

# QUALITY SERVICE QUALITY PEOPLE QUALITY RESIDENCES

2007  
ANNUAL  
REPORT



## PROFILE

Chartwell is a real estate investment trust focused on generating sustainable, stable and growing cash distributions from owning and managing a complete spectrum 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 facilities, and prudently avail itself of opportunities to grow internally and through accretive acquisitions. Chartwell also has an exclusive option to purchase stabilized communities from Spectrum, Canada's largest and fastest growing seniors housing development company.

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Corporate Information

## 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.

# 2007 Highlights

## Financial Highlights

In thousands of Canadian dollars, except per unit amounts

Year ended December 31	2007	2006
<i>Revenues:</i>		
Property Revenue	\$ 604,195	\$ 318,977
Mezzanine Loan Interest	13,342	10,361
Management and Other Fees	14,180	12,487
Other Income	13,320	8,750
<b>Total Revenues</b>	<b>645,037</b>	<b>350,575</b>
Net Loss	(67,339)	(14,698)
Net Loss per unit (basic and diluted)	(\$ 0.78)	(\$ 0.25)
Adjusted Funds from Operations <sup>(1)</sup>	68,395	53,176
Adjusted Funds from Operations per unit (diluted)	\$ 0.72	\$ 0.80
Distributions Declared	100,984	71,122
Distributions Declared per unit	\$ 1.07	\$ 1.07
Weighted Average Units Outstanding (diluted)	94,950,032	66,299,779

(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 AFFO calculation.

## Operating Highlights

Same property revenue up 4.1%

Canadian retirement communities same property net operating income up 4.4%

Canadian long-term care same property net operating income up 2.4%

U.S. retirement communities same property net operating income up 5.2%

Acquired interests in 72 communities containing 11,158 suites for \$0.9 billion

General, administrative and trust expenses decline as a percentage of revenues to 3.1% on a normalized basis



**Report to Unitholders**

**QUALITY SERVICE  
QUALITY PEOPLE  
QUALITY RESIDENCES**



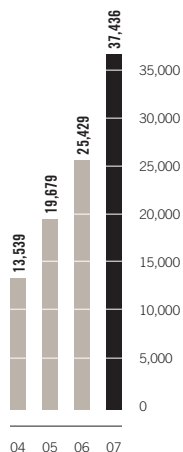
**STEPHEN A. SUSKE**  
CEO and Vice Chair

**W. BRENT BINIONS**  
President

Our considerable growth over the past four years has transformed Chartwell into the largest owner and operator of seniors housing communities in Canada, and the third largest in North America. Looking ahead, our focus is to capitalize on the significant increase in our size, scale and critical mass to enhance performance and build value for our Unitholders.

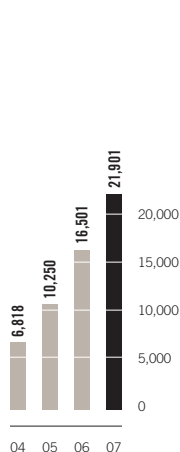
## A Successful Growth Program

With our considerable growth over the past four years, our focus now is to capitalize on our significant size, scale and critical mass to grow cash flow for our Unitholders.



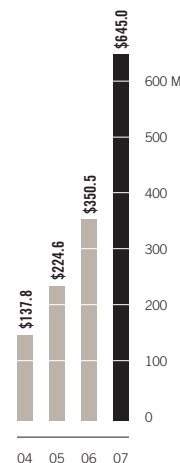
**TOTAL PORTFOLIO**

suites



**OWNED PORTFOLIO**

suites



**REVENUES**

\$ millions

## Solid Operating Performance

We were pleased with the positive trends demonstrated by our property operations in 2007 as all of our platforms demonstrated improved performance. Total revenues were up 84% from the prior year due primarily to the contributions from acquisitions and our successful organic growth initiatives, as well as gains in fee income and mezzanine loan interest.

Our portfolio performed well in 2007. Same property revenues and same property net operating income increased compared to the prior year, driven primarily by enhanced occupancies, higher average rents, contribution from internal growth initiatives, and the introduction of new products and services to our residents. With continuing strong demand for high quality retirement residences across North America, we are confident these trends will continue going forward.

We were also very pleased that our general, administrative and trust expenses (“G&A”) have stabilized. Looking ahead, we are confident that we have built the necessary platform to manage our growth, and that we will see our G&A costs as a percentage of revenues continue to trend down over the long-term.

Our financial position remained solid at year end. With conservative debt leverage ratios well within our target range, a low weighted average interest rate, and an increased term to maturity for our mortgage portfolio, we believe we have the resources and the financial flexibility to execute our value enhancing strategies.



## Chartwell's Key Success Factors

### 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.

### 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.

### MANAGEMENT

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

## A Strong and Diversified Portfolio

When we entered the public capital markets in November 2003, our stated strategy was to expand aggressively and consolidate what was a highly fragmented North American seniors housing business. Over the past four years we have invested just under \$2 billion in acquisitions, growing our portfolio at year end to interests in 37,436 suites owned, managed, in lease-up or in various stages of development in 271 seniors housing communities. Chartwell's focus on aggressive growth over this period was a deliberate strategy aimed at building its portfolio and achieving the necessary size and scale to generate value for its Unitholders.

With the successful execution of this strategy over the past four years, Chartwell has been transformed into the largest owner and operator of seniors housing communities in Canada, and the third largest in North America. The majority of our properties are 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 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.

Most importantly, the Chartwell brand is recognized and respected for providing 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.

## Performance Drivers



### INTERNAL GROWTH

Our organic growth initiatives continue as we identify opportunities to improve existing properties, introduce new resident services and add new suites to our properties.



### DEVELOPMENT

Our development management services provided to independent third-parties serve to augment our cash flow through fees and mezzanine loan interest income.



### ACQUISITIONS

We will only acquire a new property when it is immediately accretive and serves to enhance our portfolio's age, efficiency or continuum of care offering.



### THIRD-PARTY MANAGEMENT

In addition to providing a growing base of revenue, our third-party management activities provide valuable market insight and additional growth opportunities.

Looking ahead, while we will continue to generate managed growth across the portfolio, our main focus is to increase our Adjusted Funds from Operations (“AFFO”) per unit by capturing the considerable cost and operating synergies that are available from our increased size and scale.

## Cash Distributions Reduced

While we believe we have accomplished our strategy to grow our portfolio both in terms of quality and size, we are not satisfied with our performance in terms of growing our AFFO. It was our intention at the outset to grow our business with the ultimate goal of matching cash distributions to AFFO. Unfortunately, the recent and significant challenges in the capital markets are having, and will continue to have for the

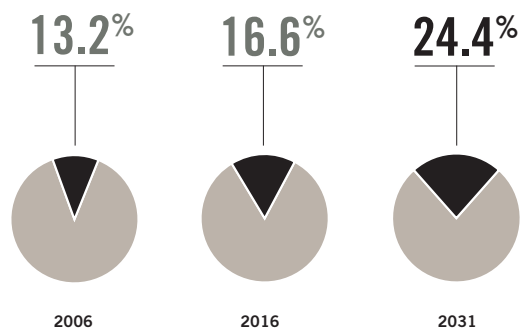
foreseeable future, a considerable impact on Chartwell's ability to raise capital to achieve the necessary growth to meet this goal.

As a result, effective with the payment to Unitholders for March 2008, cash distributions were reduced to \$0.74 per annum. The new annual cash distribution, if implemented for the full 2007 year, would have been equal to our pre-tax AFFO for the year, and will result in annual cash retention of approximately \$30 million going forward. These funds will be redeployed and utilized to accelerate our value enhancing initiatives, including internal growth projects, select acquisitions and development activities.

While the Board of Trustees regrets the necessity of taking this step, it believes the reduction in cash distributions is in the best long-term interests of Unitholders, and will establish a foundation on which Chartwell will build sustainable and stable growth.

## A Growing Population of Healthier Seniors

The seniors population is growing at a rate of three to four times faster than the general population. More than 11,000 new suites would be required each year until 2026 just to maintain current supply ratios in Canada — that's 110 new 100-suite communities every year.



SENIORS (AGE 65+) AS A GROWING PERCENTAGE OF THE TOTAL CANADIAN POPULATION



## Capitalizing on our Increased Scale and Critical Mass

Over the past four years, Chartwell has concentrated on growing its asset base in order to create a sustainable market presence. Recognizing that Chartwell has now reached a significant size and critical mass, our main objective going forward is to generate strong and sustainable organic growth on an annual basis, as measured by increased AFFO per unit, through a focused effort on the efficient management of our operations, and by ensuring we capture all of the available economies of scale and operating synergies provided by our growth.

To achieve this goal, we have developed an Operations Action Plan targeting improvements in a number of areas. These include a detailed review of staffing efficiencies, the active management of below market rent opportunities in a number of communities, and the continued active management of certain underperforming properties. We will maintain our rigorous focus on G&A expenses to ensure the trend of reducing G&A as a percentage of revenues continues, and implement programs to reduce our insurance, energy and property tax costs while continuing to roll out our procurement programs to achieve increased volume incentives. We are confident we can also achieve cost reductions through further integration of our Canadian and U.S. platforms, especially around Information Technology and purchasing functions. In addition, a new Operations Council has been formed to enhance the alignment among all of our operating platforms.





## 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 Living	Light-Care Retirement Home	Full-Care Retirement Home	Assisted Living Retirement Home	Long-Term Care Community
Chartwell Suite Mix	52%	15%	8%	8%	17%
Occupancy Levels	95%	90%-95%	90%	90%	97%-100%
Operating Margins	50%-55%	45%-50%	30%-40%	30%-40%	12%-18%
Monthly Fees	\$900-\$5,000	\$1,200-\$5,000	\$1,900-\$6,000	\$2,400-\$5,000	\$3,837-\$4,384
Government Funding	\$0	\$0	\$0	\$0	\$2,300 (including above)
Capitalization Rates (Cdn)*	7.00%-8.00%	7.50%-8.50%	8.00%-8.50%	8.50%-9.00%	7.50%-9.00%

\* Cap Rates apply to standalone purchases only.

Going forward we will continue to acquire properties, although at a significantly more measured pace than over the past four years. Each future acquisition must be immediately accretive to AFFO per unit, and must serve to enhance our existing portfolio diversity, age, efficiency and continuum of care offering.

Our organic growth initiatives will also continue as we evaluate our portfolio to identify opportunities to improve existing properties and add new resident services and amenities, as well as the addition of new suites. At year end we had five internal growth projects totalling 412 suites underway, with further opportunities to add over 3,000 suites to the portfolio over the longer term.

Our third-party development programs have significantly enhanced our pipeline of future acquisition opportunities. At year end we had 43 development

projects underway with an option to purchase these state-of-the-art Canadian facilities as they are leased-up over the next three years. Construction of 27 of these properties is now completed and they are in lease-up phase. Going forward, our development activities will be at a more measured pace, and will serve to augment our AFFO per unit by contributing ongoing amounts of development fees.

We will also continue to benefit over the long term from the highly positive fundamentals in our business. The significant demand for seniors housing is being driven by powerful demographic trends where the North American seniors population is growing at approximately three to four times the rate of the general population. Seniors are also healthier and wealthier than ever before, and looking for the high quality facilities and service that we provide.

## 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.

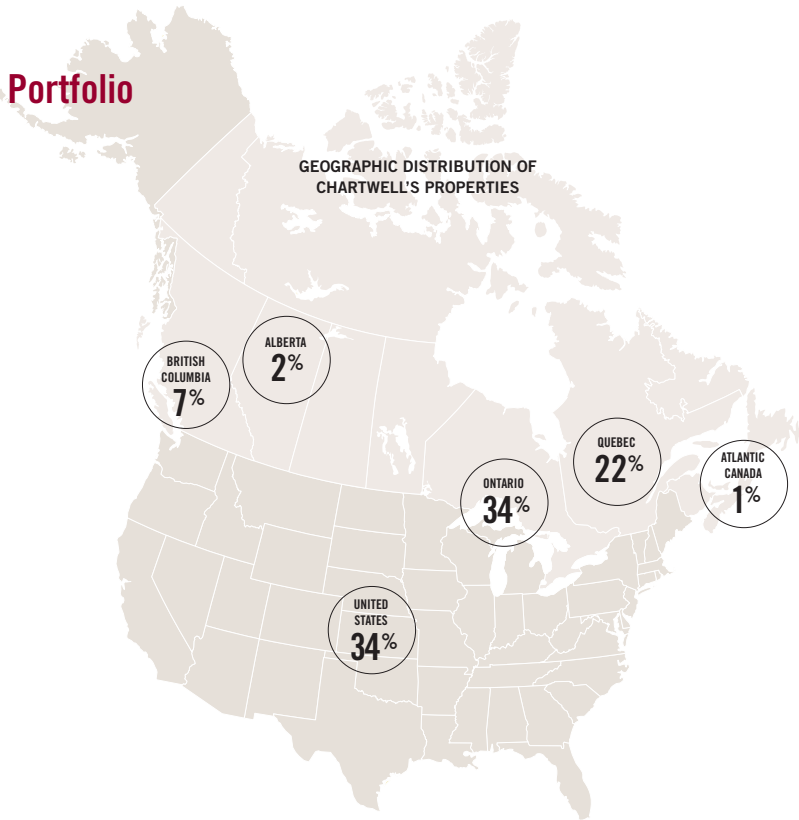
### CANADA

Owned Suites	15,001
Managed Suites	2,814
Under Development	6,856
<b>Total Canadian Suites (66%)</b>	<b>24,671</b>

### UNITED STATES

Owned Suites	6,900
Managed and Leased Suites	5,865
<b>Total U.S. Suites (34%)</b>	<b>12,765</b>
<b>Total</b>	<b>37,436*</b>

\* Includes suites under development, partially owned.



Finally, we will maintain our focus on providing high-quality seniors communities with the highest levels of resident care and service, and remain the “Employer of Choice” in the North American seniors housing business.

In closing, we want to thank everyone at Chartwell for their hard work and dedication over the past year. Our ultimate objective is to take the best care of our moms and dads, and in this we have achieved remarkable success. Chartwell is recognized as providing the highest levels of care and service for today’s growing seniors population, and we will continue to maintain this focus in all that we do. We also thank

Robert Ezer, a co-founder and former President of the REIT, for his contribution to our growth, and wish him every success in his future endeavours.

