cash flows from financing activities decreased by $533.0 million in 2008 compared to 2007. This decrease is primarily attributable to a decrease in proceeds from mortgage financings which, net of repayments, decreased cash flow from financing activities by $233.1 million. In addition, 2007 included proceeds from ING of $41.9 million, the issuance of convertible debentures for proceeds of $72.2 million and proceeds of a secondary public offering of $219.3 million (net of issue cost) for which there is not a comparable amount in 2008. The above decrease in cash inflow from financing activities was partially offset by lower distributions paid.
Investing activities	**(514.6)**	Cash flow used in investing activities decreased by $514.6 million for 2008 compared to 2007 which is primarily attributable to lower acquisition activity.

Distributions

As described in the "Significant Events" section of this MD&A, effective with the payment to Unitholders for March 2008, which was paid on April 17, 2008, cash distributions were reduced to $0.74 per annum per unit from the previous level of $1.065 per annum per unit. The declaration and payment of future distributions is subject to the discretion of the Board of Trustees and will be dependent upon a number of factors 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 the Board of Trustees. At our Annual General Meeting held May 22, 2008, Chartwell received Unitholder approval to remove any reference to Distributable Income from the Declaration of Trust. Our 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, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year. It is Chartwell's intention that annual distributions will be at least equal to 70% of the Trust's adjusted funds from operations for the year, as disclosed in the relevant year's Management's Discussion and Analysis for the Trust.

In 2008, 100% of Chartwell's distributions were characterized as tax-deferred returns of capital (97.7% in 2007).

Chartwell's Distribution Reinvestment Plan ("DRIP") allows Unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Participating investors registered in the DRIP plan 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 Q4 2008 and the years ended December 31, 2008, 2007 and 2006:

		Years Ended December 31		
($000s)	Q4 2008	**2008**	2007	2006
Distributions declared	17,998	**75,670**	94,145	65,378
Distributions on Class B Units of Master LP	557	**3,595**	6,839	5,744
Distributions reinvested under DRIP	(1,523)	**(9,230)**	(4,317)	(2,476)
Distributions applied against LTIP installment loan receivable	(488)	**(2,144)**	(2,557)	(1,848)
Distributions paid or payable in cash	16,544	**67,891**	94,110	66,798

The following table summarizes cash distributions made by Chartwell in Q4 2008 and the years ended December 31, 2008, 2007 and 2006 in relation to net loss and cash flows from operating activities:

		Years Ended December 31		
($000s)	Q4 2008	**2008**	2007	2006
Cash flows from operating activities	18,785	**101,525**	101,435	63,421
Loss before non-controlling interest	(71,117)	**(103,390)**	(72,347)	(15,950)
Cash distributions declared(1)	16,544	**67,891**	94,110	66,798
Excess (shortfall) of cash flows from operating activities over cash distributions paid	2,241	**33,634**	7,325	(3,377)
Excess (shortfall) of net loss before non-controlling interest over cash distributions paid	(87,661)	**(171,281)**	(166,457)	(82,748)

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

The following table provides the details of additional sources of cash available to Chartwell to fund its distributions to Unitholders in Q4 2008, and the years ended December 31, 2008, 2007 and 2006:

		Years Ended December 31		
($000s)	Q4 2008	**2008**	2007	2006
Principal portion of capital subsidy receivable from Health Authorities[(1)]	528	**2,077**	1,343	344
Amounts received under income guarantees[(1)]	99	**740**	1,548	757

(1) Refer to the "Key Performance Indicators – Adjusted Funds from Operations" section of this MD&A for the description of these items.

The remaining portion of the excess of cash distributions over cash flow from operating activities the year ended December 31, 2006 was financed from Chartwell's cash on hand and credit facilities (please refer to the details of Chartwell's operating credit facility under the "Liquidity and Capital Resources" section of this MD&A).

The excess of cash flow from operating activities over cash distributions in Q4 2008, and 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 2008, non-cash working capital increased cash flows from operating activities by approximately $16.7 million.

We anticipate that cash distributions will be covered by operating cash flows and believe our capital commitments and purchase obligations are within our expected financial capacity in 2009.*

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

Liquidity and Capital Resources

Chartwell's cash commitments include payments related to mortgage and other long-term debt and convertible debentures, cash distributions to Unitholders, operating leases and deferred purchase obligations.

Chartwell's principal source of liquidity is cash flow from operations. In order to provide for its operating and capital requirements, Chartwell raises funds through the capital markets, arranges mortgage debt financing and has arranged for a secured revolving operating facility ("Credit Facility") of up to $90.0 million. As of December 31, 2008, Chartwell had a borrowing capacity under the credit facility of approximately $62.2 million based on available security.

The Credit Facility matures on June 28, 2009. Amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1% or at the applicable banker's acceptances rate plus 2.25%. The terms of the Credit Facility include minimum equity requirements and covenants requiring a limitation of cash distributions that can be paid to Unitholders. At December 31, 2008, there was $8.0 million drawn under the Credit Facility. We have commenced discussions with the syndicate of lenders regarding renewal of the Credit Facility and expect to renew the Credit Facility on maturity.*

At December 31, 2008, one of Chartwell's U.S. subsidiaries did not comply with certain financial covenants under a loan agreement for one of its properties. The loan balance at December 31, 2008 was U.S.$12.9 million bearing interest at 6.24% per annum maturing on January 1, 2014. Chartwell is current with its principal and interest payments. Subsequent to December 31, 2008, we entered into the agreement with the lender to remedy the financial covenant by making a one-time loan pay down of U.S.$3.0 million. This payment was made in January 2009. Monthly payments of principal and interest were adjusted to reflect the lower outstanding loan amount.

Management expects that our principal use of funds in the future will be for regular amortizing debt repayments, distributions, capital expenditures on our existing property portfolio, payment of deferred purchase consideration on acquisitions of properties and acquisition of seniors housing properties.* As at December 31, 2008, Chartwell had cash on hand of approximately $10.5 million.

Capital Expenditures

Chartwell classifies its 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/sustain the revenue generating potential of Chartwell's 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 ("FF&E") purchases.

The following table summarizes additions to properties for 2008:

($000s)	2008
Building expansions (internal growth)	**36,431**
Acquisition-related capital expenditures	**12,360**
Building improvements	**5,888**
Long-term replacement items	**2,279**
Furniture, fixtures and equipment	**8,890**
Other	**6,715**
Total	**72,563**

Contractual Obligations and Guarantees

Contractual Obligations

Chartwell's major contractual obligations as at December 31, 2008 were as follows:

($000s)	Total	2009	2010	2011	2012	2013	Thereafter
Mortgages payable	1,673,069	174,573	91,875	60,271	109,803	144,091	1,092,456
Convertible debentures	199,925	–	–	124,925	75,000	–	–
Loans payable	1,848	1,848	–	–	–	–	–
Revolving operating credit facility	8,000	8,000	–	–	–	–	–
Purchase obligations	54,987	28,928	13,407	7,844	4,808	–	–
Property operating leases	572,055	47,308	49,041	50,619	52,249	53,935	318,903
Other operating leases	11,068	2,172	2,093	2,020	2,057	1,346	1,380
Land leases	11,663	252	252	252	252	252	10,403
Total contractual obligations	2,532,615	263,081	156,668	245,931	244,169	199,624	1,423,142

Purchase obligations relate to the following:

- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately $23.6 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 which is 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 $16.9 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately $11.6 million.

Property operating leases relate to Chartwell's leased interests in 25 seniors housing communities in which Chartwell holds a 49% interest and two communities that are 100% owned by Chartwell.

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

Land leases relates to an obligation assumed by Chartwell in respect of the three leases which expire between 2044 and 2061 with annual payments of approximately $0.3 million.

Other Contracts

In accordance with contracts between Chartwell and Melior, Chartwell is committed to the following:

(i) For a period of 10 years, expiring February 5, 2016, 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 provided such acquisitions are introduced, presented or referred by Melior. In addition, 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.

(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.

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. Chartwell owns an effective 74.5% interest in HBC.

Chartwell's 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.

Guarantees

Chartwell provides a guarantee of the debt of one property that it sold to Spectrum in 2005 for which it receives an annual guarantee fee. The obligation outstanding on December 31, 2008 was $18.0 million. The maximum amount of the guarantee is $22.9 million. Spectrum has indemnified Chartwell in respect of this guarantee.

Transactions with Related Parties

In the normal course of operations, Chartwell enters into transactions with various related parties. The following is a summary of significant related-party transactions for the year and three months ended December 31, 2008:

Spectrum

Under the terms of the Development Agreement with Spectrum, a company in which Chartwell's senior management owned a controlling interest as at March 31, 2008 (including Stephen Suske, CEO and Vice Chairman, Brent Binions, President, Richard Noonan, Chief Operating Officer, Peter Gaskill, former Senior Vice President, Development, Evan Miller, Vice President, Development, Robert Ezer, former President and Co-CEO, and Leslie Veiner, former Senior Vice President, Real Estate), Chartwell provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee. Effective April 1, 2008, with the departure from Chartwell of Robert Ezer and Leslie Veiner, Chartwell's senior management no longer holds a controlling interest in Spectrum.

During Q4 2008 and 2008, Chartwell recorded contractual mezzanine loan interest of approximately $1.5 million and $5.5 million, respectively, from Spectrum.

During Q4 2008 and 2008, Chartwell earned development, operations management and other fees of approximately $1.0 million and $3.8 million, respectively, from Spectrum.

As of December 31, 2008, mezzanine loans receivable from Spectrum amounted to approximately $50.8 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 34 seniors housing development properties and Spectrum's corporate guarantee.

Other assets as of December 31, 2008 include approximately $10.0 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell on behalf of Spectrum. Subsequent to December 31, 2008, approximately $0.8 million of this balance was collected. In addition, approximately $7.5 million of this balance was settled on Chartwell's acquisition of Spectrum's interest in four seniors housing communities as described in the "Subsequent Events" section of this MD&A. A portion of the remaining outstanding accounts receivable balance is past due. All past due amounts bear interest at 15% and Chartwell is working with Spectrum to collect past due amounts. These past due amounts are secured by a general security agreement against Spectrum's interest in one property in lease-up.

At December 31, 2008, Spectrum was in breach of certain covenants under its agreements with Chartwell. Chartwell has not delivered a default notice and is currently working with Spectrum to have these breaches corrected.

Subsequent to December 31, 2008, Chartwell agreed to a limited waiver of its option to purchase additional seniors housing properties from Spectrum in order to facilitate potential sales of such properties by Spectrum to third parties. Chartwell is entitled to 5% of the purchase price, net of transaction costs, of any such properties that are sold to third parties pursuant to Chartwell's limited waiver.