Stephen A. Suske  
*Chief Executive Officer and Vice Chair*

W. Brent Binions  
*President*

# Summary of Seniors Housing Communities

Owned, managed and under development

	Number of Communities	Number of Suites <sup>(1)</sup>	Average Resident Occupancy <sup>(7)</sup>
<b>Seniors Housing Communities Owned by Chartwell</b>			
Independent Living Communities	70	9,436	93%
Retirement Homes	73	8,105	92%
Long-Term Care Communities <sup>(8)</sup>	30	4,360	91%
<b>Total Owned by Chartwell</b>	<b>173<sup>(2), (3)</sup></b>	<b>21,901</b>	<b>92%</b>
<b>Seniors Housing Communities Managed by Chartwell for Third-parties</b>			
Stabilized and Lease-Up			
Independent Living Communities	30	5,252	
Retirement Homes	10	2,008	
Long-Term Care Communities <sup>(8)</sup>	9	1,326	
<b>Subtotal</b>	<b>49</b>	<b>8,586</b>	
Under Development			
Independent Living Communities	1	93	
Retirement Homes	0	0	
Long-Term Care Communities <sup>(8)</sup>	0	0	
<b>Subtotal</b>	<b>1</b>	<b>93</b>	
<b>Total Managed for Third-parties</b>	<b>50</b>	<b>8,679</b>	
<b>Seniors Housing Communities Under Development by Spectrum<sup>(4), (5)</sup> and Managed by Chartwell and Seniors Housing Communities Under Development by Melior<sup>(6)</sup></b>			
Lease-Up <sup>(4)</sup>			
Independent Living Communities	10	1,516	
Retirement Homes	6	655	
Long-Term Care Communities <sup>(8)</sup>	1	183	
<b>Subtotal</b>	<b>17</b>	<b>2,354</b>	
Under Development			
Independent Living Communities	25	3,514	
Retirement Homes	4	620	
Long-Term Care Communities <sup>(8)</sup>	2	368	
<b>Subtotal</b>	<b>31</b>	<b>4,502</b>	
<b>Total Developed by Spectrum and Managed by Chartwell</b>	<b>48</b>	<b>6,856</b>	
<b>Total Homes Owned or Managed by Chartwell</b>		<b>37,436</b>	

(1) As of December 31, 2007. The number of suites within a community may vary from time to time as suites may be reconfigured to meet residents' needs.

(2) All of these communities are 100% owned by Chartwell, except for one community that is 39% owned by Chartwell, three communities that are 50% owned by Chartwell, seven communities that are 50% owned by Chartwell through its joint venture with Melior and 34 communities that are 50% owned by Chartwell through the Chartwell-ING joint venture. As well, the lands on which four of the communities are located are held through long-term leasehold interests.

(3) Where the community provides more than one level of care, it has been designated according to the predominant level of care provided. 60 of these communities provide more than one type of care.

(4) Spectrum's ownership interest in these properties varies from property to property.

(5) Includes planned suites at communities under construction or at various stages of development where construction has not commenced and where Spectrum's interest may be under a letter of intent or purchase and sale agreement that is conditional upon rezoning, marketing studies or other approvals.

(6) Melior, either solely or with its joint venture partner(s), is currently developing six projects in Quebec with an intended 1,207 suites included in this amount. Chartwell may provide mezzanine financing in respect of these projects.

(7) The Average Resident Occupancy Rate is provided only for communities owned by Chartwell.

(8) For purposes of the annual report, communities are classified as LTC communities solely on the basis of the level of care provided. For the purposes of segmented financial information and management's discussion and analysis, Chartwell categorizes communities as LTC communities based on the predominant level of care provided, type of licensing and funding provided, and Chartwell's internal management responsibility, and accordingly, the number of LTC communities and suites reported is higher than in the following management's discussion and analysis.

# Management's Discussion and Analysis

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 twelve months ended December 31, 2007. This MD&A should be read in conjunction with Chartwell’s audited financial statements for the years ended December 31, 2007 and 2006, and the notes thereto (the “Financial Statements”). This material is available on Chartwell’s website at [www.chartwellreit.ca](http://www.chartwellreit.ca). Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of March 6, 2008.

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; “2007” refers to the twelve months ended December 31, 2007; and “2006” refers to the twelve months ended December 31, 2006.

Unless otherwise indicated, all comparisons of results for Q4 2007 are in reference to results from Q4 2006 and all comparisons of results for the full year 2007 are in reference to the results for the full year 2006.

## 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.

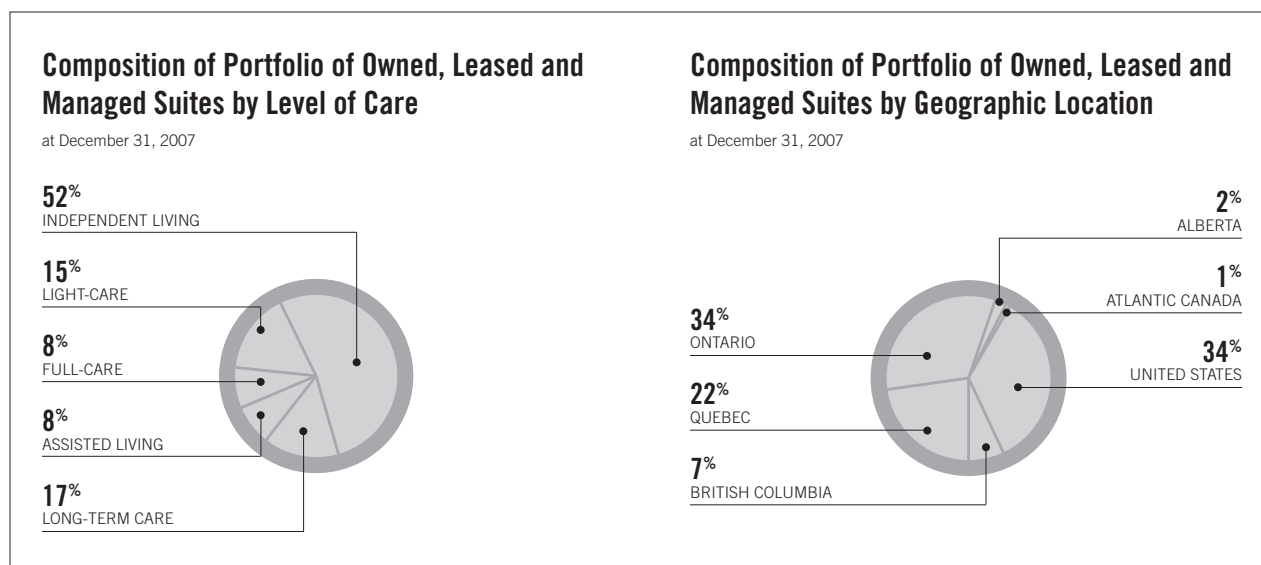
Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. Chartwell indirectly owns and manages a portfolio of seniors housing communities across the complete spectrum of care from independent living communities (“IL Communities”), through retirement homes (“Retirement Homes”) to long-term care communities (“LTC Communities”), which are located in Canada and the United States. All references to “Chartwell” or “Trust”, unless the context indicates otherwise, refer to the Trust and its subsidiaries. For ease of reference “Chartwell” and “the Trust” are used in reference to Chartwell’s ownership and operation of seniors housing communities and its 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, 2007, Chartwell’s portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 37,436 suites in 271 communities which are operating, under construction or in various stages of development. Chartwell’s portfolio of owned and leased communities consisted of interests in 27,766 suites in 200 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 clients and the demands of their local marketplace.

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, 2007:

	Canadian Retirement Operations <sup>(2) (3) (6)</sup>	Canadian Long-Term Care Operations <sup>(4)</sup>	United States Operations <sup>(5) (7)</sup>	Canadian Management Operations <sup>(2)</sup>	Total
Communities <sup>(1)</sup>	98	26	76	71	271
Suites/Beds	11,497	3,504	12,765	9,670	37,436

- (1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
- (2) Includes stabilized, lease-up and communities under development.
- (3) Includes 10 communities (1,555 suites) where Chartwell owns a 50% interest and one community (53 suites) where Chartwell owns a 39% interest.
- (4) Includes eight communities (1,384 beds) in which Chartwell owns a 50% interest.
- (5) Chartwell owns a 50% interest in 26 communities (4,636 suites), a 100% interest in 23 communities (2,264 suites), a 49% leased interest in 25 communities (5,632 suites), and a 100% leased interest in two communities (233 suites).
- (6) Includes 314 suites under development at four existing communities.
- (7) Includes 98 suites under development at one existing community 50% owned by Chartwell.



Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development program carried out by Spectrum Seniors Housing Development LP (“Spectrum”), a development entity in which certain of the Trust’s senior executives own a controlling 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 resident 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 in respect of its communities and development program.

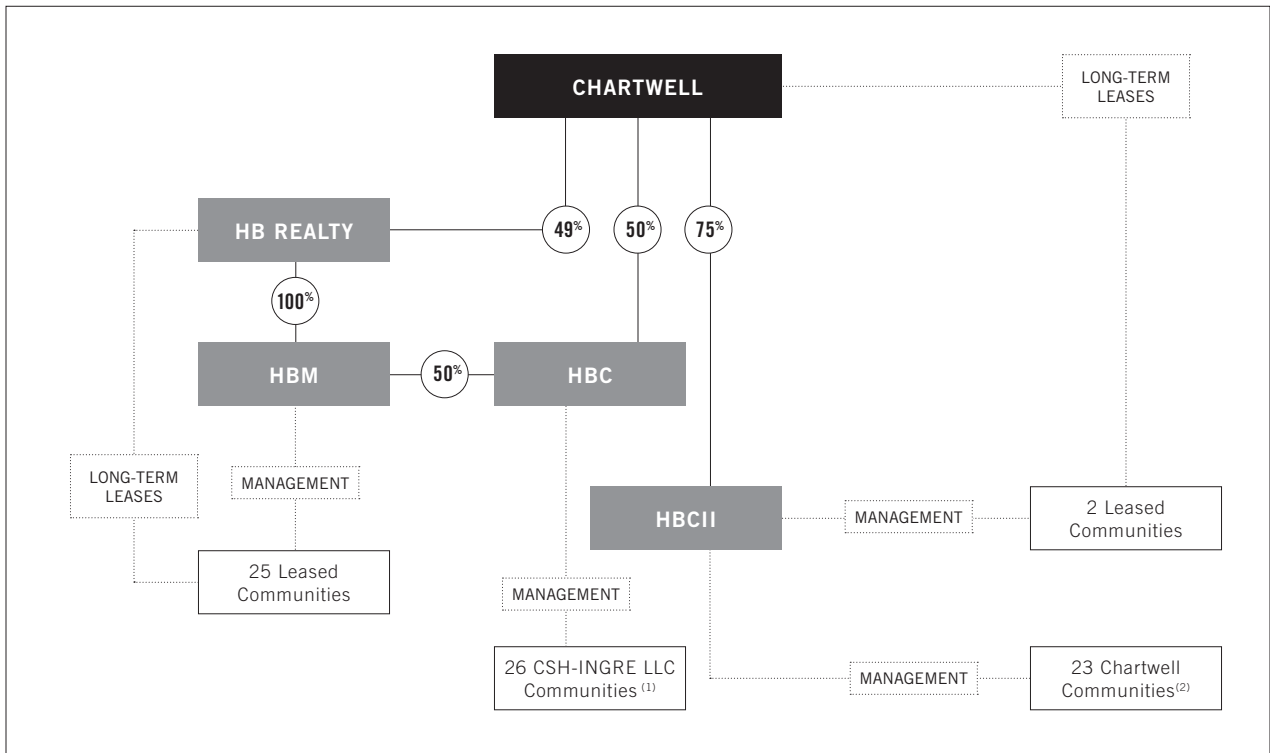
Chartwell also provides mezzanine financing to entities affiliated with Le Groupe Melior (“Melior”) and its joint venture partners to develop seniors housing communities. Chartwell has a right to purchase these communities upon stabilization at their fair market value. Melior and its joint venture partners can require Chartwell to acquire their interests in these projects at their appraised value, subject to the satisfaction of certain conditions.

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”). ING is Chartwell’s strategic financial partner in acquisitions of seniors housing communities in North America. At December 31, 2007, Chartwell and ING each held a 50% interest in CSH-INGRE LLC (“CSH-INGRE”), which owned 26 seniors housing communities (4,636 suites) in the United States. In addition, Chartwell and ING owned a 50% interest each in eight seniors housing communities (1,384 suites) in Canada.

In the first quarter of 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 (5,632 suites). In addition, one of its subsidiaries – Horizon Bay Management LLC (“HBM”) – owns long-term management contracts for these 25 communities and 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 HBC II Manager LLC (“HBCII”). Chartwell owns a 75% interest in HBCII.

The following chart describes 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.

## Owned and Leased Property Portfolio

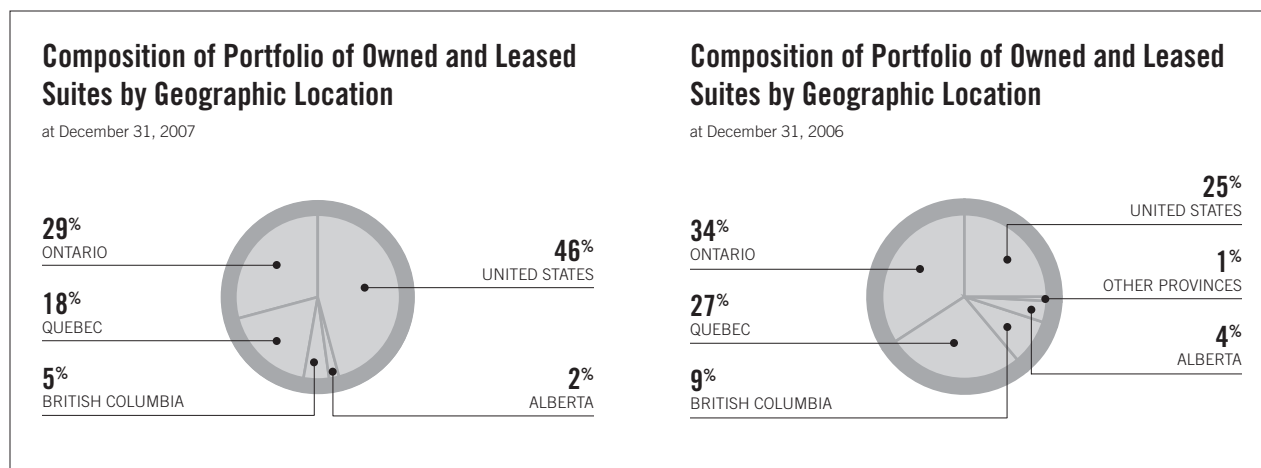
The following table summarizes the composition of Chartwell's real estate portfolio of owned and leased communities as at December 31, 2007 and December 31, 2006:

	Dec. 31, 2007 <sup>(1) (3)</sup>	Dec. 31, 2006 <sup>(2)</sup>
Number of suites	27,766	16,501
Number of communities	200	131

(1) Includes 44 communities (7,575 suites) in which Chartwell holds a 50% interest, and one community (53 suites) in which Chartwell holds a 39% interest, 25 communities (5,632 suites) in which Chartwell holds a 49% leased interest, and two communities (233 suites) in which Chartwell holds a 100% leased interest.

(2) Includes 30 communities (5,376 suites) in which Chartwell holds a 50% interest and one community (55 suites) in which Chartwell owns a 39% interest.

(3) Includes 412 suites under development at five existing communities.



## Significant Events and 2008 Outlook

Over the past four years Chartwell has achieved an enviable presence in the North American seniors housing market. This includes its competitive advantage due to the age of Chartwell's properties, which on average are less than 10 years old. In addition, the diversification of its portfolio, which includes a large proportion of independent living communities, is attractive to the leading edge of baby boomers.

Chartwell's considerable growth has transformed the REIT into the largest owner and operator of seniors communities in Canada, and the third largest in North America. It is recognized and respected as providing the highest levels of care, service and respect for today's seniors and their families, and is the employer of choice in the seniors housing business with a dedicated and experienced team of people who truly enjoy caring for today's rapidly expanding seniors population.

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 rate of the general population. As a result, in Canada alone, forecasts indicate that more than 11,000 new seniors housing suites are required each year until 2026 just to meet current supply ratios.\* In addition, today's senior is healthier, wealthier and more informed about the options available for their retirement years.

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 AFFO per unit, through a continued focus on the efficient management of our operations, and ensuring we capture all of the available economies of scale and operating synergies provided by our growth.

The following events have had a significant effect on the financial results of Chartwell for 2007 or are expected to affect results in the future.

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

## Acquisitions

At December 31, 2007, Chartwell had cash and cash equivalents of \$72.5 million and had the ability to complete additional acquisitions valued at approximately \$438.0 million based on its available borrowing capacity.

In 2007, Chartwell completed acquisitions of varying interests in 72 seniors housing communities. The aggregate asset value of these acquisitions and related management contracts amounted to approximately \$911.0 million (excluding assets held for sale).

The following table summarizes acquisitions completed in 2007:

(\$000s)	Total 2007	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Number of Communities	72	1	2	33	36
Number of Suites	11,158	121	184	3,918	6,935
Purchase price (including closing costs and assets held for sale)	1,034,163	18,900	46,342	664,841	304,080
<i>Financed as follows:</i>					
Assumption of mortgages payable	277,886	11,043	5,610	208,681	52,552
Other assumed liabilities, net	93,282	99	4,561	85,069	3,553
Future income tax liability	4,904	–	–	4,904	–
Discharge of mezzanine loan receivable	3,831	1,350	793	–	1,688
Issuance of Class B Units of Chartwell Master Care LP	10,145	–	–	–	10,145
Issuance of Class B Common Units of a subsidiary of CSH-INGRE LLC	663	–	–	–	663
Deferred consideration on acquisitions of properties	44,005	–	–	4,119	39,886
New mortgage financing	364,380	–	10,851	252,428	101,101
Cash	235,067	6,408	24,527	109,640	94,492
Total	1,034,163	18,900	46,342	664,841	304,080

Included in the above acquisitions are the following:

On June 30, 2007, Chartwell completed the acquisition of the Regency portfolio consisting of eight long-term care communities (1,384 suites) and management contracts for six other communities for a total purchase price of approximately \$262.2 million. Under the participation agreement between Chartwell and ING, at June 30, 2007, ING was committed to participate as a 50% partner in the acquisition of the eight long-term care communities and funded its share of equity in the amount of approximately \$42.4 million. As certain legal and structuring steps remained incomplete at June 30, 2007, ING became the 50% owner effective August 1, 2007 of these eight long-term care communities. Chartwell and ING agreed that ING would participate in the earnings of this portfolio effective June 30, 2007.

In the second quarter of 2007, Chartwell also acquired a 100% interest in 22 seniors housing communities in the United

States and a 100% leased interest in two other communities (collectively “Merrill Gardens portfolio”) totalling 2,238 suites. The total purchase price for the Merrill Gardens portfolio amounted to approximately \$385.0 million (U.S. \$346.9 million).

In the first quarter of 2007, CSH-INGRE LLC acquired five seniors housing communities (640 suites) in the United States (the “Bristol portfolio”). Chartwell’s share of the purchase price amounted to \$170.0 million (U.S. \$145.8 million).

In the first quarter of 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 (5,632 suites). In addition, as described in the “Business Overview” section of this MD&A, Chartwell acquired an interest in the management contracts for these properties.

In 2006, we acquired interests in 37 seniors housing communities for a total purchase price of approximately \$614.6 million.



## 2007 Acquisitions

No.	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1.-25.	HB Realty <sup>(1)</sup>	US (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 Bristol at East Meadow <sup>(2)</sup>	East Meadow, NY	Retirement	February 21, 2007	121
31.	The Bristol at Westbury <sup>(2)</sup>	Westberg, NY	Retirement	February 21, 2007	140
32.	The Bristol at North Hill <sup>(2)</sup>	North Hills, NY	Retirement	February 21, 2007	141
33.	The Bristol at North Woodmere <sup>(2)</sup>	North Woodmere, NY	Retirement	February 21, 2007	118
34.	The Bristol at Massapequa <sup>(2)</sup>	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 <sup>(3)</sup>	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 <sup>(4)</sup>	Clearwater, FL	Retirement	May 31, 2007	96
61.	Merrill Gardens at Lake Orienta <sup>(4)</sup>	Altamonte Springs, FL	Retirement	May 31, 2007	137
62.	Regency Care – The WaterFord <sup>(2)</sup>	Oakville, ON	Long-term care	June 30, 2007	168
63.	Regency Care – The WenLeigh <sup>(2)</sup>	Mississauga, ON	Long-term care	June 30, 2007	161
64.	Regency Care – The WestBury <sup>(2)</sup>	Etobicoke, ON	Long-term care	June 30, 2007	187
65.	Regency Care – The WoodHaven <sup>(2)</sup>	Markham, ON	Long-term care	June 30, 2007	192
66.	Regency Care – The WynField <sup>(2)</sup>	Oshawa, ON	Long-term care	June 30, 2007	172
67.	Regency Care – The WestMount <sup>(2)</sup>	Kitchener, ON	Long-term care	June 30, 2007	160
68.	Regency Care – The WillowGrove <sup>(2)</sup>	Ancaster, ON	Long-term care	June 30, 2007	169

## 2007 Acquisitions (cont'd)

No.	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
69.	Regency Care – The Brant Centre <sup>(2)</sup>	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 <sup>(3)</sup>	Markham, ON	Retirement	July 31, 2007	88
72.	Constantia Retirement Residence <sup>(2)(3)</sup>	Thornhill, ON	Retirement	November 15, 2007	121
					11,158

(1) Chartwell acquired a 49% leased interest and related management contracts for these communities.

(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.

## 2006 Acquisitions

No.	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1.	Chateau Cornwall <sup>(3)</sup>	Cornwall, ON	Retirement	January 13, 2006	101
2.	Manoir Pierrefonds	Montreal, QC	Long-term care	February 23, 2006	127
3.	Castel Royale	Montreal, QC	Retirement	April 28, 2006	255
4.	Mayfield	Prescott, ON	Retirement	May 1, 2006	62
5.	Wiser Hall	Prescott, ON	Retirement	May 1, 2006	8
6.	Town Village Audubon Park <sup>(1)</sup>	Memphis, TN	Retirement	May 11, 2006	176
7.	Town Village Sterling Heights <sup>(1)</sup>	Sterling Heights, MI	Retirement	May 11, 2006	222
8.	Town Village Vestavia Hills <sup>(1)</sup>	Birmingham, AL	Retirement	May 11, 2006	198
9.	Town Village Tulsa <sup>(1)</sup>	Tulsa, OK	Retirement	May 11, 2006	222
10.	Bella Vila <sup>(1)</sup>	Venice, FL	Retirement	May 15, 2006	115
11.	Gayton Terrace <sup>(1)</sup>	Richmond, VA	Retirement	May 15, 2006	100
12.	Village at Lowry <sup>(1)</sup>	Denver, CO	Retirement	May 15, 2006	169
13.	Waterford <sup>(1)</sup>	Dayton, OH	Retirement	May 15, 2006	110
14.	Willowwood <sup>(1)</sup>	Ft. Lauderdale, FL	Retirement	May 15, 2006	278
15.	Woodside Village <sup>(1)</sup>	Bedford, OH	Retirement	May 15, 2006	220
16.	Wyndham Lakes <sup>(1)</sup>	Jacksonville, FL	Retirement	May 15, 2006	248
17.	Amberpark <sup>(1)</sup>	Cincinnati, OH	Retirement	May 15, 2006	125
18.	Residence Le Riverain	Granby, QC	Retirement	June 1, 2006	119
19.	Langley Gardens and Langley Gardens at Village Square <sup>(2)</sup>	Langley, BC	Retirement	July 10, 2006	–
20.	Elizabeth Towers	St. John's, NF	Retirement	August 1, 2006	104
21.	Chateau Gardens Parkhill	Parkhill, ON	Long-term care	August 1, 2006	59
22.	Chateau Gardens London	London, ON	Long-term care	August 1, 2006	95
23.	Chateau Gardens Niagara	Niagara-On-the-Lake, ON	Long-term care	August 1, 2006	124
24.	Chateau Gardens Aylmer	Aylmer, ON	Long-term care	August 1, 2006	60
25.	Chateau Gardens Elmira	Elmira, ON	Long-term care	August 1, 2006	48
26.	Chateau Gardens Lancaster	Lancaster, ON	Long-term care	August 1, 2006	60
27.	Lake Worth Gardens <sup>(1)</sup>	Lakewood, FL	Retirement	August 15, 2006	170
28.	Manoir Kirkland	Kirkland, QC	Retirement	September 15, 2006	191
29.	Heritage Glen	Mississauga, ON	Retirement	November 1, 2006	323
30.	Domaine Bellerive	Montreal, QB	Retirement	November 9, 2006	810
31.	Van Horne Manor	Smiths Falls, ON	Retirement	November 16, 2006	58
32.	Southwind <sup>(3)</sup>	Sudbury, ON	Retirement	November 22, 2006	79

## 2006 Acquisitions (cont'd)

No.	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
33.	Empress	Kanata, ON	Retirement	November 29, 2006	90
34.	Hampton House	Chilliwack, BC	Retirement	December 14, 2006	98
35.	Oak Park <sup>(3)</sup>	LaSalle, ON	Retirement	December 14, 2006	113
36.	Peninsula <sup>(1)(3)</sup>	White Rock, BC	Retirement	December 28, 2006	127
37.	Treemont	Dallas, TX	Retirement	December 27, 2006	256
					5,720

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

(2) Chartwell previously owned a 50% interest in this community and has acquired the remaining 50% interest from its joint venture partner.

(3) These communities were acquired from Spectrum and, where applicable, its joint venture partners.

## 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.

During 2005, Chartwell completed the development of 185 suites at four of our properties and the repositioning of two existing properties, at a total cost of \$32.7 million. As of December 31, 2007, 130 of these newly developed suites were leased.

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

Project	Location	Suites	Total Cost (\$ millions)	Debt (\$ millions)	Construction Completion	Leased Units Dec. 31, 2007
<b>2007</b>						
Birchwood Retirement Residence	Chilliwack, BC	12	2.5	2.5	Q4 2007	5
Hartford Retirement Centre	Morrisburg, ON	22	5.9	5.5	Q3 2007	14
2007 Total		34	\$8.4	\$8.0		19
<b>2006</b>						
L'Oasis	St. Jean, QC	86	14.5	10.4	Q4 2006	64
Marquis de Tracy II, Ph II <sup>(1)</sup>	Sorel, QC	72	10.0	7.7	Q4 2006	27
New Edinburgh Square	Ottawa, ON	16	3.6	1.0	Q1 2006	16
2006 Total		174	\$28.1	\$19.1		107
Total		208	\$36.5	\$27.1		126

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

In addition to the projects completed in 2005 through to 2007, there are currently five internal growth projects (412 suites) in various stages of development, as follows:

### CANADA:

- A 28-suite addition to the Collegiate Heights Retirement Residence in Sault Ste. Marie, Ontario. The estimated construction costs are approximately \$6.7 million, of which approximately \$5.4 million is expected to be financed by a construction loan. Construction is expected to be completed in the second quarter of 2008.\*
- A 132-suite addition to Residence Ste-Marthe in Saint-Hyacinthe, Quebec. The estimated construction costs are approximately \$14.8 million, of which approximately \$10.5 million is expected to be financed by a construction loan. Construction is expected to be completed in the third quarter of 2008.\*

\* These paragraphs contain forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section in this MD&A.

- An 82-suite addition to Manoir Pierrefonds in Montreal, Quebec. The estimated construction costs are approximately \$9.8 million, of which approximately \$7.2 million is expected to be financed with a construction loan. Construction is expected to be completed in the second quarter of 2008.\*
- A 72-suite addition to Maison Herron in Dorval, Quebec. The estimated construction costs are approximately \$9.3 million, of which approximately \$4.9 million is expected to be financed with a construction loan. Construction is expected to be completed in the third quarter of 2008.

#### **UNITED STATES:**

- A 98-suite expansion of the 50% owned Gayton Terrace retirement residence in Richmond, Virginia. The estimated project costs are approximately U.S. \$22.1 million, of which approximately U.S. \$17.7 million is being financed by a construction loan at a fixed rate of 6.14%. Construction is expected to be completed in the first quarter of 2009.\*

In addition, we have identified further opportunities to add over 3,000 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 2008.\*

#### **Mezzanine Loans**

At December 31, 2007, Chartwell had \$112.0 million of mezzanine loans outstanding. During the year, Chartwell advanced mezzanine loans totalling approximately \$17.9 million to Spectrum, Melior and their joint venture partners net of placement fees of approximately \$0.4 million. Mezzanine loans in the amount of approximately \$3.8 million were repaid following the acquisition by Chartwell of interests in three communities. In addition, other mezzanine loan repayments totalled approximately \$3.4 million during 2007.

At December 31, 2006, Chartwell had \$101.3 million of mezzanine loans advanced to Spectrum, Melior and their joint venture partners. The total advances completed in 2006 amounted to \$30.1 million, with \$6.3 million of mezzanine loans being discharged on the acquisition by Chartwell of interests in four communities.

#### **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. Three of the properties that we had planned on acquiring with the proceeds of these offerings have been delayed pending either lender or regulatory approvals; we anticipate closing these acquisitions in 2008.\*

On November 28, 2006, Chartwell completed a public offering of Trust Units and a convertible debentures placement. Chartwell issued 4.2 million units at \$13.60 per unit and \$125.0 million of convertible subordinated unsecured debentures, bearing a 6% coupon, \$15.60 conversion price and maturing on December 1, 2011. Simultaneously with the public offering, the Trust also completed a \$100.0 million private placement of its units at \$13.60 per unit. The net proceeds from the offering and the private placement of approximately \$273.0 million, net of issue related costs of approximately \$9.5 million, were used to repay the amounts outstanding under the Trust’s credit facilities, to finance certain acquisitions, to advance certain mezzanine loans and for general business purposes.