Chartwell completed an evaluation of the security underlying each mezzanine loan as well as the evaluation of Spectrum's corporate guarantee based upon Spectrum's financial information as at December 31, 2008. As described in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair values is subjective and requires management to exercise a significant amount of judgment in making valuation assumptions including revenue and expense projections, capitalization and discount rates. In developing our valuation assumptions we held extensive consultations with valuation and other professionals. Based on our evaluation, we believe that under current market conditions Spectrum has sufficient equity value to allow it to satisfy its obligations to Chartwell in due course.*

In Q1 2008, Chartwell acquired one seniors housing community from Spectrum, Melior and Spectrum's joint venture partners for a total purchase price of approximately $29.5 million. The purchase price was settled by a discharge

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

of mezzanine loans receivable of approximately $5.9 million, and approximately $23.3 million of cash and $0.3 million of accrued acquisition costs.

In Q1 2008, Chartwell sold 0.1 of an acre of land to Spectrum, Melior and their joint venture partner for a total purchase price $0.05 million.

Melior and Other Spectrum Joint Venture Partners

As of December 31, 2008, Chartwell had mezzanine loans receivable of approximately $57.2 million from six of Spectrum's joint venture partners (including approximately $44.1 million advanced to entities controlled by Melior) (the "Borrowers"). These loans bear interest at rates between 10% and 14% and are secured by second fixed charges or pledges of the Borrowers' interests in 24 development projects.

At December 31, 2008, accounts receivable from Melior amounted to $0.8 million.

At December 31, 2008, accounts payable to Melior amounted to $0.1 million.

As described more fully in the "Significant Events" section of this MD&A, Chartwell recorded a provision for impairment of mezzanine loans of $6.4 million before future tax recoveries.

During Q4 2008 and 2008, Chartwell recorded contractual mezzanine loan interest from Melior of approximately $0.4 million and $4.0 million respectively.

In addition, during Q4 2008 and 2008, Chartwell paid Melior project management fees of $0.1 million and $1.8 million respectively. During 2008, Chartwell reimbursed Melior for costs of $0.2 million.

Subsequent to the acquisition on October 27, 2008 of Melior's 50% interest in seven co-owned properties and one joint venture property management entity, transactions with Residence Melior Inc. and its affiliates do not meet the definition of a related party and therefore, subsequent to October 27, 2008, are no longer reported as related-party transactions.

Other

Included in accounts receivable at December 31, 2008 is $0.1 million due from an officer of Chartwell related to the previous sale of a property to the Trust.

Subsequent Events

Subsequent to December 31, 2008, Chartwell acquired Spectrum's interest in four properties in British Columbia and Ontario. These acquisitions closed in February and March 2009. The purchase price for these assets amounted to $50.1 million and was settled by assumption of debt and working capital deficiency of $36.4 million, set off by mezzanine loans of $5.7 million, set off by amounts due from Spectrum of approximately $7.5 million, with the remaining $0.5 paid in cash to Spectrum.

Under the terms of an agreement between Chartwell and Spectrum, Chartwell provided Spectrum with a limited waiver of its option to acquire certain seniors housing communities from Spectrum to facilitate the potential sale of such assets to other third parties. Chartwell will be entitled to a waiver fee equal to 5% of the purchase price, net of transaction costs, of any such property that is sold to third parties.

Subsequent to the year end, Chartwell breached a certain financial covenant under the terms of the loan agreement for one of its Canadian properties. As at December 31, 2008, the amount of the loan was $12.7 million bearing interest at 5.2% and maturing on April 1, 2017. The loan payments are current. The lender granted Chartwell a waiver of this financial covenant until January 1, 2010.

Changes to Significant Accounting Policies

Chartwell prepares its financial statements in Canadian dollars in accordance with Canadian generally accepted accounting principles ("GAAP"). Chartwell's significant accounting policies are summarized in note 1 of its annual consolidated 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 Chartwell's consolidated financial statements and note disclosures.

Changes Adopted in 2008

On January 1, 2008, Chartwell adopted the new recommendations of the following CICA Handbook Sections: Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation".

CICA Handbook Section 3862 requires disclosure that enables users of the financial statements to evaluate the significance of Chartwell's financial instruments and the nature and extent of risks arising from those financial instruments. CICA Handbook Section 3863 carries forward the presentation requirements of CICA Handbook Section 3861. The new disclosure provided pursuant to these new Handbook Sections is included in notes 14 and 20 of the financial statements. The new guidance did not have a material effect on Chartwell's financial position or earnings.

Effective January 1, 2008, CICA's new accounting standard, Section 1535, "Capital Disclosures", was implemented. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate Chartwell's objectives, policies and processes for managing capital. The new guidance did not have an effect on Chartwell's financial position or earnings. Disclosures required by this new section are provided in note 24 of the financial statements.

Changes Anticipated in Future Periods

Management is considering the future accounting impact of the new CICA Handbook Section 3064, "Goodwill and Intangible Assets" and Emerging Issues Committee ("EIC") 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The CICA Handbook Section 3064 will be effective retroactively on January 1, 2009. The new section reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. Whereas, EIC-173 should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value for periods ending on or after January 20, 2009. This section considers the credit risk of both the entity and the counter-party when determining the fair value of financial assets and liabilities, inclusive of derivative instruments.

Management is also monitoring the impact of the following on Chartwell's financial reporting:

Ontario Long-Term Care Licensing

- The new legislation governing long-term care 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, the Trust may be required to start amortizing the value of its long-term care licenses over the respective license term.

International Financial Reporting Standards

- Canada's Accounting Standards Board recently confirmed its strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IFRS-IASB") over a transitional period to be completed by 2011. Chartwell 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.
- Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: first, as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and secondly, standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The IASB currently has projects underway that are expected to result in new pronouncements that continue to evolve.
- 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 debt covenants), employee compensation plans and performance metrics. Accordingly, Chartwell's implementation plan will include 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, the Audit Committee and Investors.

The following provides a summary of Chartwell's IFRS implementation plan and status:

INITIAL ASSESSMENT PHASE: This phase includes the identification of significant differences between existing Canadian GAAP and IFRS-IASB at a high level as relevant to Chartwell. Based upon the current state of IFRS-IASB, this phase identified a modest number of topics that may possibly impact Chartwell's financial results and/or the necessary effort to make the transition to IFRS-IASB. Targeted training and communication activities, leveraging both internal and external resources, are occurring during this phase. Chartwell is currently finalizing its initial assessment phase, with activities in this phase planned for substantial completion by Q1 2009.

DETAILED ASSESSMENT PHASE: Building upon the assessment performed in the Initial Assessment Phase, this phase will include:

- identification, evaluation and selection of accounting policies necessary for Chartwell to change over to IFRS-IASB;
- identification of the business impacts resulting from the identified accounting differences. Business impacts to be considered in Chartwell's Project Plan are: business units, control processes, information technology, stakeholders, regulatory matters and others as identified during this phase;
- assessment of IFRS 1 elections. This aspect of the project plan will follow the detailed assessment of the financial statement items and will be revisited periodically throughout the project;
- an initial training analysis and information systems impact analysis are also components of this phase, and are currently in the draft stage.

The detailed assessment phase will progress from Q1 2009 through to Q2 2010.

DESIGN PHASE: The Design Phase will integrate the solutions from the Detailed Assessment Phase into our underlying financial system and processes that are necessary for us to change over to IFRS-IASB. In addition, we will have designed business process changes and developed detailed training programs. The Design Phase is expected to be completed by Q2 2010.

TESTING AND IMPLEMENTATION PHASE: During 2010, we will be testing our IFRS-IASB systems, processes, financial statements, notes, policies, internal controls and internal reporting throughout the period in preparation of our conversion date of January 1, 2011.

STATUS OF CONVERGENCE PLAN: Currently, impact assessment and training activities are underway and progressing according to plan.

Critical Accounting Estimates

Under Canadian 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 81.1% 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 judgement.

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 comprise approximately 4.1% 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 Canadian 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 Chartwell's 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 Chartwell being required to consolidate a VIE, could potentially have a material impact on Chartwell's 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 Chartwell's 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. Chartwell 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

Chartwell is 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 2009. 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

The Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of the Trust's disclosure controls and procedures (as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings") as at December 31, 2008. Based on this evaluation, we have concluded that Chartwell maintains appropriate information systems, procedures and controls to ensure information used internally and disclosed externally is complete, reliable and timely.

Evaluation of and Changes in Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have also evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of the Trust's internal controls over financial reporting (as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings") during the year and have noted material change in internal controls during 2008 as described below. A material weakness is a control deficiency, or combination of control deficiencies, that result in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Changes in Internal Controls — Deficiencies with Certain Information Technology ("IT") Controls at our Management Company in Quebec

Based on our evaluation of the internal controls at our Quebec management company, we continue to note a lack of segregation of duties within certain key information technology positions; insufficient access and password controls around our key applications and servers; and change management processes.

To address these control deficiencies, we undertook a secondary review of all financial information generated by this entity on a monthly basis, and in Q1 2007, we migrated some of the information technology functions from the management company to our head office. As discussed in the "Significant Events" section of this MD&A, on October 27, 2008, we acquired full control over our Quebec management company and as part of the integration plan, we will implement our information technology change management policies and procedures and will provide proper segregation of information technology responsibilities.

In addition, we have continued to maintain our compensating controls that were implemented previously to mitigate the risk of an error. Specifically, Chartwell performs additional analyses and other post-closing procedures to ensure our consolidated financial statements are prepared accurately, completely and that the data disclosed therein is in accordance with generally accepted accounting principles. On October 27, 2008, we acquired the remaining 50% interest in the Quebec management company and implemented the following improvements in internal controls:

- strengthened overall control environment,
- improved entity level controls, and
- increased senior financial and operational oversight.

We believe that these additional controls combined with the previously implemented compensating controls, sufficiently compensate for the weakness in information technology controls.

Forward-Looking Information and Risks and Uncertainties

Forward-Looking Information

This MD&A contains forward-looking information that reflects the current expectations of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or other similar variations. 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 Chartwell's 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; and
- 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.