On May 9, 2006, Chartwell completed a public offering of Trust Units by issuing 13.31 million units at \$13.90 per unit. The net proceeds of approximately \$176.1 million, net of issue related costs of approximately \$8.9 million, were used to repay the amounts outstanding under the Trust’s credit facilities, to finance certain acquisitions, to advance certain mezzanine loans, to finance capital expenditures and for general business purposes.

#### **Development**

Chartwell’s strong relationships with seniors housing developers provides a pipeline of opportunities to acquire new and fully stabilized properties, which are designed to our specifications. Since commencement of our operations, we have acquired interests in 14 new seniors housing communities representing approximately 1,144 suites in Canada from Spectrum and its joint venture partners where applicable. At December 31, 2007, Spectrum, Melior and their joint venture partners had over 6,000 suites under development or in lease-up across Canada. Chartwell has an option to acquire these suites upon stabilization, in many cases at a discount to appraised value. While these projects are in the development and lease-up phase, we generate a revenue stream from interest and fees through our mezzanine financing program.

\* These paragraphs contain forward-looking information. Please see the “Forward-Looking Information and Risks and Uncertainties” section in this MD&A.

### Third-Party Management

At December 31, 2007, Chartwell's portfolio of managed suites included over 9,670 suites in 71 communities owned by Spectrum, Melior and other third-parties. Chartwell also provides asset management and due diligence project management services to ING. In addition to generating high margin fees, our third-party management business also provides us with valuable insight into specific geographic markets and creates a pipeline of potential future acquisitions.

### Taxation Related Matters

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of certain 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. Accordingly, Chartwell did not previously record a provision for income taxes or future income tax assets or liabilities.

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 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, following a transition period for SIFTs existing on October 31, 2006 (described below), 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 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.

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 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. The proposed technical amendment to the SIFT definition would exclude trusts and partnerships whose equity is not publicly traded, and 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. This technical issue cannot be resolved until detailed legislation is released. Due to this uncertainty, we have provided for SIFT tax at the partnership level and recorded a current tax provision.

Based on the current structure of Chartwell and management's understanding of the SIFT Rules, and certain operational assumptions, management has recorded a provision for future income tax expense of \$13.9 million. In addition, we have recorded a current income tax provision of \$1.8 million related to SIFT tax and \$0.2 million related to taxes of U.S. subsidiaries or \$0.02 per unit diluted in aggregate.

Approximately 97.7% of Chartwell's distributions in 2007 were characterized as non-taxable returns of capital in Chartwell's indirect investment in its subsidiaries.

### Distributions

Effective with the payment to Unitholders for March 2008, due on April 17, 2008, cash distributions will be reduced to \$0.74 per unit per annum from the current level of \$1.065 per unit per annum. The new annual cash distribution, if implemented for the full 2007 year, would have been equal to 2007 pre-tax AFFO, and will result in an annual cash retention above current levels by approximately \$30.0 million. These funds will be redeployed and utilized to accelerate Chartwell's value enhancing initiatives, including internal growth projects, select acquisitions and development activities.

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

## Key Performance Indicators (“KPI”)

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 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 denominator for basic and diluted weighted average units outstanding used in the calculation of basic and diluted FFO per unit is calculated using GAAP methodology.

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 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.

### 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 Normalized Funds from Operations. We believe that various restructuring options are available to ensure that the entities would no longer be subject to the SIFT tax by 2009.

The denominator for basic and diluted weighted average units outstanding used in the calculation of basic and diluted NFFO per unit is calculated using GAAP methodology.

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 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 commonly adjusted for in AFFO calculations.

*Amortization of below market leases:* This non-cash item increases GAAP revenue and is commonly adjusted in AFFO calculations.

*Principal portion of capital subsidy receivable:* This item represents a portion of the long-term (maximum 20-year) cash flow stream provided by the Ontario Ministry of Health and Long-term Care to communities that 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 compensate for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

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

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

The denominator for basic and diluted weighted average units outstanding used in the calculation of basic and diluted AFFO per unit is calculated using GAAP methodology.

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

### **Net Operating Income**

Net operating income (“NOI”) is calculated as revenue, excluding below market lease amortization, adding equity income from Quebec Co-owned properties, less direct operating expenses, and is reported for each operating segment. Management uses this measure to evaluate individual and divisional property performance.

### **Same Property Performance**

The Trust evaluates its financial performance by analyzing a same property portfolio. In this MD&A, same property statistics refer to 75 Canadian retirement, 10 Canadian long-term care, and eight U.S. retirement communities that Chartwell has continuously owned since January 1, 2006.

### **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 (“G&A”) on a consolidated basis as a percentage of revenue.

## Consolidated Results of Operations

### Overview of Consolidated Results of Operations

Achievements in our Key Performance Indicators for 2007 as compared to 2006 are as follows:

- Same property performance improved with net operating income ahead of 2006 by \$3.6 million or 4.2%.
  - In 2007, acquisitions delivered incremental NOI of \$88.6 million compared to 2006, excluding the impact of foreign exchange.
  - Overall, occupancy was up across our same property portfolio to 93.0% in 2007 compared to 92.4% in 2006.
  - Same property portfolio operating margins were 30.9% in 2007, flat compared to 2006. Operating margins improved due to improved occupancies and new standardized cost management programs. However, this was offset by increased flow through funding revenues in our Canadian Long-Term Care operations, and service revenues which contribute additional NOI at lower margin rates. Our standardized cost management programs are at the early stages of implementation across our organization and we anticipate future benefits will be realized across our entire portfolio of assets.\*
  - G&A continued to decrease as a percentage of revenues, declining 1.7 percentage points to 3.1% of revenues for 2007 before cost attributable to the Special Committee and related advisory fees. Excluding Special Committee and related advisory costs, expenses increased by \$2.9 million or 17.2% compared to 2006.
  - AFFO for 2007 was \$0.72 per unit diluted, a decrease of \$0.08 compared to 2006. For Q4 2007, AFFO was \$0.15 per unit diluted, in line with AFFO in 2006. Key factors in the change in AFFO can be summarized as follows:
    - Current income tax expense increased by \$2.0 million or \$0.02 per unit diluted, primarily as a result of SIFT tax expense recorded in Q4 2007 of \$1.8 million. There is not a comparable amount in 2006.
    - G&A included \$3.0 million or \$0.03 per unit diluted in 2007 and \$0.8 million or \$0.01 per unit diluted in Q4 2007 related to the Special Committee activities. These costs are not expected to be recurring.\*
  - The write-off of costs related to acquisitions, which we decided not to pursue, increased G&A by \$1.4 million or \$0.01 per unit diluted and \$0.8 million or \$0.01 per unit diluted in Q4 2007. In addition, increased corporate overhead to support our substantial growth in 2007 increased G&A in 2007.
  - The increase in the value of the Canadian dollar relative to the U.S. dollar reduced AFFO by approximately \$0.3 million in 2007 and \$0.1 million in Q4 2007.
  - Dilution from the issuance of Trust Units and the Convertible Debenture Offering in April 2007, as the proceeds were not fully deployed in 2007, reduced AFFO. We estimate the impact of this dilution to be approximately \$0.03 per unit diluted in 2007, and \$0.01 per unit diluted in Q4 2007.
- These factors were offset by improvements as follows:
- Improved same property NOI added \$3.6 million or \$0.04 per unit diluted and \$1.3 million or \$0.01 per unit diluted for Q4 2007, excluding foreign exchange.
  - Due diligence project management and asset management fees earned from ING increased by \$3.1 million or \$0.03 per unit diluted and by \$0.7 million or \$0.01 per unit diluted in 2007 and Q4 2007, respectively.
  - In addition, AFFO was positively affected by increased capital funding from health authorities and income guarantees which increased by \$1.8 million or \$0.02 per unit diluted in 2007 and \$1.2 million or \$0.01 per unit diluted in Q4 2007.
- FFO diluted per unit was \$0.58 for 2007 compared to \$0.91 for 2006 and \$0.14 per unit diluted for Q4 2007 compared to \$0.18 per unit diluted for Q4 2006 as described in the “Funds from Operations” section of this MD&A. Normalized FFO, which excludes the effect of foreign exchange losses on intercompany debt, straight-line lease expense adjustments and current SIFT income tax expense, was \$0.80 per unit diluted for 2007, compared to \$0.91 per unit diluted for 2006.
  - Net loss increased to \$0.78 per unit diluted for 2007 compared to \$0.25 per unit diluted for 2006 and increased to \$0.11 per unit diluted for Q4 2007 from \$0.05 per unit diluted in Q4 2006. In addition to the factors described above, future income tax expense and depreciation and amortization increased in 2007 compared to 2006.

\* These paragraphs contain forward-looking information. Please see the “Forward-Looking Information and Risks and Uncertainties” section in this MD&A.



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

(\$000s, except per unit amounts, occupancy rates, and operating margins)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Property revenue	163,812	93,548	70,264	604,195	318,977	285,218
Total revenues	173,165	100,790	72,375	645,037	350,575	294,462
Net loss	(10,116)	(6,906)	(3,210)	(67,339)	(14,698)	(52,641)
Net loss per unit (basic and diluted)	(0.11)	(0.05)	(0.06)	(0.78)	(0.25)	(0.53)
Distributions declared	26,417	20,627	5,790	100,984	71,122	29,862
Distributions declared per unit	0.27	0.27	–	1.07	1.07	–
FFO <sup>(1)</sup>	14,317	13,574	743	55,176	60,249	(5,073)
Diluted FFO per unit	0.14	0.18	(0.04)	0.58	0.91	(0.33)
Normalized FFO <sup>(2)</sup>	18,024	12,922	5,102	75,939	60,197	15,742
Diluted Normalized FFO per unit	0.18	0.17	0.01	0.80	0.91	(0.11)
AFFO <sup>(3)</sup>	15,335	11,228	4,107	68,395	53,176	15,219
Diluted AFFO per unit	0.15	0.15	–	0.72	0.80	(0.08)
<i>Weighted average occupancy rate:</i>						
Same property portfolio	93.3%	93.2%	0.1pp <sup>(4)</sup>	93.0%	92.4%	0.6pp
Same property portfolio excluding internal growth suites	94.0%	94.4%	(0.4pp)	93.9%	93.6%	0.3pp
Operating margin – same property portfolio	29.4%	28.9%	0.5pp	30.9%	30.9%	–
Weighted average number of units including Class B Units of Chartwell Master Care LP:						
Basic	97,831,693	72,576,609	25,255,084	92,528,560	64,532,816	27,995,744
Diluted – LTIP	100,180,041	74,667,500	25,512,541	94,950,032	66,299,779	28,650,253

(1) Please refer to “Non-GAAP Measures Funds from Operations” section of this MD&A for the reconciliation of FFO and Net Income.

(2) Please refer to the “Normalized Funds from Operations” section of this MD&A for the details of the NFFO calculation.

(3) Please refer to the “Adjusted Funds from Operations” section of this MD&A for the details of the AFFO calculation.

(4) Percentage points.

## Summary of Property Revenue

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Same property <sup>(1)</sup>	73,713	70,511	3,202	285,263	273,904	11,359
Acquisitions <sup>(1)</sup>	94,105	23,881	70,224	316,626	49,780	266,846
Foreign exchange on U.S. dollar revenue	(982)	1,992	(2,974)	13,935	6,057	7,878
Equity accounted VIEs	(3,024)	(2,836)	(188)	(11,629)	(10,764)	(865)
<b>Total property revenue</b>	<b>163,812</b>	<b>93,548</b>	<b>70,264</b>	<b>604,195</b>	<b>318,977</b>	<b>285,218</b>
Weighted average occupancy same property portfolio	93.3%	93.2%	0.1pp <sup>(2)</sup>	93.0%	92.4%	0.6pp
Weighted average occupancy same property portfolio excluding internal growth suites	94.0%	94.4%	(0.4pp)	93.9%	93.6%	0.3pp

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

(2) Percentage points.

Total property revenue increased by 89.4% in 2007, as compared to 2006, due to contributions from acquisitions completed subsequent to January 1, 2006 and same property revenue growth. Same property revenue increased by approximately \$11.4 million or 4.1% in 2007, as compared to 2006, due to the following:

- Continued implementation of yield management programs in the Canadian retirement home portfolio to establish increased market based rates on suite turnover.
- Regular annual rent increases and the addition of new services for residents at some of Chartwell's communities.
- Increased contributions from internal growth projects completed in the past three years.

Chartwell owns seven operating companies with Melior in the Province of Quebec (the "Co-ownerships"). These Co-ownerships are structured to lease the respective

communities from the co-owners and are considered Variable Interest Entities ("VIEs") under GAAP. As Chartwell is not considered to be the primary beneficiary of these entities, we are required to account for them using the equity method of accounting. Operating results of these communities are included in the same property portfolio for presentation purposes in the above table.

Weighted average occupancy rates in the same property portfolio excluding internal growth suites improved to 93.9% in 2007 from 93.6% in 2006, a 0.3 percentage point increase.

*Fourth Quarter* In Q4 2007, same property revenue increased by \$3.2 million or 4.5%, as compared to Q4 2006, due to slightly increased occupancies, annual rent increases and contributions from internal growth projects.

## Summary of Direct Operating Expenses

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Same property <sup>(1)</sup>	52,071	50,149	1,922	197,109	189,342	7,767
Acquisitions <sup>(1)</sup>	64,680	17,792	46,888	215,435	37,219	178,216
Foreign exchange on U.S. dollar expenses	(690)	1,019	(1,709)	8,725	2,802	5,923
Equity accounted VIEs	(2,109)	(1,934)	(175)	(7,855)	(7,324)	(531)
<b>Total direct operating expenses</b>	<b>113,952</b>	<b>67,026</b>	<b>46,926</b>	<b>413,414</b>	<b>222,039</b>	<b>191,375</b>
– properties						
Direct operating expenses						
– management operations	1,112	1,068	44	3,996	4,027	(31)
<b>Total direct operating expenses</b>	<b>115,064</b>	<b>68,094</b>	<b>46,970</b>	<b>417,410</b>	<b>226,066</b>	<b>191,344</b>

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

Total direct operating expenses increased by 84.6% in 2007 as compared to 2006, primarily due to additional expenses from acquisitions completed subsequent to January 1, 2006.

Same property direct operating expenses increased by approximately \$7.8 million or 4.1% in 2007 as compared to 2006 due to the following:

- Costs of new services provided to residents at certain of Chartwell's communities which were more than offset by new revenues generated by these services.
- Additional operating expenses related to internal growth projects completed in 2005 through to 2007.

- Inflationary increases in wage costs, combined with higher than inflationary repairs and maintenance costs, offset by the implementation of new purchasing programs late in 2007.

**Fourth Quarter** Direct operating expenses for our same property portfolio increased \$1.9 million or 3.8%.

The rate of growth in direct operating expenses in Q4 2007 has been mitigated by the results of implementing new cost management programs across the organization. Benefits from these programs are expected to continue to be realized as we continued to standardize costs and leverage our increased purchasing power.\*

### General, Administrative and Trust Expenses

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
General, administrative and trust expenses	5,403	4,590	813	19,706	16,818	2,888
Special Committee and related advisory fees	822	–	822	3,026	–	3,026
General, administrative and trust expenses before legal costs recorded as a reduction to mezzanine loan interest	6,225	4,590	1,635	22,732	16,818	5,914
Legal costs recorded as a reduction to mezzanine loan interest <sup>(1)</sup>	(288)	–	(288)	(902)	–	(902)
Total general, administrative and trust expenses per financial statements	5,937	4,590	1,347	21,830	16,818	5,012
<i>As a percentage of revenue:</i>						
Including Special Committee costs	3.4%	4.6%	(1.2pp)	3.4%	4.8%	(1.4pp)
Excluding Special Committee costs	3.1%	4.6%	(1.5pp)	3.1%	4.8%	(1.7pp)

(1) Effective January 1, 2007, on adoption of the CICA Handbook "New Standards" sections, we began recording legal costs associated with our mezzanine loans received as a reduction of the mezzanine loan balances and amortized to income using the effective yield method. These costs were previously amortized to general, administrative and trust expenses on a straight-line basis over the expected term of the loan.

General, administrative and trust expenses before the costs of Special Committees increased by \$2.9 million or 17.2% in 2007 as compared to 2006.

As a percentage of total revenues, general, administrative and trust expenses before Special Committee costs decreased to 3.1% in 2007 from 4.8% in 2006. This is primarily due to significant growth in total revenues combined with the successful implementation of cost management initiatives in 2007.

Including \$3.0 million of Special Committee costs, general, administrative and trust expenses increased \$5.9 million or 35.2%.

Included in general, administrative and trust expenses in 2007 are expenses of \$1.4 million related to potential acquisitions

which Chartwell decided not to pursue. The timing of expenses related to acquisitions that we determine it is not appropriate to pursue is inherently difficult to predict.

Management expects growth in absolute dollars in general, administrative and trust expenses but a decline as a percentage of revenues.\*

**Fourth Quarter** In Q4 2007, general, administrative and trust expenses, before Special Committee costs, increased by 17.7% as compared to the same period of the prior year, reflecting additional corporate infrastructure required to support the extensive growth achieved in assets under management in 2007.

\* These paragraphs contain forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section in this MD&A.

## Interest and Property Lease Expense

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<b>Interest Expense</b>						
Mortgages and loans payable	20,555	13,409	7,146	74,642	44,875	29,767
Convertible debentures	2,928	694	2,234	10,567	694	9,873
Operating credit facility	–	316	(316)	52	316	(264)
	23,483	14,419	9,064	85,261	45,886	39,375
Accretion adjustment to convertible debenture liability	657	–	657	2,075	–	2,075
Amortization of debt mark-to-market adjustments arising on acquisition	(311)	(729)	419	(838)	(2,036)	1,199
Amortization of financing costs	1,102	1,371	(269)	4,484	3,194	1,290
<b>Total Interest Expense</b>	<b>24,931</b>	<b>15,061</b>	<b>9,871</b>	<b>90,982</b>	<b>47,043</b>	<b>43,939</b>
<b>Property Lease Expense</b>						
Contractual lease payments for the period	8,916	–	8,916	38,400	–	38,400
Adjustment to record lease expense on a straight-line basis over the lease term	1,815	–	1,815	8,069	–	8,069
<b>Total Property Lease Expense</b>	<b>10,731</b>	<b>–</b>	<b>10,731</b>	<b>46,468</b>	<b>–</b>	<b>46,468</b>

The increase in interest expense is consistent with the growth in Chartwell's debt portfolio as mortgages payable increased \$458.7 million from approximately \$987.0 million at December 31, 2006 to approximately \$1,445.7 million at December 31, 2007.

In addition, Chartwell had approximately \$125.0 million of 6.0% and \$75.0 million of 5.9% subordinated convertible debentures outstanding in 2007 that were not issued until November 28, 2006 and April 20, 2007, respectively.

On January 1, 2007, as part of its acquisition of HB Realty, Chartwell acquired a 49% leased interest in 25 seniors housing communities in the United States. In 2007, annual lease

payments amount to U.S. \$70.8 million, subject to adjustments pursuant to the master lease agreement, and are expected to grow at approximately 3.35% per annum over the remaining lease term of 12 years. Chartwell accounts for lease expense on a straight-line basis, averaging the total lease payments over the remaining lease term of 12 years.

On May 31, 2007, as part of its acquisition of the Merrill Gardens portfolio, Chartwell acquired leased interests in two seniors housing communities. Annual lease payments amount to U.S. \$1.6 million, subject to adjustments pursuant to the lease agreements.

## Mezzanine Loans and Interest Income

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Mezzanine loan interest						
based on gross loan balances	3,075	2,798	277	11,958	10,361	1,597
Effective yield adjustments for:						
Fees integral to lending activities <sup>(1)</sup>	(220)	–	(220)	2,286	–	2,286
Costs integral to lending activities <sup>(1)</sup>	(288)	–	(288)	(902)	–	(902)
	2,567	2,798	(231)	13,342	10,361	2,981
Gross mezzanine loan balances						
outstanding (end of the period)				112,037	101,290	10,747
Fees net of costs recorded as a reduction						
of mezzanine loan balances <sup>(1)</sup>				(4,413)	–	(4,413)
Net mezzanine loan receivable				107,624	101,290	6,334

(1) Effective January 1, 2007, in accordance with the adoption of CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement,” certain fees received under the terms of various agreements with Melior and others, which are considered integral to Chartwell’s lending activities, have been recorded as a reduction against mezzanine loans receivable and the balance is being accreted to the principal amount using the effective interest rate method. Previously these fees had been recorded separately as deferred revenue and recognized as fee revenue over the estimated term of the mezzanine loan using the effective interest method. In addition, costs associated with the origination of these mezzanine loans have been recorded as an increase against the applicable mezzanine loan receivable and are amortized in accordance with the effective interest rate method, whereby the amount recognized varies over the life of the loan based on the principal outstanding. In prior years, costs associated with origination of these mezzanine loans were deferred and recorded in other assets and were amortized to general, administrative and trust expenses on a straight-line basis over the estimated terms of the related mezzanine loans.

Mezzanine loan interest increased in 2007 as compared to 2006 due to the higher loan balances outstanding. As required by the effective interest rate method, we update our expectations for targeted completion dates of the underlying construction projects and re-discount the expected cash flows for the life of the project

over the revised expected time to complete. During Q4 2007, certain projects were identified as delayed and consequently the recorded yield adjustment for Q4 2007 was negative as a result of the required re-discounting the cash flow from inception of the project to the revised expected completion date.

## Other Items

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Bank interest and other income	1,957	1,199	758	8,152	3,271	4,881
Below market lease amortization revenue	259	510	(251)	1,394	2,039	(645)
Unrealized/realized gains and losses on derivative financial instruments and unrealized foreign exchange gains and losses	(122)	615	(737)	(10,925)	(126)	(10,799)
Depreciation of properties	(16,016)	(9,551)	(6,465)	(58,359)	(33,095)	(25,264)
Amortization of limited life intangible assets	(12,227)	(11,428)	(799)	(53,944)	(42,915)	(11,029)
Write-down of assets	(1,284)	(159)	(1,125)	(1,456)	(858)	(598)
(Loss)/Gain on sale of assets	(413)	–	(413)	(82)	396	(478)
Current income tax expense	(2,004)	–	(2,004)	(2,004)	–	(2,004)
Future income tax (expense) recovery	4,267	–	4,267	(13,924)	–	(13,924)
Non-controlling interest	1,179	572	607	5,008	1,252	3,756
Net loss	(10,116)	(6,906)	(3,210)	(67,339)	(14,698)	(52,641)

### BANK INTEREST AND OTHER INCOME

The increase in bank interest and other income is primarily due to the higher interest income earned due to increased average cash balances in 2007.

### UNREALIZED/REALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS AND UNREALIZED FOREIGN EXCHANGE GAINS AND LOSSES

In 2007, Chartwell recorded an unrealized foreign exchange loss of \$10.3 million related to the intercompany cross border U.S. dollar denominated debt used by Chartwell to finance its U.S. operations in a tax efficient manner. At December 31, 2007, Chartwell had approximately U.S. \$66.5 million of this debt outstanding. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange losses are required to be recorded in income under GAAP.

In addition, included in these amounts are unrealized gains/losses related to the fluctuation in the redemption value of certain liabilities of Chartwell's subsidiaries and to the holdings of U.S. dollar denominated cash.

### DEPRECIATION AND AMORTIZATION

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

### WRITE-DOWN OF ASSETS

In 2007 Chartwell recorded a write-down of two management contracts and related customer relationships in the amount of \$0.2 million due to the sale of the property by the owners.

During Q4 2007, we identified one non-core retirement property (53 suites), which we hold as an equity investment, for sale in Ontario. Assessment of the carrying value of our equity investment in this property relative to expected net proceeds resulted in recognition of a write-down of our equity investment of \$1.3 million in Q4 2007.

### (LOSS)/GAIN ON SALE OF ASSETS

During 2007, Chartwell disposed of two non-core seniors housing communities (58 suites) in British Columbia for gross proceeds of approximately \$4.4 million and recognized a gain on disposition of \$0.3 million. In addition, in Q4 2007, Chartwell disposed of another non-core property in Ontario (57 suites) and recorded a loss on disposal of \$0.4 million.

### CURRENT AND FUTURE INCOME TAX (EXPENSE) RECOVERY

Under the SIFT Rules, Chartwell will be subject to tax on certain income in 2007 and subsequent years. Therefore, Chartwell has recorded a provision for future tax expense of \$13.9 million for 2007. During Q4 2007, we recorded a future income tax recovery of \$4.3 million, which is partially attributable to a reduction in substantively enacted tax rates in Canada. 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 in or after 2008. These temporary differences are tax effected using the estimated substantively enacted tax rate at the time that these differences are expected to reverse.

During Q4 2007, as described in the “Significant Events and 2008 Outlook” section of this MD&A, a press release was issued by the Department of Finance which described potential changes in the determination of which legal entities are considered SIFTs. The clarifications set out in the press release could result, if ultimately enacted in legislation, in a subsidiary partnership of Chartwell REIT being considered to be a SIFT. Consequently, Chartwell has recorded a current income tax expense of approximately \$1.8 million related to SIFT income taxes. In addition, included in current tax expense is \$0.2 million related to taxes of non-resident subsidiaries.

#### NET LOSS

Net loss for 2007 increased in comparison to 2006 primarily due to the provision for future income tax expense; unrealized foreign exchange losses; depreciation and amortization expenses; general, administrative and trust expenses; interest and lease expenses; and, current income tax expense. This was offset by positive contributions from property and other income. These trends are consistent in Q4 2007, with the exception of Q4 2007 benefiting from a future income tax recovery of \$4.3 million, which arose primarily due to a reduction in substantively enacted tax rates in Canada.

### Summary of Results of Operations by Division

#### CANADIAN RETIREMENT OPERATIONS

The following table presents the results of operations of the Canadian retirement operations segment of Chartwell for the three months and year ended December 31, 2007 and 2006, respectively.

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<b>Revenues</b>						
Same property	44,843	43,297	1,546	173,723	166,323	7,400
Equity accounted VIEs	3,024	2,836	188	11,629	10,764	865
Total Same Property	47,867	46,133	1,734	185,352	177,087	8,265
Acquisitions	18,147	8,167	9,980	66,879	14,745	52,134
Total	66,014	54,300	11,714	252,231	191,832	60,399
<b>Direct Operating Expenses</b>						
Same property	29,261	28,366	895	110,051	105,135	4,916
Equity accounted VIEs	2,109	1,934	175	7,855	7,324	531
Total Same Property	31,370	30,300	1,070	117,906	112,459	5,447
Acquisitions	11,392	5,031	6,361	40,981	9,421	31,560
Total	42,762	35,331	7,431	158,887	121,880	37,007
<b>Net Operating Income</b>						
Same property	15,582	14,931	651	63,672	61,188	2,484
Equity accounted VIEs	915	902	13	3,774	3,440	334
Total Same Property	16,497	15,833	664	67,446	64,628	2,818
Acquisitions	6,755	3,136	3,619	25,898	5,324	20,574
Total Net Operating Income	23,252	18,969	4,283	93,344	69,952	23,392
Overall operating margins	35.2%	34.9%	0.3pp	37.0%	36.5%	0.5pp
<b>Same property statistics:</b>						
Operating margins	34.5%	34.3%	0.2pp	36.4%	36.5%	(0.1pp)
Weighted average occupancy rate	92.4%	92.4%	–	92.2%	91.6%	0.6pp
Weighted average occupancy rate excluding internal growth suites	93.4%	94.0%	(0.6pp)	93.5%	93.2%	0.3pp

Same property NOI increased by 4.4% in 2007 as compared to 2006 due to revenue growth, contributions of internal growth projects, and benefits yielded from the new cost management programs.

Same property revenues increased by 4.7% in 2007 as compared to 2006 due to regular annual rent increases of between 2% and 4%, the continued implementation of yield management programs to establish increased market based rates on suite turnover, and higher contribution from the internal growth suites.

Weighted average occupancy rates excluding internal growth suites in lease-up increased from 93.2% in 2006 to 93.5% in 2007, or 0.3 percentage points.

Same property operating expenses increased by 4.8% in 2007 compared to 2006. These above-inflation increases were primarily due to higher wage costs as a result of inflationary pressures in the Western Canadian provinces and Quebec, and food costs, which were partially offset by savings from the implementation of new cost management programs.

Overall operating margins increased by 0.5 percentage points for 2007 compared to 2006. Same property operating margins decreased in 2007 compared to 2006 by 0.1 percentage points

which in part, can be attributed to the introduction of new services for fees in some properties which add incremental net operating income at lower margin rates.

Acquisitions completed subsequent to January 1, 2006 contributed an additional \$20.6 million of net operating income in 2007.

**Fourth Quarter** Same property NOI increased 4.2% or \$0.7 million due to rent increases and positive contributions from internal growth suites. In Q4 2007, same property operating margins improved as compared Q4 2006 by 0.2 percentage points and occupancy including internal growth suites remained flat.

#### CANADIAN LONG-TERM CARE OPERATIONS

The following table represents results of operations of the Canadian long-term care operating segment for the three months and year ended December 31, 2007 and 2006, respectively.