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 expenditure 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

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. For a description of the recent tax developments relating to SIFT Rules, please refer to the "Significant Events – Taxation Related Matters" 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, Chartwell is 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 2008, 100% of Chartwell's distributions were characterized as return of capital (2007 – 97.7%). 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

Chartwell's business and operations are conducted in the United States and Canada, and within Canada in Ontario and Quebec. At December 31, 2008, a geographic concentration of our suites as a percentage of total suites was: U.S. – 34%; Canada – 66%; by province as a percentage of total suites as follows: Ontario – 33%; Quebec – 23%; and other Canadian provinces – 10%. 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

Chartwell is committed to keep its 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 Chartwell. The details of our actual capital asset spending for 2008 and 2007 can be found in the "Capital Expenditures" section of this MD&A.

e. Acquisition and Development

Chartwell's 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. Chartwell has significantly reduced its focus on external growth over the past year. If Chartwell is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.

f. Competition

Numerous other owners, managers and developers of seniors housing communities compete with Chartwell in seeking residents. The existence of competing owners, managers and developers and competition for Chartwell's 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 Chartwell's revenues and, consequently, cash available to Chartwell. The supply of long-term care suites in the regions in which Chartwell owns retirement communities may have an impact on the demand for retirement community suites.

g. Government Regulation

Healthcare in Canada 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 Chartwell. In addition, new regulatory standards and requirements are being considered in a number of provinces which may affect all types of seniors housing communities.

Currently, the long-term care beds in Ontario are operated pursuant to the Nursing Homes Act, the Charitable Institutions Act or Homes for the Aged and Rest Homes Act. On October 3, 2006, the Government of Ontario introduced Bill 140, now known as the Long-Term Care Homes Act, 2007 ("LTC Act 2007") which will consolidate the three pieces of legislation currently governing the LTC Communities. Aspects of the LTC Act 2007 which could affect Chartwell's LTC Communities include: 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. In addition, there will be a notice given three years before the end of the term of a license as to whether a new license will be issued. The LTC Act 2007 received third reading on June 4, 2007.

The LTC Act 2007 cannot be fully proclaimed into force until regulations are drafted. It is anticipated that the regulations will be completed in the fall of 2009 at which time the LTC Act 2007 could be fully in force.

h. Personnel Costs

Chartwell competes with other healthcare providers with respect to attracting and retaining qualified personnel. Chartwell is 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

Chartwell, directly and indirectly, employs or supervises approximately 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 Chartwell 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 Chartwell's 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 owned by Chartwell 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

Chartwell has and will continue to have substantial outstanding consolidated indebtedness comprised primarily of mortgages on our retirement and long-term care communities.

During 2008, 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 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 Chartwell to obtain financing on favourable terms, or at all.

Chartwell may not be able to renegotiate the terms of renewal of its 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, the Trust may be required to finance a conventional mortgage which may be less favourable to the Trust than a CMHC-insured mortgage. In addition, the terms of the Trust's 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 and its subsidiaries. Therefore, upon an event of default under such indebtedness, Chartwell's ability to make distributions will be adversely affected.

A portion of Chartwell's cash flow is devoted to servicing its debt, and there can be no assurance that the Trust will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If Chartwell were unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. Chartwell is also subject to the risk that any of its 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 its existing indebtedness.

k. Mezzanine Financing

The mezzanine financing that has been provided by Chartwell to Spectrum pursuant to the Development Agreement, to Melior, and to Spectrum's 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, including Chartwell, 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 Chartwell in any recovery from the assets of mezzanine loan borrowers. Further, Chartwell may not, at the applicable time, have the financial capacity to acquire all communities that it is entitled to acquire from mezzanine loan borrowers. In the event that Chartwell does not exercise its purchase option, the Trust would expect to have the principal and any unpaid interest relating to its mezzanine financing returned to it at which time Chartwell would cease to receive mezzanine loan interest income, and/or may cease to receive its 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

Chartwell has interests in seniors housing communities located in the United States. Chartwell will therefore be subject to foreign currency fluctuations which may, from time to time, have an impact upon its financial position and results. Chartwell 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 Chartwell.

m. Environmental Liabilities

Under various environmental laws and regulations, Chartwell, 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 its properties or disposed of at other locations sometimes regardless of whether or not the Trust knew of or was 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, management of Chartwell 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 Chartwell 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 Chartwell's business, financial condition or results of operation and distributions.

n. Liability and Insurance

The businesses which are carried on, directly or indirectly, by Chartwell, entail an inherent risk of liability. Management expects that from time to time Chartwell 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

Chartwell has entered into joint venture arrangements in respect of certain of its 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, Chartwell relies, in part, on its joint venture partners to successfully manage and operate certain of its 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, Chartwell may be exposed to adverse developments, including a possible change in control, in the business and affairs of its joint venture partners which could have a significant impact on, or termination of, Chartwell's interests in its joint ventures and could affect the value of the joint ventures to Chartwell and/or cause Chartwell to incur additional costs if it 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 venturer may exercise buy-sell, put or other sale or purchase rights which could obligate Chartwell to sell its interest or buy the other joint venturer's interest at a price which may not be favourable to Chartwell or at a time which may not be advantageous to Chartwell, the effect of which could be materially adverse to Chartwell's financial position or resources.

p. Variable Interest Entities

In June 2003, 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.

Chartwell continuously evaluates the impact of AcG-15 on the accounting for its relationships with and interests in various entities. As described in the "Critical Accounting Estimates" section of this MD&A, in order to complete its 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, 2008, Chartwell holds, directly or indirectly, variable interests in 19 variable interest 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.

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

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 this 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.

Stephen A. Suske	Vlad Volodarski
Chief Executive Officer and Vice Chair	*Chief Financial Officer*

March 30, 2009

AUDITORS' 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, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada March 17, 2009

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

December 31		2008		2007
ASSETS				
Properties (note 3)	$	**2,362,898**	$	2,110,985
Mezzanine loans receivable (note 5)		**96,822**		107,624
Limited life intangible assets (note 6)		**87,936**		109,814
Cash and cash equivalents		**10,530**		72,528
Other assets (note 7)		**75,650**		72,075
Capital funding receivable (note 4)		**46,001**		48,078
Licenses		**25,650**		25,650
Goodwill (note 8)		**–**		56,445
	$	**2,705,487**	$	2,603,199
LIABILITIES AND UNITHOLDERS' EQUITY				
Liabilities:				
Mortgages payable (note 9(a))	$	**1,668,445**	$	1,445,711
Revolving operating credit facility (note 9(b))		**8,000**		–
Convertible debentures (note 10)		**184,634**		180,656
Accounts payable and other liabilities (note 11)		**128,431**		103,271
Deferred consideration on business combinations (note 12)		**23,649**		41,305
Distributions payable		**6,285**		8,915
Future income tax liabilities (note 22)		**19,363**		18,732
		2,038,807		1,798,590
Non-controlling interest (note 13)		**16,446**		47,005
Unitholders' equity		**650,234**		757,604
Commitments and contingencies (notes 19 and 20)				
Guarantees (note 25)				
Subsequent events (notes 9, 17 and 26)				
	$	**2,705,487**	$	2,603,199

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

Charles Moses
Trustee

Sidney Robinson
Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

Years ended December 31		2008		2007
REVENUE:				
Resident	$	**695,970**	$	604,195
Management and other fees (note 17(a) and (b))		**9,092**		14,180
Mezzanine loan interest (notes 5 and 17(a) and (b))		**11,387**		13,342
Bank interest and other		**3,927**		8,152
Equity income from variable interest entities		**3,087**		3,774
Below-market lease amortization		**1,846**		1,394
		725,309		645,037
EXPENSES:				
Direct operating		**480,866**		417,410
General, administrative and trust		**19,902**		21,830
		500,768		439,240
		224,541		205,797
Interest expense		**103,789**		90,982
Property lease expense (note 16)		**47,959**		46,468
		151,748		137,450
		72,793		68,347
Unrealized and realized loss/(gain) on derivative financial instruments and unrealized and realized foreign exchange loss/(gain)		**(18,182)**		10,925
Depreciation of properties		**69,628**		58,359
Amortization of limited life intangible assets		**52,752**		53,944
Write-down in carrying value of assets (notes 6 and 7)		**–**		1,456
Provision for impairment of goodwill (note 8)		**64,506**		–
Provision for impairment of mezzanine loans (note 5)		**6,406**		–
Loss/(gain) on sale of assets (notes 3 and 7)		**(95)**		82
		175,015		124,766
Loss before income taxes		**(102,222)**		(56,419)
Income taxes (note 22):				
Current		**999**		2,004
Future		**169**		13,924
		1,168		15,928
Loss before non-controlling interest		**(103,390)**		(72,347)
Non-controlling interest (note 13)		**3,918**		5,008
Loss for the year		**(99,472)**		(67,339)
Other comprehensive income/(loss):				
Unrealized foreign currency gain/(loss) on the translation of self-sustaining foreign operations		**34,948**		(31,251)
Net change in fair value of derivatives designated as cash flow hedges (net of future income taxes of $462) (note 23)		**(1,932)**		223
Non-controlling interest		**(1,250)**		2,090
		31,766		(28,938)
Comprehensive loss	$	**(67,706)**	$	(96,277)
Loss per unit:				
Basic and diluted (note 15)	$	**(1.059)**	$	(0.782)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(In thousands of Canadian dollars)

Year ended December 31, 2008	Trust Units issued, net	LTIP Units under subscription	LTIP instalment loan receivable
	(note 14)	(note 14)	(note 14)
Unitholders' equity, January 1, 2008	$ 1,102,573	$ 31,894	$ (25,633)
Loss for the year	–	–	–
Other comprehensive income	–	–	–
Distributions to Unitholders	–	–	–
Issuance of Trust Units issued under the Distribution Reinvestment Program ("DRIP")	9,230	–	–
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	24,296	–	–
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of Trust Units transferred to Treasury	–	6,681	(5,751)
Disposition of LTIP Units surrendered, net of units transferred to Treasury	932	(5,796)	5,166
Interest on instalment loan receivable	–	–	(1,091)
Distributions applied against instalment loan receivable	–	–	2,144
Unitholders' equity, December 31, 2008	$ 1,137,031	$ 32,779	$ (25,165)

Year ended December 31, 2007	Trust Units issued, net	LTIP Units under subscription	LTIP instalment loan receivable
	(note 14)	(note 14)	(note 14)
Unitholders' equity, January 1, 2007	$ 874,165	$ 27,667	$ (23,343)
Cumulative impact of adopting new accounting standards for financial instruments	–	–	–
Loss for the year	–	–	–
Other comprehensive loss	–	–	–
Distributions to Unitholders	–	–	–
Issuance of Trust Units pursuant to secondary public offering	200,925	–	–
Issuance of Trust Units pursuant to exercise of over-allotment option	30,139	–	–
Issuance of 5.9% Convertible Debentures	–	–	–
Issuance of Trust Units under the DRIP	4,317	–	–
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	3,657	–	–
Trust Units issued under the LTIP, net of Trust Units transferred to Treasury	223	4,313	(4,054)
Repayment of instalment loan receivable	–	–	220
Trust Units issued on dispositions of LTIP Units under subscription	93	(86)	70
Trust Units issued on dispositions of Treasury Units	755	–	–
Issue costs	(11,773)	–	–
Interest on instalment loan receivable	–	–	(1,083)
Distributions applied against instalment loan receivable	–	–	2,557
Trust Units issued on conversion of convertible debentures	72	–	–
Unitholders' equity, December 31, 2007	$ 1,102,573	$ 31,894	$ (25,633)

See accompanying notes to consolidated financial statements.

Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components (note 10)	Total
$ (100,644)	**$ (28,351)**	**$ (237,113)**	**$ 14,878**	**$ 757,604**
(99,472)	**–**	**–**	**–**	**(99,472)**
–	**31,766**	**–**	**–**	**31,766**
–	**–**	**(75,670)**	**–**	**(75,670)**
–	**–**	**–**	**–**	**9,230**
–	**–**	**–**	**–**	**24,296**
–	**–**	**–**	**195**	**1,125**
–	**–**	**–**	**–**	**302**
–	**–**	**–**	**–**	**(1,091)**
–	**–**	**–**	**–**	**2,144**
$ (200,116)	**$ 3,415**	**$ (312,783)**	**$ 15,073**	**$ 650,234**

Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components (note 10)	Total
$ (33,319)	$ 587	$ (142,968)	$ 4,714	$ 707,503
14	–	–	–	14
(67,339)	–	–	–	(67,339)
–	(28,938)	–	–	(28,938)
–	–	(94,145)	–	(94,145)
–	–	–	–	200,925
–	–	–	–	30,139
–	–	–	10,563	10,563
–	–	–	–	4,317
–	–	–	–	3,657
–	–	–	–	482
–	–	–	–	220
–	–	–	–	77
–	–	–	–	755
–	–	–	(396)	(12,169)
–	–	–	–	(1,083)
–	–	–	–	2,557
–	–	–	(3)	69
$ (100,644)	$ (28,351)	$ (237,113)	$ 14,878	$ 757,604

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

Years ended December 31	2008	2007
Cash provided by (used in):		
OPERATING ACTIVITIES:		
Loss for the year	$ **(99,472)**	$ (67,339)
Items not affecting cash:		
Depreciation and amortization	**122,380**	112,303
Write-down in carrying value of assets	**–**	1,456
Loss/(gain) on sale of assets	**(95)**	82
Below-market lease amortization	**(1,846)**	(1,394)
Adjustment to record lease expense on a straight-line basis over the lease term	**6,866**	8,068
Non-cash LTIP compensation expense	**752**	540
Income from long-term investments	**(65)**	(49)
Unrealized loss/(gain) on derivative financial instruments and unrealized foreign exchange loss/(gain)	**(17,223)**	10,925
Non-controlling interest	**(3,918)**	(5,008)
Amortization of financing expenses	**4,762**	4,484
Accretion adjustment to convertible debenture liability	**2,772**	2,075
Amortization of debt discounts	**1,303**	1,743
Amortization of mezzanine placement fees	**(229)**	(2,150)
Amortization of legal costs integral to mezzanine lending activities	**677**	766
Provision for impairment of goodwill (note 8)	**64,506**	–
Provision for impairment of mezzanine loans (note 5)	**6,406**	–
Future income taxes	**169**	13,924
Change in non-cash operating items (note 21)	**13,780**	21,009
	101,525	101,435
FINANCING ACTIVITIES:		
Proceeds from mortgage financing	**73,568**	500,177
Proceeds from loans payable and revolving operating credit facility	**8,847**	136
Mortgage principal repayments	**(28,290)**	(221,785)
Financing costs	**(4,937)**	(9,418)
Proceeds from ING	**–**	41,919
5.9% Convertible Debentures issued, net of issue costs	**–**	72,188
Trust units issued pursuant to:		
Public offering	**–**	231,064
Issue costs	**–**	(11,773)
Redemption of non-voting preferred interests of CSH Master Care LLC	**(971)**	–
Disposition of Treasury Units	**1,125**	755
Distributions paid	**(68,692)**	(86,797)
Distributions paid to non-controlling interest Unitholders	**(3,975)**	(6,816)
Deposits received under LTIP and repayment of LTIP instalment loan receivable	**178**	220
	$ **(23,147)**	$ 509,870

CONSOLIDATED STATEMENTS OF CASH FLOWS

Continued (In thousands of Canadian dollars)

Years ended December 31	2008	2007
INVESTING ACTIVITIES:		
Acquisition of assets, net of debt assumed and units issued (note 2)	**$ (43,722)**	$ (599,447)
Payment of deferred consideration on business combinations	**(22,314)**	(29,494)
Additions to properties	**(72,564)**	(44,304)
Payment of contingent purchase consideration	**(4,300)**	(1,000)
Amounts received under income guarantees	**740**	1,548
Proceeds on sale of assets	**1,257**	5,010
Mezzanine loans advances, net of fees	**(8,480)**	(17,478)
Mezzanine loans repayments	**3,843**	3,368
Distributions on long-term investments	**–**	1,020
Restricted cash and deposits in escrow	**82**	21,463
Proceeds from capital funding receivables	**2,077**	1,343
	(143,381)	(657,971)
Foreign exchange gain/(loss) on U.S. dollar-denominated cash	**3,005**	(6,745)
Decrease in cash and cash equivalents	**(61,998)**	(53,411)
Cash and cash equivalents, beginning of year	**72,528**	125,939
Cash and cash equivalents, end of year	**$ 10,530**	$ 72,528

Supplemental cash flow information (note 21)

See accompanying notes to consolidated financial statements.

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 homes and long-term care properties 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, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year (note 22).

Note 1 Significant accounting policies

A. Basis of presentation

These consolidated financial statements have been prepared in accordance with 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

On January 1, 2008, Chartwell adopted the new recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The disclosure of information enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new guidance did not have an effect on the financial position, operating results and cash flows of the Trust. Disclosures required under Section 1535, not provided elsewhere in these consolidated financial statements, are provided in note 24.

Section 3862 and Section 3863 replace the existing Section 3861, Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Management has determined that the adoption of Section 3862 and Section 3863 did not have any material effect on the Trust's operating results, financial position and cash flows. Disclosures required under Section 3862, not provided elsewhere in these consolidated financial statements, are provided in note 23.

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, 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 represents 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 indicate the asset might be impaired, by comparing the carrying value of a reporting unit with its fair value.

Absent any triggering events during the year, Chartwell conducts its goodwill assessment in the third quarter of the year to correspond with its planning cycle. Chartwell tests impairments, using the two-step method, at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. Chartwell estimates the fair values of the reporting units using a combination of a market capitalization approach, a multiples approach and discounted cash flows. To the extent a reporting unit's carrying amount exceeds its fair value, Chartwell may have an impairment of goodwill. Chartwell measures its impairment by comparing the implied fair value of goodwill, determined in a manner similar to a purchase price allocation, to its carrying amount. Chartwell performed its annual goodwill assessment for 2007 and determined that there was no impairment. In the fourth quarter of 2008, Chartwell recorded a provision for impairment of $64,506 (note 8). The process of determining fair values is subjective and requires management to exercise a significant amount of judgement in making assumptions about future results, including revenue and expense projections, discount rates and market multiples, at the reporting unit level.

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 homes 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. Long-term investments

The long-term investments represent investments subject to significant influence and are accounted for under the equity method. An impairment (other than a temporary impairment) loss on long-term investments is recognized when the carrying amount of the long-term investments exceeds their fair value.

G. 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.

H. Revenue recognition

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

i. Retirement home resident revenue

Revenue in respect of accommodation and care services fees provided to residents of retirement homes is recognized when the services, both rental and care, are provided. In certain jurisdictions, residents of retirement homes 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 home resident revenue

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian long-term care properties 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 homes, a substantial portion of which are funded by provincial or regional programs. Long-term care home 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 fee revenue is recognized on a straight-line basis over the estimated period the services are provided.
c) Fee revenue from financing and due diligence project management is recognized upon completion of the contracted services.

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. Under the Development Agreement with Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell by virtue of common management (note 5(a)), and agreements with Le Groupe Melior ("Melior") and others (note 5(b)), the Trust earns interest from mezzanine loans, as well as mezzanine placement fees, development fees, structuring fees, financing fees and operations management fees. 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.

I. 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.

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 publicly listed or traded 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, the tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and was committed to continue distributing all of its taxable income to its unitholders. Accordingly, Chartwell did not previously record a provision for income taxes or future income tax assets or liabilities, in respect of Chartwell or its investment in its subsidiary trust and partnership.

On June 22, 2007, legislation relating to the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") received Royal assent (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership and trust, such as an income trust and a real estate investment trust.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be 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 will not be subject to the tax.

Under the SIFT Rules, the new taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Chartwell does not meet the REIT Conditions and, therefore, is a SIFT.

A SIFT that was publicly listed before November 1, 2006 (an "Existing Trust") is subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain safe harbour limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). On April 20, 2007, Chartwell issued equity capital in excess of these Safe Harbour Limits. Therefore, commencing in fiscal 2007, Chartwell is subject to tax on certain income.

Under the existing SIFT Rules, certain flow-through subsidiaries of Chartwell may also themselves be SIFTs. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. As currently structured, certain subsidiaries of Chartwell may also be SIFTs.

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 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 swaps 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 agreements 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 swaps.

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 loss for the year 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. Goodwill and intangible assets

In February 2008, the CICA issued a new accounting standard, Handbook Section 3064, "Goodwill and Intangible Assets", which will be effective retroactively for Chartwell's interim and annual consolidated financial statements commencing January 1, 2009.

The objectives of this new section are to:

a) reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and
b) clarify the application of the concept of matching revenue and expenses such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated.

ii. Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued Abstract EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which requires the Trust to take into account its own credit risk and the credit risk of the counterparty in determining the fair value of its financial assets and financial liabilities, including derivative instruments. This standard is effective for Chartwell's first quarter 2009 and should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value on the date this abstract was issued.

Chartwell is assessing the impact of the new standard on its consolidated financial statements.

iii. 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 International Financial Reporting Standards ("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.