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<b>Revenues</b>						
Same property	19,080	18,310	770	73,046	70,977	2,069
Acquisitions	21,411	7,434	13,977	60,703	14,603	46,100
<b>Total revenues</b>	<b>40,491</b>	<b>25,744</b>	<b>14,747</b>	<b>133,749</b>	<b>85,580</b>	<b>48,169</b>
<b>Direct Operating Expenses</b>						
Same property	16,662	16,050	612	63,588	61,739	1,849
Acquisitions	18,907	6,734	12,173	53,302	13,016	40,286
<b>Total expenses</b>	<b>35,569</b>	<b>22,784</b>	<b>12,785</b>	<b>116,890</b>	<b>74,755</b>	<b>42,135</b>
<b>Net Operating Income</b>						
Same property	2,418	2,260	158	9,458	9,238	220
Acquisitions	2,504	700	1,804	7,401	1,587	5,814
<b>Total Net Operating Income</b>	<b>4,922</b>	<b>2,960</b>	<b>1,962</b>	<b>16,859</b>	<b>10,825</b>	<b>6,034</b>
<b>Overall operating margins</b>	<b>12.2%</b>	<b>11.5%</b>	<b>0.7pp</b>	<b>12.6%</b>	<b>12.6%</b>	<b>-</b>
<b>Same property statistics:</b>						
Operating margins	12.7%	12.3%	0.4pp	12.9%	13.0%	(0.1pp)
Weighted average occupancy rate	98.0%	98.0%	-	97.7%	97.3%	0.4pp

Same property NOI increased by \$0.2 million or 2.4% for 2007 compared to 2006. This is primarily a result of improved occupancies in 2007 as well as the realization of savings from the implementation of new cost management programs.

Acquisitions completed subsequent to January 1, 2006 provided additional incremental net operating income of \$5.8 million in 2007.

Operating margin in the same property portfolio was 12.9% in 2007, a decrease of 0.1 percentage points from 2006, primarily a result of increased flow through revenue from government funding which does not contribute incremental NOI as it is fully offset by the required related expenditures.

Weighted average occupancies in the same property portfolio are at 97.7% for 2007 reflecting the improved occupancies of the properties over the same period in 2006 when the weighted average occupancy was 97.3%. Occupancy in the Ontario long-term care communities exceeded 97% for 2007 in all properties. As a result, these communities receive funding as though fully occupied.

**Fourth Quarter** Same property NOI increased by \$0.2 million or 7.0% for Q4 2007 compared to Q4 2006. Operating margin in the same property portfolio was 12.7% in 2007, an increase of 0.4 percentage points over 2006, as a result of the new cost management programs.



## U.S. OPERATIONS

The following table represents the results of operations of the U.S. operating segment for the three months and year ended December 31, 2007 and 2006, respectively.

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<b>Revenues</b>						
Same property	6,766	6,068	698	26,865	25,840	1,025
Acquisitions and other	54,547	8,280	46,267	189,044	20,432	168,612
Total revenues	61,313	14,348	46,965	215,909	46,272	169,637
<b>Direct Operating Expenses</b>						
Same property	4,039	3,799	240	15,615	15,144	471
Acquisitions and other	34,381	6,027	28,354	121,152	14,782	106,370
Total expenses	38,420	9,826	28,594	136,767	29,926	106,841
<b>Net Operating Income</b>						
Same property	2,727	2,269	458	11,250	10,696	554
Acquisitions and other	20,166	2,253	17,913	67,892	5,650	62,242
Total Net Operating Income	22,893	4,522	18,371	79,142	16,346	62,796
Foreign Exchange	(292)	973	(1,265)	5,210	3,255	1,955
Total Net Operating Income in CDN \$	22,601	5,495	17,106	84,352	19,601	64,751
Overall operating margins <sup>(1)</sup>	37.5%	33.6%	3.8pp	36.7%	37.5%	(0.8pp)
<b>Same property statistics:</b>						
Operating margins <sup>(1)</sup>	40.3%	37.4%	2.9pp	41.9%	41.4%	0.5pp
Weighted average occupancy rate	93.1%	92.9%	0.2pp	92.7%	92.1%	0.6pp

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

The same property portfolio consists of Chartwell's 50% interest in six communities acquired in August 2005 ("Meridian portfolio") and two communities acquired in October 2005 ("Pocasset and Trowbridge").

Same property NOI increased by \$0.6 million or 5.2%.

Same property revenue increased by U.S. \$1.0 million or 4.0% for 2007 compared to 2006. Additional revenue from improved occupancies and regular annual rent increases were partially offset by the deferral of upfront community fees collected from residents, which are recognized in income under GAAP over the estimated resident stay period, and lower ancillary income.

Same property direct operating expenses have increased 3.1% for 2007 compared to 2006, reflecting increased realty

tax costs and contract service costs at certain properties offset by the implementation of new cost management programs in the latter half of 2007.

Acquisitions completed subsequent to January 1, 2006 and the U.S. management operations added U.S. \$62.2 million of additional incremental NOI in 2007.

Same property operating margins increased slightly by 0.5 percentage points in 2007 as compared to 2006.

**Fourth Quarter** In Q4 2007, operating margins showed an improving trend relative to year to date results as we began to realize benefits from new cost management programs introduced in the latter half of the year. Same property NOI increased \$0.5 million.

## CANADIAN MANAGEMENT OPERATIONS

The following table presents the results of operations of the Canadian management operations of Chartwell for the three months and year ended December 31, 2007 and 2006, respectively.

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<b>Management and Other Fee Revenue</b>						
Spectrum:						
Development management	1,206	371	835	4,477	4,523	(46)
Operations management	497	305	192	1,591	863	728
Financing	–	–	–	–	627	(627)
Other <sup>(1)</sup>	122	35	87	669	662	7
<b>Total Spectrum</b>	<b>1,825</b>	<b>711</b>	<b>1,114</b>	<b>6,737</b>	<b>6,675</b>	<b>62</b>
Melior	(326)	237	(563)	1,946	1,981	(35)
ING	1,050	306	744	4,784	1,681	3,103
Other	881	579	302	2,999	2,150	849
<b>Total Management and Other Fee Revenue before Yield Adjustments:</b>	<b>3,430</b>	<b>1,833</b>	<b>1,597</b>	<b>16,466</b>	<b>12,487</b>	<b>3,979</b>
Fees related to the lending activities recorded as yield adjustments to Mezzanine Loan Interest Income	221	–	221	(2,286)	–	(2,286)
<b>Total</b>	<b>3,651</b>	<b>1,833</b>	<b>1,818</b>	<b>14,180</b>	<b>12,487</b>	<b>1,693</b>
Direct operating expenses	1,112	1,068	44	3,996	4,027	(31)
<b>Income from Management Operations</b>	<b>2,539</b>	<b>765</b>	<b>1,774</b>	<b>10,184</b>	<b>8,460</b>	<b>1,724</b>

(1) Includes mezzanine placement fees earned from Spectrum's joint venture partners.

In 2007, management operations revenue before yield adjustments increased by \$4.0 million as compared to 2006 primarily due to higher management, asset management and due diligence project management fees from ING and additional third-party management fee revenue.

In 2007, development management fees from Spectrum remained consistent with the fees earned in 2006. Operating management fees increased due to a larger number of projects in lease-up. Other fees from Spectrum included \$0.25 million of fees related to a waiver of Chartwell's purchase option on one of Spectrum's development projects disposed of by Spectrum to a third-party, mortgage guarantee fees of \$0.08 million and mezzanine loan placement fees of \$0.3 million received from Spectrum's joint venture partners.

Fees from ING increased in 2007 as compared to 2006 as a result of higher asset and operations management fees of approximately \$1.6 million related to the increased assets under management and due to approximately \$1.5 million of due diligence project management fees due to increased acquisitions in 2007.

Revenue from other third-parties was higher in 2007 as compared to 2006 due to approximately \$0.8 million of revenue related to third-party management contracts acquired as part of the Regency Care acquisition.

During 2007, Chartwell was contractually entitled to receive management fees of \$2.0 million (2006 – \$1.6 million) that did not

meet the criteria, under GAAP, to be recognized as revenue. This amount was nil for Q4 2007 (Q4 2006 – \$0.3 million).

During Q4 2007, as described in the “Mezzanine Loans and Interest Income” section of this MD&A, we recorded a reduction in income from the placement fees on mezzanine loans due to an increase in the expected time to complete certain projects which reduced revenue by approximately \$0.3 million.

**Management Operations Direct Operating Expenses:** Direct operating expenses principally represent the allocation of compensation 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 for the three months and year ended December 31, 2007 and 2006, respectively.

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Net loss per financial statements	(10,116)	(6,906)	(3,210)	(67,339)	(14,698)	(52,641)
<i>Add (Subtract):</i>						
Depreciation of properties	16,016	9,551	6,465	58,359	33,095	25,264
Amortization of management contracts, resident contracts and customer relationships	12,227	11,428	799	53,944	42,915	11,029
Depreciation of leasehold improvements included in depreciation of properties	(61)	(86)	25	(242)	(273)	31
Loss/(Gain) on sale of assets	413	–	413	82	(396)	478
Write-down of carrying value of assets	1,284	159	1,125	1,456	858	598
Future income tax expense	(4,267)	–	(4,267)	13,924	–	13,924
Non-controlling interest	(1,179)	(572)	(607)	(5,008)	(1,252)	(3,756)
Funds from operations <sup>(1)</sup>	14,317	13,574	743	55,176	60,249	(5,073)
<i>Funds from operations per unit:</i>						
Basic	0.15	0.19	(0.04)	0.60	0.93	(0.33)
Diluted	0.14	0.18	(0.04)	0.58	0.91	(0.33)

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

In the three months and year ended December 31, 2007, FFO and FFO diluted per unit compared to the same periods 2006 were affected by the following items:

- Unrealized foreign exchange losses of approximately \$10.9 million or \$0.11 per unit diluted for 2007 and \$0.1 million for Q4 2007. These unrealized losses primarily relate to cross border U.S. dollar denominated loans used by Chartwell’s Canadian subsidiaries to finance its investments in U.S. operations in a tax efficient manner. Under GAAP, changes in the underlying value of these loans resulting from changes in foreign exchange rates are required to be recorded in income.
- Straight-line adjustments to the lease expenses of approximately \$8.1 million or \$0.08 per unit diluted in 2007 and approximately \$1.8 million or \$0.02 per unit diluted for Q4 2007. These adjustments represent the excess of the average annual lease expense calculated over the term of the leases over the contractual lease payments in the period.
- Amortization of financing costs and debt mark-to-market adjustments, and accretion on the convertible debentures combined reduced FFO by \$4.6 million (\$0.05 per unit diluted) for 2007 and \$0.8 million (\$0.01 per unit diluted) for Q4 2007.
- Costs related to the work of the Board’s special committees and its advisors reduced FFO by approximately \$3.0 million in 2007 or \$0.03 per unit diluted and \$0.8 million or \$0.01 per unit diluted for Q4 2007. Costs related to potential acquisitions that Chartwell decided not to pursue further were written off, which reduced FFO by approximately \$1.4 million for 2007 or \$0.01 per unit diluted and \$0.8 million or \$0.01 per unit diluted for Q4 2007.
- Current income tax expense related to SIFT tax rules reduced FFO \$1.8 million or \$0.02 per unit diluted for 2007 and Q4 2007.
- In addition, FFO in the three months and year ended December 31, 2007 reflected positive contributions from our property portfolio resulting from improved occupancies and cost management programs.
- Chartwell has not yet fully deployed the proceeds of our April 2007 Trust Unit and Convertible Debenture issue, and as a result we have had excess cash on hand throughout 2007, closing at December 31, 2007 with \$72.5 million. This undeployed cash was dilutive on FFO throughout 2007.

### NORMALIZED AND ADJUSTED FUNDS FROM OPERATIONS (“NFFO” AND “AFFO”)

The following table provides the calculation of NFFO and AFFO for the three months and year ended December 31, 2007 and 2006, respectively.

(\$000s, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<b>FFO<sup>(1)</sup></b>	14,317	13,574	743	55,176	60,249	(5,073)
<i>Add (Subtract):</i>						
Adjustment to record lease expense on a straight-line basis over the lease term	1,815	–	1,815	8,068	–	8,068
Unrealized foreign exchange and derivative (gains)/losses	122	(652)	774	10,925	(52)	10,977
SIFT Income Tax Expense	1,770	–	1,770	1,770	–	1,770
<b>NFFO<sup>(2)</sup></b>	18,024	12,922	5,102	75,939	60,197	15,742
<i>Add (Subtract):</i>						
SIFT Income Tax Expense	(1,770)	–	(1,770)	(1,770)	–	(1,770)
Amortization of below market leases	(259)	(510)	251	(1,394)	(2,039)	645
Principal portion of capital subsidy receivable from health authorities	502	111	391	1,343	344	999
Amounts received under income guarantees	888	116	772	1,548	757	791
Amortization of financing costs	1,102	1,371	(269)	4,484	3,194	1,290
Accretion adjustment to convertible debenture liability	657	–	657	2,075	–	2,075
Amortization of debt mark-to-market adjustments arising on acquisition	(310)	(729)	419	(837)	(2,036)	1,199
Deferred financing fee reserve <sup>(3)</sup>	(238)	(212)	(26)	(909)	(861)	(48)
<b>AFFO before Capex reserve</b>	18,596	13,069	5,527	80,479	59,556	20,923
Maintenance Capex reserve – 2% of property revenue	(3,261)	(1,841)	(1,420)	(12,084)	(6,380)	(5,704)
<b>AFFO<sup>(4)</sup></b>	15,335	11,228	4,107	68,395	53,176	15,219
<b>NFFO per unit</b>						
Basic	0.18	0.18	–	0.82	0.93	(0.11)
Diluted	0.18	0.17	0.01	0.80	0.91	(0.11)
<b>AFFO per unit</b>						
Basic	0.16	0.15	0.01	0.74	0.82	(0.08)
Diluted	0.15	0.15	–	0.72	0.80	(0.08)

(1) Refer to “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 “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, prorated based on the weighted average term to maturity.

(4) Refer to “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.

In the three months and year ended December 31, 2007, AFFO and AFFO per unit were impacted by the delays in completion of certain acquisitions, the write-off of certain acquisition costs, costs related to the activities of the Board special committees and the deferral of community fee revenue received from the residents as more fully described under the “Funds from Operations” section of this MD&A. In addition, AFFO was positively affected compared to 2006 by increased capital funding from health authorities and income guarantees received from vendors of the acquired properties. Dilution from the issuance of Trust Units and the Convertible Debenture Offering in April 2007, as the proceeds were not fully deployed in 2007, reduced AFFO.