Note 2 Acquisitions

A. Acquisition during the year ended December 31, 2008

During the year ended December 31, 2008, Chartwell completed the following acquisitions:

i) On October 27, 2008, pursuant to the put option rights under Co-ownership Agreements exercised by certain affiliates of Melior, Chartwell acquired the remaining 50% ownership interest in seven retirement properties and one joint venture property management entity in the Province of Quebec for a purchase price, before closing costs, of $63,318. The purchase consideration on the acquisition was satisfied by the assumption of mortgages of $46,545, discharge of mezzanine loans of $2,742 and payment of cash of $14,031.

ii) On May 29, 2008, Chartwell acquired the remaining 50% interest in the ownership of one seniors housing property for a purchase price, before closing costs, of $4,565. Chartwell managed the property and had an ownership interest of 50%, acquired in December 2004. The purchase consideration on this acquisition was satisfied in part by the assumption of a mortgage of $3,019 and other liabilities of $926. Subsequent to the closing, Chartwell secured new mortgage financing of $6,684 and discharged the mortgage assumed.

iii) On April 24, 2008, Chartwell acquired 100% interest in one retirement property in Elmira, Ontario for a purchase price, before closing costs, of $6,700 adjacent to the long-term care property Chartwell already owns. The purchase consideration on this acquisition was satisfied in part by the assumption of a mortgage of $4,820.

iv) On January 9, 2008, Chartwell acquired 100% interest in one seniors housing property in Gatineau, Quebec from Spectrum, a limited partnership related to Chartwell by virtue of common management, Melior and their joint venture partners for a purchase price, before closing costs, of $29,183.

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, Melior and joint venture partners	Others		Melior	Total
Date of acquisition	January 9, 2008	April 24, 2008	May 29, 2008	October 27, 2008	
Segment	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Retirement Operations	Canadian Retirement Operations	
Location	Gatineau, Quebec (1 retirement home – 173 suites)	Elmira, Ontario (1 long-term care home – 64 suites)	Kanata, Ontario (50% interest in 1 retirement home – 80 suites)	Various locations (50% interest in 7 retirement homes – 1,230 suites)	
Properties	$ 26,633	$ 6,406	$ 4,075	$ 58,782	$ 95,896
Management contracts, resident contracts, customer relationships and other intangibles	2,135	822	575	6,503	10,035
Goodwill	981	–	402	3,907	5,290
Other assets	66	119	70	–	255
Mortgages assumed	–	(4,820)	(3,019)	(46,545)	(54,384)
Below-market resident contracts	(93)	–	–	(1,523)	(1,616)
Other liabilities	(185)	(104)	(926)	(1,937)	(3,152)
Net assets acquired	$ 29,537	$ 2,423	$ 1,177	$ 19,187	$ 52,324
Discharge of mezzanine loans receivable	$ 5,860	$ –	$ –	$ 2,742	$ 8,602
Cash consideration	23,323	1,880	1,091	14,031	40,325
Acquisition costs	354	543	86	2,414	3,397
Total consideration	$ 29,537	$ 2,423	$ 1,177	$ 19,187	$ 52,324

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.

B. Acquisitions during the year ended December 31, 2007

During the year ended December 31, 2007, Chartwell acquired varying interests in 72 seniors housing communities (11,158 suites) and management contracts for six long-term care communities. The following table summarizes the net assets acquired, at fair value:

Properties	$ 718,164
Resident contracts, leasehold and other intangibles	105,480
Land held for development	2,500
Capital funding receivable	36,421
Licenses	8,890
Goodwill	25,267
Asset held for sale	122,505
Other assets	14,936
Mortgages and loans payable	(277,886)
Other liabilities	(13,175)
Future income tax liability	(4,904)
Liabilities related to assets held for sale	(80,107)
Net assets acquired	$ 658,091
Issuance of Class B Units of Master LP	$ 10,145
Issuance of Class B Common Units of CSH Massapequa Inc.	663
Deferred consideration on business combinations	44,005
Discharge of mezzanine loans receivable	3,831
Cash consideration	599,447
Total consideration	$ 658,091

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.

During the year ended December 31, 2008, the purchase price allocation was adjusted to reduce the allocation to buildings by $7,862 with the corresponding increase to other intangible assets and accrued liabilities.

Note 3 Properties

			2008			2007
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	**$ 238,123**	**$ –**	**$ 238,123**	$ 213,626	$ –	$ 213,626
Buildings	**2,167,727**	**156,418**	**2,011,309**	1,908,584	95,363	1,813,221
Furniture, fixtures and equipment	**89,320**	**45,923**	**43,397**	74,640	28,615	46,025
	2,495,170	**202,341**	**2,292,829**	2,196,850	123,978	2,072,872
Properties under development	**49,425**	**–**	**49,425**	17,879	–	17,879
Land held for development	**20,644**	**–**	**20,644**	20,234	–	20,234
	$ 2,565,239	**$ 202,341**	**$ 2,362,898**	$2,234,963	$ 123,978	$2,110,985

Included in properties as at December 31, 2008 are assets under capital leases with a cost of $154,439 (2007 – $134,706) and accumulated depreciation of $7,892 (2007 – $3,137).

Included in properties under development is interest of $1,854 (2007 – nil) and incremental operating costs of $422 (2007 – nil) capitalized for the year ended December 31, 2008.

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.

During the year ended December 31, 2007, Chartwell sold three properties and miscellaneous equipment with a carrying value of $4,600. A loss of $82 was recognized on these sales.

Note 4 **Capital funding receivable**

The capital funding receivable of $46,001 (2007 – $48,078) represents the discounted cash flows receivable from the Government of Ontario over a remaining period of approximately 14 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 homes for the remaining period. The discount rate used is based upon long-term Ontario Government Bond rates.

Note 5 **Mezzanine loans receivable**

In addition to providing development services, operations management services and financing services in relation to arranging construction loans, in accordance with the terms of the Development and Loan Agreements, Chartwell provides mezzanine loans to Spectrum, Melior and other joint venture partners. Under the Development Agreement with Spectrum and the Loan Agreement with Melior and other joint venture partners, the Trust earns interest from mezzanine loans, as well as mezzanine placement fees, development fees, structuring fees, financing fees and operations management fees.

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

				2008	2007
	Contractual interest rate	Principal amount	Lending expenses/ (deferred placement fees), net	Net balance	Net balance
Spectrum	**10% – 14%**	**$ 50,849**	**$ 245**	**$ 51,094**	$ 50,546
Melior	**10% – 14%**	**40,545**	**(4,191)**	**36,354**	41,149
Others	**10% – 12%**	**16,696**	**(916)**	**15,780**	15,929
		$ 108,090	**$ (4,862)**	**103,228**	107,624
Provision for impairment				**(6,406)**	–
				$ 96,822	$ 107,624

A. Spectrum

In accordance with the terms of the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Government of Canada bonds plus 5% and Chartwell's annualized cash contribution yield for the most recent quarter subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum as indicated above and is payable monthly. The loans are secured by second charges or pledges of Spectrum's interest over 34 (2007 – 33) seniors housing development properties. In addition, the loans are cross-defaulted.

Chartwell has the first option to provide mezzanine financing to Spectrum for future development properties under the terms and conditions specified in the Development Agreement.

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.

B. Melior and other joint venture partners

With the continuing deterioration of general credit conditions affecting the availability of debt for development, completion of three development projects in Quebec on which Chartwell advanced mezzanine loans to Melior became uncertain. In the fourth quarter of 2008, the borrower failed to make interest payments on these three loans. The investment in these three loans was $10,491, net of unamortized placement fees of $2,533. Chartwell obtained external valuations of the underlying security of these mezzanine loans and recorded an impairment charge of $6,406 before future tax recoveries. Chartwell is working with Melior on settlement arrangements for these loans.

Chartwell has advanced 24 (2007 – 28) mezzanine loans totalling $57,241 (2007 – $61,909) 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 22 (2007 – 25) seniors housing development projects.

Chartwell has the first right to purchase the Borrowers' interest in these projects at fair market value upon properties reaching a stabilized occupancy. In addition, the Borrowers of mezzanine loans on 13 properties (2007 – 14) can obligate Chartwell to acquire their interests in the projects at the appraised value, subject to certain conditions being satisfied.

The put option can only be exercised by the borrower if the project has attained stabilized occupancy and the acquisition of such property is accretive to Chartwell based on a formula defined in the option agreement.

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	Other joint venture partners	Total
2009	$ 14,652	$ 16,193	$ –	$ 30,845
2010	14,005	17,346	6,932	38,283
2011	13,136	3,252	6,463	22,851
2012	7,181	3,754	1,427	12,362
2013	1,875	–	1,874	3,749
	$ 50,849	$ 40,545	$ 16,696	$ 108,090

Note 6 **Limited life intangible assets**

	2008			2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	**$ 11,976**	**$ 4,483**	**$ 7,493**	$ 13,314	$ 3,834	$ 9,480
Resident contracts	**143,877**	**99,231**	**44,646**	159,794	87,196	72,598
Customer relationships	**–**	**–**	**–**	3,214	2,596	618
Other intangibles	**45,323**	**9,526**	**35,797**	29,175	2,057	27,118
	$ 201,176	**$ 113,240**	**$ 87,936**	$ 205,497	$ 95,683	$ 109,814

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 seniors housing properties.

During the year ended December 31, 2007, the termination of two management contracts resulted in a write-down of $106 and $67 in the carrying value of management contracts and customer relationships, respectively.

During the year ended December 31, 2008, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and customer relationships that were fully amortized by $46,931 (2007– $35,873).

Note 7 **Other assets**

	2008	2007
Accounts receivable	**$ 22,548**	$ 24,086
Deposits on acquisitions	**–**	111
Long-term investments (a), (b)	**–**	264
Due from Spectrum (note 17(a))	**9,977**	5,678
Due from ING	**501**	4,754
Prepaid expenses and deposits	**11,760**	10,251
Deposits in escrow	**22,275**	18,427
Other	**8,589**	8,504
	$ 75,650	$ 72,075

a) During the year ended December 31, 2008, Chartwell sold its 39% equity interest in a property. A gain of $16 was recognized on this sale.

b) During the year ended December 31, 2007, the Trust wrote down its long-term investment in a seniors housing property by $1,283.

Note 8 Goodwill

	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Total
Balance, December 31, 2006	$ 20,825	$ –	$ 11,558	$ –	$ 32,383
Goodwill acquired during the year (note 2)	7,323	2,720	–	15,224	25,267
Contingent consideration payments allocated to goodwill	150	–	–	487	637
Management contracts and customer relationships transferred to goodwill (note 6)	89	–	–	–	89
Effect of foreign exchange translation of self-sustaining foreign operations	–	–	–	(1,931)	(1,931)
Balance, December 31, 2007	28,387	2,720	11,558	13,780	56,445
Goodwill acquired during the year (note 2)	5,290	–	–	–	5,290
Adjustment to purchase price allocation	(380)	–	–	–	(380)
Effect of foreign exchange translation of self-sustaining foreign operations	–	–	–	3,151	3,151
Provision for impairment	(33,297)	(2,720)	(11,558)	(16,931)	(64,506)
Balance, December 31, 2008	$ –	$ –	$ –	$ –	$ –

Provision for impairment

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 uses Chartwell's publicly traded unit price to determine fair values, the multiples approach uses comparable market multiples to arrive at fair values and the discounted cash flow method uses 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 is highly subjective and requires management to exercise a significant amount of judgement in determining future growth, discount and tax rates among other factors. Consequently, given the uncertainty in the current economic environment, Chartwell has relied on the publicly traded market price of Chartwell 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 this 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 $64,506.

Reporting unit	Value of Goodwill before Impairment Provision	Impairment Provision	**Goodwill as at December 31, 2008**
Canadian Retirement Operations	$ 33,297	$ 33,297	**$ –**
Canadian Long-Term Care Operations	2,720	2,720	–
Canadian Management Operations	11,558	11,558	–
United States Operations	16,931	16,931	–
	$ 64,506	$ 64,506	**$ –**

Note 9 **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
2009	$ 27,233	$ 147,340	$ 174,573
2010	26,570	65,305	91,875
2011	27,258	33,013	60,271
2012	29,296	80,507	109,803
2013	29,395	114,696	144,091
2014	26,074	37,709	63,783
2015	25,739	94,225	119,964
2016	21,940	196,332	218,272
2017	17,764	292,847	310,611
2018	15,356	32,598	47,954
2019 – 2023	67,243	139,217	206,460
Thereafter	81,003	44,409	125,412
	$ 394,871	$ 1,278,198	1,673,069
Mark-to-market adjustment arising on acquisition			15,528
Financing costs			(20,152)
			$ 1,668,445

	2008	2007
MORTGAGES AT FIXED RATES:		
Mortgages	**$ 1,644,135**	$ 1,411,243
Interest rates	**4.11% – 8.75%**	3.50% – 10.00%
Weighted average interest rate	**5.69%**	5.78%
MORTGAGES AT VARIABLE RATES:		
Mortgages	**$ 28,934**	$ 35,038
Interest rates	**Bankers' acceptance + 0.95% to prime plus 3.00%**	Prime plus 0.75% – 3.00%
Weighted average interest rate	**3.23%**	6.86%
Blended weighted average rate of maturing debt	**5.65%**	5.81%

During the year ended December 31, 2008, interest expense on mortgages payable amounted to $88,403 (2007 – $75,676).

One of Chartwell's U.S. subsidiaries had not complied with certain financial covenants under the terms of a loan agreement for one of its individual properties. As at December 31, 2008, the amount of the loan was $14,699 (U.S.$12,068) bearing interest at 6.24%, maturing on December 26, 2013. The loan payments are current. A pay down of $3,654 (U.S.$3,000) was made in January 2009 in order to remedy the default; hence, this amount was reclassified as a principal repayment due in 2009.

B. Secured revolving operating credit facility

Chartwell has arranged for a $90,000 secured revolving operating credit facility (the "Credit Facility"). At December 31, 2008, the maximum available borrowing capacity under the Credit Facility was $62,153 (2007 – $64,497) based on the security provided. The Credit Facility matures on June 28, 2009. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1% or at the applicable bankers' acceptance rate plus 2.25%. 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, 2008, $8,000 (2007 – nil) was outstanding under the Credit Facility.

C. Non-voting Series A Preferred Interests of CSH Master Care LLC

On October 1, 2005, CSH Master Care LLC, a U.S. subsidiary of Chartwell, issued 144,405 Series A Interests to a vendor of two seniors housing properties acquired in the United States at $14.87 per unit interest. This vendor is a joint venture partner of Chartwell in other projects.

Series A Interests become redeemable at the option of the holders at specific points in time over three years ended September 30, 2008. The redemption price is payable in Canadian dollars and will be based on the closing price of Chartwell Trust Units (note 14). Series A Interests are classified as a liability in these consolidated financial statements and are measured at their redemption value. Unrealized and realized gains and losses resulting from changes in the redemption value of Series A Interests are recorded in income. At December 31, 2008, the redemption price of Series A Interests was $5.40 (2007 – $11.35) per unit interest; consequently, a gain of $516 (2007 – $73) was recorded in these consolidated financial statements. Series A Interests receive monthly distributions equal to distributions on Chartwell Trust Units. For the year ended December 31, 2008, these distributions are recorded as interest expense in the consolidated financial statements and amounted to $57 (2007 – $154).

During the year ended December 31, 2008, 96,270 of the total units were redeemed at $10.09 per unit for total consideration of $971.

Note 10 Convertible debentures

The Trust has the following series of convertible debentures outstanding:

			2008			2007
	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	**$ 119,005**	**$ 65,629**	**$ 184,634**	$ 117,266	$ 63,390	$ 180,656

A. 5.9% Convertible Debentures

On April 20, 2007, Chartwell issued $75,000 of convertible, unsecured, subordinated debentures ("5.9% Convertible Debentures") pursuant to a prospectus dated April 13, 2007 for proceeds of $72,188, net of issue costs. 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 will not be 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 trust indenture relating to the debentures (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.

B. 6.0% Convertible Debentures

On November 28, 2006, Chartwell issued $125,000 of convertible, unsecured subordinated debentures ("6.0% Convertible Debentures") pursuant to a prospectus dated November 16, 2006 for proceeds of $120,313, net of issue costs. 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 will not be 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 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.

During the year ended December 31, 2007, 6.0% Convertible Debentures with a principal amount of $75 were converted into 4,808 Trust Units at a conversion price of $15.60.

Note 11 **Accounts payable and other liabilities**

	2008	2007
Accounts payable and accrued liabilities	**$ 108,583**	$ 86,557
Income taxes payable	**3,003**	2,004
Below-market resident contracts, net of accumulated amortization of $2,450 (2007 – $979)	**2,101**	1,578
Resident deposits	**4,711**	5,199
Deferred revenue	**10,033**	7,933
	$ 128,431	$ 103,271

Note 12 **Deferred consideration on business combinations**

Included in deferred consideration on business combinations are the following:

Business combinations	2008	2007
Castel Royale	**$ 520**	$ 520
Elizabeth Towers (a)	**918**	1,180
Heritage Glen (b)	**12,025**	15,801
Van Horne Manor	**–**	50
HB Realty (c)	**–**	1,784
Bristal Portfolio (d) and (e)	**6,849**	17,907
Jardins de la Gare (f)	**–**	1,471
Merrill Gardens Portfolio	**3,337**	2,592
	$ 23,649	$ 41,305

During the year ended December 31, 2008, Chartwell settled the following deferred consideration in cash:

a) In February 2008, $262 was paid in respect of the Elizabeth Towers acquisition.

b) In November 2008, $4,500 was paid in respect of the Heritage Glen acquisition.

c) On January 1, 2007, Chartwell acquired a 49% interest in HB Realty. Under the purchase and sale agreement, a portion of the purchase price in the amount of $3,470 (U.S.$3,500) was deferred for two years following the closing to be applied first to fund cash shortfalls under the lease arrangements, with the remaining amount, if any, payable to the vendor.

During the year ended December 31, 2008, $1,934 (U.S.$1,800) (2007 – $1,663 (U.S.$1,700)) was used to fund cash shortfalls under the lease arrangements.

d) On February 21, 2008, Chartwell paid $3,469 (U.S.$3,500) of the Series B Notes relating to the Bristal Portfolio acquisition, representing Chartwell's share of the principal and interest due on the first anniversary of acquisition. On December 23, 2008, Chartwell paid in advance $5,353 (U.S.$4,400, net of discount of U.S.$100) for the principal and interest due on the second anniversary of the acquisition.

e) $4,956 (U.S.$5,000) plus accrued and unpaid dividends, representing Chartwell's share of the acquisition price of the Units. The payment was made pursuant to the put option for the third tranche (100,000 Units) of the Class B Preferred Units exercised by the vendor on October 10, 2007.

f) In April 2008, $1,500 related to the April 2007 acquisition of Jardins de la Gare was paid.

Note 13 **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.

The details of non-controlling interest are as follows:

	2008	2007
Balance, beginning of year	**$ 47,005**	$ 54,453
Cumulative impact of adopting the new financial instrument standards	**–**	1
Issuance of Class B Units of Master LP (note 2)	**–**	10,145
Non-controlling interest's share of loss for the year	**(3,918)**	(5,008)
Distributions on Class B Units of Master LP	**(3,595)**	(6,839)
Exchange of Class B Units of Master LP for Trust Units	**(24,296)**	(3,657)
Other comprehensive income/(loss)	**1,250**	(2,090)
Balance, end of year	**$ 16,446**	$ 47,005

Note 14 **Unitholders' capital**

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 $50,000 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 $50,000 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
UNITS OUTSTANDING, JANUARY 1, 2007	74,576,539	$ 874,165
Trust Units issued pursuant to secondary public offering	14,100,000	200,925
Trust Units issued pursuant to exercise of over-allotment option	2,115,000	30,139
Trust Units issued under the DRIP	328,065	4,317
Trust Units issued on exchange of Class B Units of Master LP	425,039	3,657
LTIP Units transferred to Treasury	–	223
Trust Units issued on dispositions of LTIP Units under subscription	5,000	93
Trust Units issued on dispositions of Treasury Units	71,250	755
Issue costs	–	(11,773)
Trust Units issued on conversion of convertible debentures	4,808	72
UNITS OUTSTANDING, 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
Units outstanding, December 31, 2008	**96,369,598**	**$ 1,137,031**

B. Long-Term Incentive Plan ("LTIP")

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. Cash distributions received on the LTIP Units issued are to be applied as payment of the interest and principal against the LTIP instalment loan receivable. Participants may prepay any principal at their discretion. Units issued under the LTIP are held as security for the outstanding LTIP instalment loan receivable. If a participant fails to pay interest and/or any principal, 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 2,571,990 (2007 – 2,336,323) were issued and 3,328,900 (2007 – 3,564,567) were available to be issued at December 31, 2008.

The following table summarizes LTIP Units issued under the LTIP:

	Number of Units under subscription	Amount
Balance, December 31, 2006	2,070,375	$ 27,667
Sale of Trust Units	(76,250)	(86)
Issuance of Trust Units	342,198	3,773
Compensation expense	–	540
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)	(5,646)
Balance, December 31, 2008	**2,571,990**	**$ 32,779**

The market value of the Trust Units at December 31, 2008 was $5.40 per Unit (2007 – $11.35).

The compensation expense attributable to the LTIP of $752 for the year ended December 31, 2008 (2007 – $540) 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 ("DRIP")

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%.