## Quarterly Financial Information

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

(\$000s, except per unit amounts)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	173,165	177,231	156,299	138,342	100,790	94,728	81,888	73,169
Direct operating expenses	(115,064)	(113,240)	(99,840)	(89,266)	(68,094)	(60,357)	(51,515)	(46,100)
General, administrative and trust expenses	(5,935)	(5,832)	(5,129)	(4,934)	(4,590)	(4,629)	(4,242)	(3,357)
Income before interest and depreciation and amortization	52,166	58,159	51,330	44,142	28,106	29,742	26,131	23,712
Interest expense	(24,931)	(25,483)	(23,426)	(17,142)	(15,061)	(12,105)	(10,679)	(9,198)
Property lease expenses	(10,731)	(11,565)	(11,785)	(12,387)	–	–	–	–
Foreign exchange gains/(losses)	(122)	(4,898)	(5,279)	(626)	615	157	(950)	52
Depreciation and amortization	(28,243)	(32,344)	(27,869)	(23,847)	(20,979)	(20,967)	(18,138)	(15,926)
Write-down of carrying value of management contracts	(1,284)	–	(172)	–	(159)	(259)	–	(440)
(Loss)/Gain on sale of assets	(413)	11	320	–	–	296	100	–
Non-controlling interest	1,179	982	2,117	730	572	232	292	157
Current income tax expense	(2,004)	–	–	–	–	–	–	–
Future income tax (expense)/recovery	4,267	(1,802)	(16,389)	–	–	–	–	–
Net loss for the period	(10,116)	(16,940)	(31,153)	(9,130)	(6,906)	(2,904)	(3,244)	(1,643)
Net loss per unit, diluted	(0.11)	(0.19)	(0.36)	(0.12)	(0.02)	(0.05)	(0.06)	(0.03)
FFO	14,317	16,160	10,785	13,194	13,574	17,735	14,428	14,512
FFO per unit, diluted	0.14	0.16	0.11	0.17	0.18	0.25	0.23	0.26

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)	2007	2006	2005
Property revenues	604,195	318,977	203,345
Total revenues	645,037	350,575	224,627
Direct operating expenses	417,410	226,066	143,220
Net loss	(67,339)	(14,698)	(11,670)
Total assets	2,603,199	1,977,750	1,191,644
Total debt	1,628,753	1,109,464	645,678
Net loss per unit, diluted	(0.78)	(0.25)	(0.29)
Cash distributions declared per unit	1.07	1.07	1.07

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 between December 31, 2006 and December 31, 2007:

	Increase/(Decrease) (\$000s)	Explanation
Properties	600,776	Properties increased as follows: properties acquired in 2007 added \$728.7 million; internal growth developments and building improvements added \$28.1 million; capital additions increased properties by \$17.2 million. These increases were offset by a reduction due to foreign exchange translation of \$108.8 million, depreciation and amortization of \$58.3 million and the disposal of three properties with a carrying value of \$4.6 million.
Mezzanine loans	6,334	New mezzanine loan advances of \$17.5 million (net of fees) and amortization of fees of \$1.3 million increased mezzanine loans. This was offset by repayments of \$7.2 million and adjustments to implement the New Standards amounting to \$5.3 million.
Total assets	625,449	The increase in total assets in 2007 is principally due to the acquisitions of new seniors housing communities, offset by foreign exchange translation, and depreciation and amortization charges.
Mortgages payable	458,665	Mortgages payable increased as a result of the following: \$267.1 million of debt was assumed on acquisitions of properties in 2007 before mark-to-market adjustments of \$10.7 million; upward refinancings of \$17.3 million; and new mortgages of \$279.8 million were entered into during 2007, primarily related to acquisitions on which we did not assume financing. These increases were offset by decreases as follows: regular amortizing principal repayments of \$24.8 million; mortgages extinguished on properties sold during the year of \$3.9 million; foreign exchange translation of \$79.2 million; and, deferred financing costs of \$17.7 million, primarily due to the amount transferred from other assets on implementation of the New Standards.
Debt component of convertible debentures	60,541	The debt component of convertible debentures increased primarily due to the issuance of the 5.9% Convertible Debentures on April 20, 2007 as described in the "Significant Events and 2008 Outlook" section of this MD&A.
Future income tax liability	18,732	As described in the Significant Events section of this MD&A, as a result of new legislation, we believe we are subject to tax as a SIFT and consequently have recorded a future income tax liability of \$18.7 million in 2007.
Total liabilities	582,796	The increase in total liabilities primarily relates to debt to finance the acquisition of new seniors housing properties, offset by a decrease due to foreign exchange translation.
Non-controlling interest	(7,448)	As described in Note 12 to our Financial Statements, the non-controlling interest represents the interest of the holders of the Class B Units of Master LP. Non-controlling interest decreased due to distributions to the holders of the Class B Units of Master LP of \$6.9 million, allocation of the non-controlling interest's share of comprehensive loss for the year of \$7.1 million and exchanges of Class B Units of Master LP for Trust Units of \$3.7 million.
Unitholders' equity	50,101	The increase in Unitholders' equity in 2007 is due to the completion of the Offering of Trust Units in the second quarter of 2007 offset by distributions and allocation of the net loss to the Trust's Unitholders.
Total liabilities and equity	625,449	The increase in Total Liabilities and Unitholders' Equity in 2007 is primarily due to our significant acquisition activity, the issuance of Trust Units and Convertible Debentures, offset by foreign exchange translation, distributions to Unitholders and net loss for the year.

## MORTGAGE DEBT

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2007:

(\$000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2008	24,515	107,570	132,085	9.9%	6.4%
2009	22,181	102,305	124,486	9.4%	5.2%
2010	21,739	56,592	78,331	5.2%	5.5%
2011	22,167	25,976	48,143	2.4%	5.9%
2012	23,669	70,710	94,379	6.5%	5.8%
2013	23,697	56,515	80,212	5.2%	5.3%
2014	21,698	33,396	55,094	3.1%	5.9%
2015	21,629	77,167	98,796	7.1%	5.4%
2016	19,001	170,010	189,011	15.6%	6.0%
2017	14,578	246,935	261,513	22.6%	5.7%
2018-2022	62,507	96,819	159,326	8.9%	6.1%
Thereafter	76,394	48,511	124,905	4.4%	5.6%
Total	353,775	1,092,506	1,446,281		
Mark-to-market adjustment arising on acquisition			17,147		
Less: Financing costs			(17,717)		
Total Mortgage Debt			1,445,711		

At December 31, 2007, the average term to maturity for the total mortgage portfolio was approximately 9.1 years (December 31, 2006 – 7.0 years), and the weighted average contractual interest rate was 5.8% (December 31, 2006 – 5.7%). In 2007, management continued its strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt, and was able to achieve a significant increase in the average term to maturity without a significant increase in weighted average interest rates.

During 2008 and 2009 respectively, 9.9% and 9.4% of our debt portfolio matures. We believe that we will be able to re-finance the maturing debt in due course.\* Over 60% of the 2008 maturities and over 84% of the 2009 maturities are comprised of CMHC insured debt.

At December 31, 2007, Chartwell had approximately \$35.0 million of variable rate mortgage debt. This debt primarily relates to internal growth projects and communities in lease-up. Chartwell anticipates it will convert these loans into permanent fixed rate debt upon completion of the internal growth projects and the stabilization of the communities in lease-up.\*

## CONVERTIBLE DEBENTURES

At December 31, 2007 Chartwell had \$124.9 million of the 6% convertible unsecured subordinated debentures and \$75 million of the 5.9% convertible unsecured subordinated debentures outstanding. The 6% Convertible Debentures are convertible 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 into Trust Units at a conversion price of \$16.25 per unit and mature on May 1, 2012.

\* These paragraphs contain 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, 2007, including the indebtedness of third-parties guaranteed by Chartwell:

(\$000s)	December 31, 2007
Mortgages payable	1,445,711
Loans payable	2,386
Guarantees	66,990
Total indebtedness excluding convertible debentures	1,515,087
Convertible debentures (face value)	199,925
Indebtedness	1,715,012
Total assets	2,603,199
Accumulated depreciation and amortization <sup>(1)</sup>	255,600
Gross book value ("GBV") of assets	2,858,799
Less: Assets financed by deferred purchase consideration on acquisition properties	41,305
Gross book value of assets (net of deferred consideration)	2,817,494
Debt to GBV before convertible debentures	53.8%
Debt to GBV including convertible debentures	60.9%

(1) Includes accumulated depreciation and amortization related to fully amortized assets of \$35,873.

In 2007, Chartwell Unitholders at their Annual General Meeting approved an amendment to the definition of indebtedness and gross book value of assets to exclude deferred consideration related to the acquisition of properties.

If Chartwell were to increase its borrowing to the maximum 60% (or 65% including convertible debentures) allowed under its existing Declaration of Trust, it would increase its available cash by approximately \$175 million. This would allow Chartwell to acquire approximately \$438 million of new assets.



## OUTSTANDING UNITS DATA

The following table summarizes changes in the number of outstanding units in 2007:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2006	74,576,539	2,070,375	6,001,659	82,648,573
Trust Units issued pursuant to public offering	16,215,000	–	–	16,215,000
Trust Units issued pursuant to Distribution Reinvestment Plan (“DRIP”)	328,065	–	–	328,065
Conversion of convertible debentures	4,808	–	–	4,808
Trust Units issued under the Long-Term Incentive Plan (“LTIP”)	–	342,198	–	342,198
Disposition of Long-Term Incentive Plan Units under subscription	76,250	(76,250)	–	–
Class B Units of Master LP issued on acquisition of property	–	–	696,758	696,758
Exchange of Class B Units of Master LP	425,039	–	(425,039)	–
Balance December 31, 2007	91,625,701	2,336,323	6,273,378	100,235,402

## Cash Flow Analysis

The following table summarizes the significant changes in the REIT’s operating, financing and investing cash flows between December 31, 2006 and December 31, 2007:

	Increase/(Decrease) (\$000s)	Explanation
<i>Cash provided by (used in):</i>		
Operating activities	38,014	Cash flows from operating activities increased \$38.0 million for 2007 compared to 2006 primarily due to growth in our operations from acquisitions combined with improved FFO from our same property portfolio and positive change in non-cash working capital balances.
Financing activities	(99,122)	Cash flows from financing activities decreased by \$99.1 million for 2007 compared to 2006. This decrease is attributable to reduced proceeds from offerings of Trust Units and Convertible Debentures in 2007 compared to 2006, which combined amount to a reduction in cash flow from financing activities of \$157.6 million. In addition, increased distributions to Unitholders, which are a result of the increased number of units outstanding, reduced cash flow from financing activities by \$21.2 million compared to 2006. These decreases were offset by increased proceeds from mortgage financings which, net of repayments, increased cash flow from financing activities by \$39.2 million.
Investing activities	(92,049)	Cash flow used in investing activities decreased by \$92.9 million for 2007 compared to 2006, which is primarily attributable to higher acquisition activity.

## Distributions

As described in the “Significant Events and 2008 Outlook” section of this MD&A, effective with the payment to Unitholders for March 2008, due on April 17, 2008, cash distributions will be reduced to \$0.74 per annum per unit from the current 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.

Approximately 97.7% of Chartwell’s distributions in 2007 (2006 – 83%) were characterized as non-taxable returns of capital in Chartwell’s indirect investment in its subsidiaries.

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. Unitholders who are Canadian residents and beneficial holders of 1,000 units or more are eligible to participate. Participating investors registered in DRIP receive additional bonus units in an amount equal to 3% of their distributions that they have elected to reinvest, and this amount is paid in the form of additional units.

The following table summarizes distributions made in Q4 2007 and the years ended December 31, 2007, 2006 and 2005:

(\$000s)	Q4 2007	Year Ended December 31		
		2007	2006	2005
Distributions declared	24,738	94,145	65,378	44,856
Distributions on Class B Units of Master LP	1,680	6,839	5,744	5,602
Distributions reinvested under DRIP	(1,274)	(4,317)	(2,476)	(1,664)
Distributions applied against LTIP installment loan receivable	(627)	(2,557)	(1,848)	(1,015)
Distributions paid or payable in cash	24,517	94,110	66,798	47,779

The following table summarizes cash distributions made by Chartwell in Q4 2007 and for the years ended December 31, 2007, 2006 and 2005 in relation to net loss and cash flows from operating activities:

(\$000s)	Q4 2007	Year Ended December 31		
		2007	2006	2005
Cash flows from operating activities	19,262	101,435	63,421	57,337
Loss before non-controlling interest	(11,295)	(72,347)	(15,950)	(13,061)
Cash distributions declared <sup>(1)</sup>	24,517	94,110	66,798	47,779
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	(5,255)	7,325	(3,377)	9,558
Excess/(shortfall) of net loss over cash distributions paid	(35,812)	(166,457)	(82,748)	(60,840)

(1) Cash distributions do not include distributions satisfied through issuance of the units under 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:

(\$000s)	Q4 2007	Year Ended December 31		
		2007	2006	2005
Principal portion of capital subsidy receivable from health authorities <sup>(1)</sup>	502	1,343	344	219
Amounts received under net operating income guarantees <sup>(1)</sup>	888	1,548	757	1,185

(1) Please refer to the “Key Performance Indicators – Adjusted Funds from Operations” section of this MD&A for a description of these items.

The remaining portion of the excess of cash distributions over cash flow from operating activities in Q4 2007 and in the years ended December 31, 2006 and 2007 were 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 the year ended December 31, 2007 partially relates to the positive changes in non-cash working capital balances of \$21.0 million. The shortfall of cash flow from operating activities was similarly reduced in 2006 by positive non-cash working capital fluctuations of approximately \$2.3 million. Changes in non-cash working capital are expected to fluctuate from period to period.\*

## Liquidity and Capital Resources

Chartwell’s cash commitments include payments related to long-term debt and convertible debentures, cash distributions to Unitholders, operating leases and minimum 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 of up to \$90.0 million. As of December 31, 2007, Chartwell had a borrowing capacity of approximately \$64.5 million based on available security. Amounts outstanding under the secured revolving operating facility bear interest at the bank’s prime rate plus 0.65% or banker’s acceptance rate plus 2.25% and are secured by first and second charges on specific communities. The credit facility is due on June 28, 2008. The term can be extended with the consent of the lenders for an additional 364-day period.

The credit facility agreement (“Credit Agreement”) contains a covenant which requires Chartwell to limit cash distributions to Distributable Income, as defined in the Credit Agreement and in Chartwell’s Declaration of Trust, on an annual basis. In 2007, distributions paid or payable in cash exceeded this limitation by approximately \$12.2 million. For the year ended December 31, 2006 distributions paid or payable in cash exceeded this limitation by approximately \$6.0 million. Chartwell has obtained waivers of this covenant from its lenders for each of these years.

Management expects that our principal use of funds in the future will be for debt repayments, distributions, capital expenditures on our existing property portfolio, the acquisition of seniors housing properties, and mezzanine financing to Spectrum and other third-parties.\* As at December 31, 2007, Chartwell also had cash on hand of approximately \$72.5 million.

\* These paragraphs contain forward-looking information. Please see the “Forward-Looking Information and Risks and Uncertainties” section in this MD&A.