Note 15 Loss per unit calculation

	2008		2007	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the year	**93,946,250**	**$ (99,472)**	86,134,046	$ (67,339)
Loss per unit (basic and diluted)		**$ (1.059)**		$ (0.782)

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:

	2008	2007
LTIP Units under subscription	**2,641,306**	2,421,472
Class B Units of Master LP	**4,597,555**	6,394,515
Assumed conversion of convertible debentures	**12,623,397**	11,233,099

Note 16 Property lease expense

Through its acquisition of a 49% interest in HB Realty, Chartwell has become a party to a master lease agreement in respect of 25 seniors housing properties. Under these agreements, on inception of the master lease, the individual property lease terms varied from 12.2 to 13 years and included two consecutive extension options on the same terms and conditions. Under the master lease, HB Realty is responsible for all operating costs, including repairs, property taxes and insurance, and is subject to net worth requirements, minimum capital expenditure requirements per property per annum and minimum lease coverage ratios.

Chartwell also acquired a leasehold interest in two seniors housing properties in Florida pursuant to the acquisition of the Merrill Gardens Portfolio.

A summary of property lease expense is as follows:

	2008	2007
Lease payments	**$ 41,093**	$ 38,400
Adjustment to record lease expense on a straight-line basis over the lease term	**6,866**	8,068
	$ 47,959	$ 46,468

Note 17 Related-party transactions and balances

Except as disclosed elsewhere in these consolidated financial statements, related party transactions were as follows:

A. Spectrum

	2008	2007
Contractual mezzanine loan interest income (note 5)	**$ 5,494**	$ 5,364
Effective interest rate adjustments	**(220)**	(136)
Development fees	**1,402**	4,477
Operations management fees	**2,167**	1,591
Other fees	**119**	501
Interest on overdue accounts receivable	**$ 310**	$ 67

Other assets as at December 31, 2008 include $9,977 (2007 – $5,678) due from Spectrum. Subsequent to December 31, 2008, $803 of this balance was collected in cash and approximately $7,493 of the past due accounts receivable was settled through the purchase of four properties from Spectrum (note 26). A portion of the remaining balance is past due. Past due receivable balances bear interest at 15% and Chartwell is working with Spectrum to collect these past due amounts. These past due amounts are secured by a general security agreement affecting Spectrum's interest in one property in lease-up.

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.

Included in accounts payable at December 31, 2007 is $600 in deferred consideration due to Spectrum with respect to a property acquired from Spectrum in 2006.

B. Melior

	2008	2007
Contractual mezzanine loan interest income (note 5)	**$ 4,065**	$ 4,992
Effective interest rate adjustments	**(484)**	1,372
Project management fees paid to Melior	**(1,811)**	–
Reimbursement of expenses paid to Melior	**(222)**	(98)
Deferred purchase consideration paid to Melior	**(150)**	(3,486)
Referral and due diligence fees paid	**$ –**	$ (959)

Other assets as at December 31, 2008 included $794 (2007 – $2,309) due from Melior. Subsequent to December 31, 2008, $48 of this balance was collected.

At December 31, 2008, Chartwell had accounts payable due to Melior of $57 (2007 – $569) relating to referral fees, management fees, incentive fees and legal fees.

Subsequent to the acquisition on October 27, 2008 of the remaining 50% in seven co-owned properties and one joint venture property management entity (note 2), transactions with Residence Melior Inc. and its affiliates do not meet the definition of a related party and, therefore, subsequent to October 27, 2008 are no longer reported as related-party transactions.

C.

Included in accounts receivable at December 31, 2008 is $66 (2007 – $66) due from an officer of Chartwell related to the previous sale of a property to the Trust.

D.

Included in mortgages payable at December 31, 2008 is a vendor take-back mortgage of nil (2007 – $1,097) due to an officer of Chartwell. During the year ended December 31, 2008, the Trust incurred interest expense of $36 (2007 – $114) related to this mortgage.

Related-party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Note 18 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.

2008	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Total
Revenue	$ 291,212	$ 138,752	$ 9,092	$ 266,006	$ 705,062
Equity income from variable interest entities	3,087	–	–	–	3,087
Below-market lease amortization	410	–	–	1,436	1,846
Direct operating expense	187,491	121,264	4,100	168,011	480,866
Income before the undernoted	107,218	17,488	4,992	99,431	229,129
Interest expense	36,689	9,534	–	41,666	87,889
Property lease expense	117	204	–	47,638	47,959
Income before the following	70,412	7,750	4,992	10,127	93,281
Depreciation and amortization	58,441	8,847	2,759	52,333	122,380
Loss/(gain) on sale of assets	(89)	–	(16)	10	(95)
	$ 12,060	$ (1,097)	$ 2,249	$ (42,216)	(29,004)
ITEMS NOT ALLOCATED TO OPERATING SEGMENTS:					
Mezzanine loan interest, bank interest and other income					15,314
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					(64,506)
Provision for impairment of mezzanine loans					(6,406)
Non-controlling interest					3,918
Current income tax expense					(999)
Future income tax expense					(169)
Loss for the year					$ (99,472)
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

2007	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Total
Revenue	$ 262,656	$ 111,697	$ 14,180	$ 229,842	$ 618,375
Equity income from variable interest entities	3,774	–	–	–	3,774
Below-market lease amortization	559	35	–	800	1,394
Direct operating expense	169,292	98,630	3,996	145,492	417,410
Income before the undernoted	97,697	13,102	10,184	85,150	206,133
Interest expense	35,037	7,278	–	35,048	77,363
Property lease expense	–	39	–	46,429	46,468
Income before the following	62,660	5,785	10,184	3,673	82,302
Depreciation and amortization	60,067	7,194	2,254	42,788	112,303
Write-down in carrying value of assets	1,284	–	172	–	1,456
Loss on sale of assets	82	–	–	–	82
	$ 1,227	$ (1,409)	$ 7,758	$ (39,115)	(31,539)
ITEMS NOT ALLOCATED TO OPERATING SEGMENTS:					
Mezzanine loan interest, bank interest and other income					21,494
General, administrative and trust expenses					(21,830)
Interest on convertible debentures					(13,619)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain/(loss)					(10,925)
Non-controlling interest					5,008
Current income tax expense					(2,004)
Future income tax expense					(13,924)
Loss for the year					$ (67,339)
EXPENDITURES FOR ASSETS BY SEGMENT:					
Acquisitions – properties, land held for development, limited life intangible assets, licenses and other assets	$ 142,101	$ 138,097	$ –	$ 569,772	$ 849,970
Capital improvements	33,688	2,196	1,529	6,891	44,304

2008	**Canadian Retirement Operations**	**Canadian Long-Term Care Operations**	**Canadian Management Operations**	**United States Operations**	**Other**	**Total**
Total assets	**$ 1,331,094**	**$ 298,772**	**$ 13,937**	**$ 953,830**	**$ 107,854**	**$ 2,705,487**
Total liabilities	**922,332**	**190,187**	**–**	**717,956**	**208,332**	**2,038,807**

2007	Canadian Retirement Operations	Canadian Long-Term Care Operations	Canadian Management Operations	United States Operations	Other	Total
Total assets	$ 1,261,894	$ 302,766	$ 16,680	$ 836,953	$ 184,906	$ 2,603,199
Total liabilities	810,539	190,602	–	592,046	205,403	1,798,590

Note 19 **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:

	2008	2007
Assets	**$ 703,683**	$ 713,494
Liabilities	**549,482**	520,354

	2008	2007
Revenue	**$ 243,167**	$ 214,572
Expenses, including depreciation and amortization of $38,760 (2007 – $37,118)	**267,610**	244,186
Loss for the year	**(24,443)**	(29,614)
CASH PROVIDED BY (USED IN):		
Operating activities	**$ 16,083**	$ 10,395
Financing activities	**(19,421)**	259,167
Investing activities	**(2,448)**	(259,090)

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 $550,951 (2007 – $520,534), 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. VIEs

At December 31, 2008, Chartwell holds variable interests in 19 (2007 – 20) VIEs. Chartwell provides development services, mezzanine loans, structuring services and consulting services to these entities. These VIEs are expected to incur development costs of approximately $469,326 (2007 – $471,803).

As of December 31, 2008, Chartwell had mezzanine loans receivable of $62,769 (net of provision for impairment of $6,406) (2007 – $69,105) from these entities. During the year ended December 31, 2008, Chartwell earned $6,960 (2007 – $8,600) in interest from these entities.

During 2008, Chartwell, through a holding company, held variable interests in seven (2007 – seven) VIEs. Chartwell consolidated its proportionate direct interest in these properties during 2008. In the fourth quarter of 2008, Chartwell acquired the remaining 50% ownership in these VIEs. At December 31, 2008, these entities are no longer considered VIEs.

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.

Note 20 **Commitments and contingencies**

A. Operating leases of seniors housing properties

Chartwell has a leasehold interest in 25 properties through the acquisition of a 49% interest in HB Realty and a leasehold interest in two properties acquired with the Merrill Gardens Portfolio. Chartwell's share of the aggregate amount of all future minimum lease payments under the leases are as follows for the years ending December 31:

2009	$ 47,308
2010	49,041
2011	50,619
2012	52,249
2013	53,935
Thereafter	318,903
	$ 572,055

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 RegencyCare 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. Further, Chartwell has an operating lease in the United States that expires on April 30, 2013. Annual payments on this lease vary from U.S.$801 to U.S.$889 over the term of the lease. Chartwell's share is 49% of the amounts due under the lease.

C. Purchase obligations

Chartwell has entered into various construction contracts related to various internal growth projects. As at December 31, 2008, the remaining commitments under these contracts amounted to approximately $16,943.

As at December 31, 2008, Chartwell has entered into fixed-price natural gas contracts with a third-party natural gas supplier for $3,712 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 $7,888 (U.S.$6,475) 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, 2008, contingent consideration on acquisitions of properties amounted to $2,795 (2007 – $7,095).

E. Mezzanine loans receivable

Borrowers of 14 mezzanine loans (2007 – 16) can obligate Chartwell to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

F. Letters of credit

As at December 31, 2008, Chartwell was contingently liable for letters of credit in the amount of $2,365 (2007 – $1,940).

G. Other contracts

i) 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 years and call for payment of management fees between 4% and 5.5% of gross revenue plus incentive fee based on certain operating targets. Through Chartwell's acquisition of HB Realty, Chartwell owns a 74.5% effective interest in HBC. Chartwell also owns a 75% 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 (note 17(b)).

H. 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.

Note 21 **Supplemental cash flow information**

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

	2008	2007
CHANGE IN NON-CASH OPERATING ITEMS:		
Accounts receivable	**$ 3,190**	$ (1,450)
Deposits on acquisitions	**111**	11,572
Due from Spectrum	**(4,299)**	(3,163)
Due from ING	**4,253**	(3,296)
Accounts payable and other liabilities	**11,108**	11,548
Other	**(583)**	5,798
	$ 13,780	$ 21,009

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:

	2008	2007
NON-CASH CONSIDERATION ON ACQUISITIONS:		
Class B Units of Master LP	**$ –**	$ 10,145
Class B Common Units of CSH Massapequa Inc.	**–**	663
Deferred consideration	**–**	44,005
Discharge of mezzanine loans receivable	**8,602**	3,831
Distributions applied against instalment loans receivable related to LTIP	**2,144**	2,557
Interest on instalment loans receivable related to LTIP	**1,091**	1,083
Trust Units issued pursuant to the DRIP	**$ 9,230**	$ 4,317

In accordance with Chartwell's Fourth Amended and Restated Declaration of Trust, the distributions to Trust Unitholders 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, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year.

During the year ended December 31, 2008, interest paid amounted to $98,595 (2007 – $83,230).

During the year ended December 31, 2008, cash distributions on Trust Units amounted to $68,692 (2007 – $86,797).

During the year ended December 31, 2007, Chartwell applied $41,919 received from ING against net assets of $42,398, related to the RegencyCare LTC properties, acquired by ING from Chartwell. These amounts have been excluded from the consolidated statements of cash flows.

Note 22 **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 publicly listed or traded 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, the tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and was committed to continue distributing all of its taxable income to its Unitholders. Accordingly, Chartwell did not previously record a provision for income taxes or future income tax assets or liabilities, in respect of Chartwell or its investment in its subsidiary trust and partnership.

On June 22, 2007, legislation relating to the federal income taxation of a SIFT received Royal assent. A SIFT includes a publicly listed or traded partnership and trust, such as an income trust and a real estate investment trust.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be 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 will not be subject to the tax.

Under the SIFT Rules, the new taxation regime will not apply to a real estate investment trust that meets the REIT Conditions. As currently structured, Chartwell does not meet the REIT Conditions and, therefore, is a SIFT.

An Existing Trust is subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain safe harbour limits measured against the market capitalization of the Existing Trust. On April 20, 2007, Chartwell issued equity capital in excess of these safe harbour limits. Therefore, commencing in fiscal 2007, Chartwell is subject to tax on certain income.

Due to the SIFT Rules, Chartwell commenced recognizing current and future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, including those related to its subsidiary trust, that are expected to reverse after 2007. The SIFT Rules resulted in Chartwell recording a current income tax expense of $645 (2007 – $1,770) and a future income tax expense of $169 (2007 – $13,924) for the year ended December 31, 2008.

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

	2008	2007
FUTURE INCOME TAX ASSETS:		
Mortgages payable	**$ 4,001**	$ 5,467
Issue costs	**4,705**	8,623
Losses carried forward	**3,725**	2,823
Other	**2,842**	4,831
Valuation allowance	**(2,243)**	(3,900)
	13,030	17,844
FUTURE INCOME TAX LIABILITIES:		
Properties	**(21,271)**	(21,874)
Limited life intangible assets	**(8,054)**	(11,357)
Other	**(3,068)**	(3,345)
	(32,393)	(36,576)
Net future income tax liability	**$ (19,363)**	$ (18,732)

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, 2008, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately $40,054 (U.S.$32,885). Of these losses, approximately $1,152 (U.S.$946) expire in 2025, $2,535 (U.S.$2,081) expire in 2026, $14,420 (U.S.$11,839) expire in 2027 and $21,947 (U.S.$18,019) expire in 2028.

As at December 31, 2008, 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 $30,184 (U.S.$24,782) against which a valuation allowance of $30,184 (U.S.$24,782) 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 32.5%. The differences for the years ended December 31 are as follows:

	2008	2007
Loss before income taxes	**$ (102,222)**	$ (56,419)
Computed income tax recovery at Canadian SIFT tax rate	**$ (33,222)**	$ (19,182)
Increase (decrease) resulting from:		
Future income taxes resulting from a change in tax status with the enactment of the SIFT Rules	**–**	16,389
Reduction of future income taxes arising from a change in tax rate	**–**	(1,118)
Effect of permanent differences	**23,324**	1,688
Income of trust taxed directly to unitholders	**–**	760
Change in valuation allowance	**15,966**	18,501
International income tax rate differences	**(3,347)**	(1,686)
Other	**(1,553)**	576
Income tax expense	**$ 1,168**	$ 15,928

Note 23 **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:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS:				
Loans and receivables, recorded at amortized cost:				
Mezzanine loans receivable (i)	**$ 96,822**	**$ 93,561**	$ 107,624	$ 103,411
Capital funding receivable (ii)	**46,001**	**47,254**	48,078	49,999
FINANCIAL LIABILITIES:				
Financial liabilities, recorded at amortized cost:				
Mortgages payable (iii)	**1,668,445**	**1,678,693**	1,445,711	1,469,280
Convertible debentures (iv)	**199,707**	**161,180**	195,534	190,547

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, 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:

	2008	2007
Liability	**$ 184,634**	$ 180,656
Equity	**15,073**	14,878
	$ 199,707	$ 195,534

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 judgement 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 Audit Committee 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 Audit Committee 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 development projects. All loans to entities affiliated with Melior are guaranteed by Residence Melior Inc. 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.

At December 31, 2008, Spectrum was in breach of certain covenants of the Development Agreement. Chartwell is currently working with Spectrum to have these covenants remedied. Chartwell completed evaluation of the project-specific security underlying each mezzanine loan, as well as evaluation of Spectrum's corporate guarantee based on Spectrum's financial information as at December 31, 2008. 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.

At December 31, 2008, Melior was in arrears on interest payments on three projects. Based on Chartwell's evaluation of the underlying security for these three projects a provision for impairment of $6,406 was recorded (note 5). Chartwell is working with Melior to settle these loans.

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, 2008 is as follows:

Current	$ 5,376
31 – 60 days	781
61 – 90 days	414
Over 90 days	2,017
	8,588
Allowance for doubtful accounts	1,315
Net resident receivables	$ 7,273

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

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, 2008, the Trust had $54,153 available and undrawn on a secured revolving 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, 2008, Chartwell's 2009 debt maturities amounted to approximately $147,300. Subsequent to year end approximately $57,100 of this maturing debt was refinanced at weighted average rates of approximately 3.39%. Of the remaining mortgage maturities in 2009, approximately 85% are CMHC-insured.

There is also risk that the secured revolving 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, 2008 were as follows:

	2009	2010	Total
Mortgages payable	$ 174,573	$ 91,875	$ 266,448
Revolving operating credit facility	8,000	–	8,000
Loans payable	1,848	–	1,848
Purchase obligations	28,928	13,407	42,335
Property operating leases	47,308	49,041	96,349
Other operating leases	2,172	2,093	4,265
Land leases	252	252	504
	$ 263,081	$ 156,668	$ 419,749

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, 2008, $38,522 (2007 – $35,779) 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 contract with a current notional principal amount of $11,822 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 5.9% 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 contract based on an estimate of the cost to close the contract as at December 31, 2008 is a loss position of $2,087 (2007 – $689), which is included in accrued liabilities on the consolidated balance sheets (note 11). Included in other comprehensive loss for the year ended December 31, 2008 is a loss of $1,932, net of future income taxes of $462 (2007 – gain of $223, net of future income taxes of $96) that relates to the effective portion of the net change in fair value of the interest rate swap designated as a hedge.

At December 31, 2008, the Trust's interest-bearing financial instruments were:

	Carrying amount 2008	2007
FIXED RATE INSTRUMENTS:		
Financial assets (mezzanine loans)	**$ 96,822**	$ 107,624
Financial liabilities	**1,828,769**	1,591,899
VARIABLE RATE INSTRUMENTS:		
Financial liabilities	**$ 38,522**	$ 35,779

A change in interest rates at December 31, 2008 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, 2008 for the variable rate mortgages would have decreased equity by $385 and increased the loss for the year by $385 (on a pre-tax basis).

B) FOREIGN CURRENCY EXCHANGE RISK: At December 31, 2008, through its self-sustaining United States Operations, 35% (2007 – 32%) of Chartwell's assets and 40% (2007 – 37%) of Chartwell's mortgages payable were held in the United States and its 38% (2007 – 37%) 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 U.S. Operations or part of the net investment in self-sustaining U.S. Operations.

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency fluctuation risk. For example, cash flow from U.S. 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 U.S. 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, 2008.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining U.S. operations at December 31, 2008:

	U.S. dollar
Cash	$ 20,946
Loans receivable from self-sustaining U.S. Operations	66,462
Loan payable to self-sustaining U.S. Operations	(20,600)
Net investment in self-sustaining U.S. Operations	141,063
Net exposure	$ 207,871

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	$ 468
Decrease in other comprehensive income for the year	1,415

iv. Reliance on government funding

Chartwell holds licenses related to each of its long-term care properties. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2008, the Trust received approximately $95,057 (2007 – $78,754) 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.

Note 24 **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, 2008 and 2007:

	2008	2007	Increase/ (Decrease)
Debt to adjusted gross book value ratio (excluding convertible debentures)	**55.2%**	53.8%	1.4%
Debt to adjusted gross book value ratio (including convertible debentures)	**61.7%**	60.9%	0.8%

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, 2008 increased primarily due to the provision for impairment of goodwill and mezzanine loans.

Note 25 **Guarantees**

At December 31, 2008, Chartwell remains as a guarantor on the debt of one property to a maximum amount of $22,850 (2007 – $23,850). As at December 31, 2008, $18,008 (2007 – $18,197) of the loan was outstanding. 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, subject to rental achievement provisions.

Note 26 **Subsequent events**

Subsequent to December 31, 2008, Chartwell acquired Spectrum's interest in four properties in British Columbia and Ontario. These acquisitions closed in February and March 2009. The purchase price for these assets amounted to $50,078 and was settled by assumption of debt and working capital deficiency of $36,432, set off by mezzanine loans of $5,676, and amounts due from Spectrum of approximately $7,493, with the remaining $477 paid in cash to Spectrum.

Subsequent to year end, Chartwell breached a certain financial covenant under the terms of the loan agreement for one of its Canadian properties. As at December 31, 2008, the amount of the loan was $12,726 bearing interest at 5.2% and maturing April 1, 2017. The loan payments are current. The lender granted Chartwell a waiver of this financial covenant until January 1, 2010.

Note 27 **Comparative figures**

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2008.

CORPORATE INFORMATION

Trustees, Directors and Officers

Unitholder Information

Chartwell Seniors Housing
Real Estate Investment Trust
100 Milverton Drive, Suite 700
Mississauga, Ontario L5R 4H1
Telephone: (905) 501-9219
Toll free: (888) 584-2386
Facsimile: (905) 501-0813
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LEGAL COUNSEL
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TRANSFER AGENT AND REGISTRAR
Computershare Investor Services
Toronto, Ontario
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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
4:30 pm ET
Thursday, May 21, 2009
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

CHARTWELL
SENIORS HOUSING REIT

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