## Contractual Obligations

Chartwell's major contractual obligations as at December 31, 2007 were as follows:

(\$000s)	Total	2008	2009	2010	2011	2012	Thereafter
Mortgages payable	1,446,282	132,085	124,486	78,331	48,143	94,379	968,858
Convertible debentures	199,925	–	–	–	124,925	–	75,000
Loans payable	2,386	2,386	–	–	–	–	–
Purchase obligations	135,406	109,035	8,129	8,264	5,038	4,940	–
Property operating leases	500,069	37,305	38,502	39,739	41,017	50,255	293,251
Other operating leases	11,639	1,725	1,752	1,826	1,824	1,855	2,657
Mezzanine loan funding obligations	10,690	10,690	–	–	–	–	–
Land leases	14,505	252	252	252	252	252	13,245
<b>Total contractual obligations</b>	<b>2,320,902</b>	<b>293,478</b>	<b>173,121</b>	<b>128,412</b>	<b>221,199</b>	<b>151,681</b>	<b>1,353,011</b>

Purchase obligations relate to the following:

- Commitments with respect to the acquisition of interests in four seniors housing communities for a total purchase price of approximately \$59.7 million.
- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately \$41.3 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 \$7.1 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 \$23.1 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately \$4.2 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 100% owned by Chartwell.

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

Mezzanine loan funding obligations relate to approved loans to Spectrum and other parties to fund the development and lease-up of six retirement communities in Quebec, Ontario and British Columbia.

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

### Other Contracts

Chartwell's properties in the Province of Quebec are managed by CM Management Limited Partnership ("CM"). The property management agreements are for a term of five years and call for payment of management fees between 4% and 5% of gross revenues. Chartwell and Melior each own a 50% interest in CM.

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

- 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 whether or not 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.
- 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.
- For as long as Chartwell and Melior are co-owners of at least one property in the Province of Quebec, a payment of 25% of the net increased economic value created on Chartwell's internal growth projects in the Province of Quebec, as determined by independent appraisals.

CSH-INGRE's properties in the United States 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 United States 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.

## Capital Expenditures

Chartwell classifies its capital expenditures under the following categories:

- Building improvements and additions include capital expenditures that improve the revenue generating potential of Chartwell's properties and include the addition of new suites, conversion of suites and capital expenditures incurred in order to introduce new services to residents.
- Acquisition related capital expenditures – capital expenditures that were identified during the acquisition due diligence process for newly acquired assets.
- 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 the year ended December 31, 2007:

(\$000s)	2007
Building improvements and additions	28,107
Acquisition related capital expenditures	3,347
Long-term replacement items	3,319
Furniture, fixtures and equipment	6,108
Other	4,423
<b>Total</b>	<b>45,304</b>

## Guarantees

The following table summarizes Chartwell's outstanding guarantees:

Guarantee (\$000s)	Maximum Amount	Obligation Outstanding on Dec. 31, 2007
Spectrum	23,850	18,198
Maxwell Residence	3,100	3,100
Joint and several guarantees on the co-owned properties	51,045	45,692
<b>Total</b>	<b>77,995</b>	<b>66,990</b>

*Spectrum* Chartwell remains as a guarantor of the debt of two properties that it sold to Spectrum in 2005 for which it receives an annual guarantee fee. Spectrum has indemnified Chartwell in respect of these guarantees.

*Maxwell Residence* Chartwell remains as a guarantor of the debt of this 61-suite property which we manage. The borrower has indemnified Chartwell in respect of this guarantee.

### *Joint and several guarantees on the co-owned properties*

Chartwell and its joint venture partners provided joint and several guarantees of the debt of eight co-owned properties. These properties are proportionately consolidated in Chartwell's Financial Statements and, therefore, Chartwell's 50% share of the properties' debt is reflected in the Financial Statements. Chartwell's joint venture partners indemnify Chartwell with respect to these guarantees.

In the opinion of management, the value of each of these properties exceeds the respective total amount of debt outstanding at December 31, 2007.

## 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 month period ended December 31, 2007:

### Spectrum

Under the terms of the Development Agreement with Spectrum, a company in which Chartwell's senior management owns a controlling interest (including Stephen Suske, Vice Chairman and Co-CEO, Robert Ezer, President and Co-CEO, Brent Binions, Senior Executive Vice President, Leslie Veiner, Senior Vice President, Real Estate, Richard Noonan, Chief Operating Officer, Canadian Retirement Communities, Peter Gaskill, Senior Vice President, Development and Evan Miller, Vice President, Development), Chartwell provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee.

As of December 31, 2007, mezzanine loans receivable from Spectrum amounted to approximately \$50.1 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 32 seniors housing development properties.

During the three months and year ended December 31, 2007, Chartwell recorded mezzanine loan interest of approximately \$1.3 million and \$5.2 million, respectively, from Spectrum.

During the three months and year ended December 31, 2007, Chartwell earned development, operations management and other fees of approximately \$1.7 million and \$6.6 million, respectively, from Spectrum.

Other assets as of December 31, 2007 include approximately \$5.7 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell on behalf of Spectrum. Subsequent to December 31, 2007, approximately \$0.4 million of this balance was paid.

Included in distributions payable at December 31, 2007 is \$0.3 million due to Spectrum. Included in accounts payable is \$0.6 million with respect to a property acquired from Spectrum in 2006.

In the first quarter of 2007, Chartwell acquired one seniors housing community from Spectrum for a total purchase price of approximately \$18.0 million, inclusive of closing costs. The purchase price was settled by the assumption of a mortgage

payable of \$12.4 million, a discharge of mezzanine loans receivable of approximately \$1.7 million, and approximately \$3.9 million of cash.

In the third quarter of 2007, Chartwell acquired one seniors housing community from Spectrum for a total purchase price of approximately \$20.1 million, inclusive of closing costs. The purchase price was settled by cash of approximately \$19.3 million and a discharge of the mezzanine loan receivable of \$0.8 million.

In Q4 2007, Chartwell acquired the interests in one seniors housing community from Spectrum for a total purchase price of \$17.4 million. The purchase consideration included the repayment of the mezzanine loan of \$1.4 million.

Other mezzanine loan repayments from Spectrum included \$0.4 million for one of Spectrum's development projects disposed of by Spectrum to a third-party.

In Q4 2007 Chartwell advanced \$1.7 million of mezzanine loans to two existing projects.

### Melior and Other Spectrum Partners

As of December 31, 2007, Chartwell had mezzanine loans receivable of approximately \$61.9 million from six of Spectrum's joint venture partners (including approximately \$45.1 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 26 development projects.

In Q3 2007, there was a partial mezzanine repayment of \$2.9 million for one of Melior's development projects.

In Q4 2007, there was a new mezzanine loan advance of \$0.3 million for one of Melior's development projects.

During the three months and year ended December 31, 2007, Chartwell recorded interest income from Melior of approximately \$0.7 million and \$6.3 million, respectively.

In the year ended December 31, 2007, Chartwell paid Melior referral fees of \$0.9 million related to the acquisition of properties in the province of Quebec.

In addition, Chartwell paid Melior project management fees of \$3.5 million and \$1.7 million, respectively, for the year and three months ended December 31, 2007.

Accounts receivable and other assets at December 31, 2007 included approximately \$2.3 million due from Melior. Subsequent to December 31, 2007, approximately \$1.1 million of outstanding amounts due from Melior were collected.

At December 31, 2007 Chartwell had accounts payable of \$0.6 million due to Melior relating to management fees, legal fees, promissory notes and deferred purchase consideration.

#### **Other**

Included in mortgages payable at December 31, 2007, is a vendor-take-back loan of approximately \$1.0 million due to an officer of Chartwell.

Included in accounts receivable at December 31, 2007 is \$0.1 million (2006 – \$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, 2007, Chartwell acquired Cite Jardin (Phase III) in Quebec for a purchase price of \$29.2 million from Spectrum, Melior and Spectrum Joint Venture partners.

## **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 to 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.

On January 1, 2007, Chartwell adopted the following CICA Handbook Sections: Section 1530, “Comprehensive Income”; Section 3251, “Equity”; Section 3855, “Financial Instruments – Recognition and Measurement”; Section 3865, “Hedges”; and, Section 3861, “Financial Instruments – Disclosure and Presentation”, collectively the “New Standards”. The New Standards provide more comprehensive guidance on how to recognize financial instruments on the balance sheets, how to measure them, and how to account for gains and losses and provide criteria for application of hedge accounting in the future.

Except with respect to other comprehensive income, these standards have been adopted retroactively without restatement of prior periods as required by the New Standards.

The transitional provision of Section 3855, “Financial Instruments – Recognition and Measurement” requires that at the beginning of the fiscal year in which this section is first applied, an entity re-measures financial assets and liabilities as appropriate. The details of the impact of these New Standards on Chartwell’s Financial Statements at December 31, 2007 are described in note 1(b) to the Consolidated Financial Statements.

As a result of the SIFT Rules (please refer to the “Significant Events and 2008 Outlook” section of this MD&A), Chartwell is subject to tax on certain income in 2007. 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 to taxable income in the periods 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 period that includes the date of enactment or substantive enactment.

Management is also considering the future accounting impact of 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. The legislation has not yet been fully proclaimed into effect. If it is proclaimed into effect in the current form, Chartwell may be required to start amortizing the value of its long-term care licenses over the respective license term.

## **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 judgment.

The assessment of asset impairment requires management to make significant assumptions about future revenues including assumptions about rates and occupancies, labour and other supply rates, and utility costs over the life of the property, which can be up to 40 years. Actual results can, and often do, differ from these estimates, and can have either a positive or negative impact on the estimate and whether an impairment situation exists. In addition, when impairment tests are performed, the estimated useful lives of the properties are reassessed, with any change accounted for prospectively.

### **Useful Life of Properties**

Properties are depreciated over their estimated useful lives. Estimated useful lives are 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 residences, 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 which are 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 variable interests in any VIEs identified. We use a variety of complex estimation processes involving both qualitative and quantitative factors that may involve the use of a number of assumptions about the business environment in which an 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 those cash flows and allocating the losses and returns among the identified parties holding variable interests. Our interests are then compared to those of the unrelated outside parties to identify the party that is the primary beneficiary, and thus should consolidate the entity. In addition, there is a significant amount of judgment exercised in interpreting the provisions of the accounting guidance and applying them to our specific situation.

Different estimates, with respect to key variables used for the calculations, or changes to estimates resulting in consolidation of VIEs, could potentially have a material impact on Chartwell's ability to comply with certain loan covenants affecting 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. A contingent liability is recorded by us 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 among 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 liabilities.

### **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 income tax 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 will 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 among 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 and exceeds its fair value.
- Impairment testing of goodwill is required at least annually and requires comparing the fair value of the reporting unit to the carrying value and, if carrying value is higher than fair value, recognizing an impairment loss.
- 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 borrowers' interests in the underlying real estate investments compared to the liabilities for which we have provided guarantees.

- 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 depends 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 improvements to our information systems and financial processes. We expect to continue these efforts to further strengthen our internal controls in 2008 and beyond. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items:

- (i) that management’s assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or
- (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by 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 (future) conditions.

### Evaluation of Disclosure Controls and Procedures

The Co-Chief Executive Officers and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision, of the effectiveness of the Trust’s disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings) as at the end of December 31, 2007. 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 Co-Chief Executive Officers and the Chief Financial Officer have also evaluated, or caused an evaluation under their direct supervision, of the design of the Trust’s internal controls over financial reporting during the quarter. During Q4 2007, improvements were made to our internal control systems and as a result we believe two of the three material internal control weaknesses disclosed in 2006 and in previous quarters in 2007 have been effectively remediated during Q4 2007 as described below. A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. One material internal control weakness continues to exist as follows:

#### *Deficiencies with certain information technology (“IT”) controls at our co-owned management company in Quebec*

Based on our evaluation of the internal controls at our Quebec co-owned 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 co-owned entity on a monthly basis and in the first quarter of 2007, we migrated some of the IT operation functions from this co-owned management company to our head office. We will continue to migrate the remaining key IT functions to our head office, which is expected to be completed in 2008. This migration will allow program changes to follow our existing IT change management policies and procedures and will provide proper segregation of IT responsibilities.

In light of the above noted control weaknesses, Chartwell has performed additional analyses and other post-closing procedures to ensure our consolidated financial statements are prepared accurately and completely, and that the data disclosed therein is in accordance with generally accepted accounting principles. Accordingly, management believes that the consolidated financial statements included in this report fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

The following improvements were made to the design of our internal controls over financial reporting during Q4 2007 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting:

*A qualified Auditor's Report on Controls ("Section 5970 Report") from one of its service providers*

As at December 31, 2006, one of the Trust's service providers that supplies application hosting and maintenance service had reported weaknesses in their IT general control environment that we concluded to be material to our internal controls over financial reporting in 2006 and in earlier quarters of 2007. To mitigate the risks associated with the IT general controls at the service provider, Chartwell implemented additional compensating controls at our head office in 2006 and 2007. During 2007, the service provider made significant progress in improving the IT general control weaknesses noted in their Section 5970 Report for the year ended December 31, 2006. Based on our review of the qualifications in the service provider's 2007 Section 5970 Report, we have concluded that the 2007 qualifications noted are minor in nature both individually and in combination and do not represent a material internal control weakness over our financial reporting.

*Segregation of duty issues at our co-owned management company in the U.S.*

In 2006 and in previous quarters of 2007, we had reported that a lack of segregation of duties within certain financial reporting positions in the Finance department at our co-owned management company in the U.S. represented a material weakness in our internal controls over financial reporting. Due to the previous lack of segregation of duties, in order to mitigate the risk of a material misstatement, we implemented compensating review and monitoring controls at our head office undertaking additional review of all financial reports on a monthly basis. During Q4 2007, our co-owned management company in the U.S. implemented changes to individual duties in order to achieve appropriate segregation of duties within certain financial reporting positions in the Finance department. We have concluded that as a result of improved segregation of duties within the Finance department at our co-owned U.S. management company we have effectively corrected the control issues previously identified.

## 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 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, 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 at the properties 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:**

#### *SIFT Tax*

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of certain 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.

For a description of the recent tax developments relating to SIFT, please refer to the “Significant Events and 2008 Outlook – Taxation Related Matters” section of this MD&A.

With the enactment of the SIFT Rules contained in Bill C-52, which received Royal Assent on June 22, 2007 and the issuance of equity capital in excess of the normal growth guidelines established by the Department of Finance (Finance), Chartwell is subject to SIFT tax effective January 1, 2007.

On December 20, 2007, Finance issued a press release announcing its intention to introduce proposed technical amendments to the SIFT Rules to resolve a number of technical issues that remain uncertain. Draft legislation was not released; further, the proposed technical amendments do not change Chartwell’s status as a SIFT Trust.

Based on the current legislation, a possible interpretation of the SIFT Rules exists under which one of Chartwell’s subsidiary partnerships may be viewed as a SIFT. The precise impact of these technical issues cannot be determined until the Canada Revenue Agency provides administrative policies

regarding the interpretation of the SIFT Rules and their application to trusts and partnerships in which a publicly traded trust holds a direct or indirect interest and/or until detailed legislation is released for the technical amendments or other future announcements are made which may be either detrimental or beneficial to Chartwell.

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. Approximately 98% of Chartwell's distributions in 2007 are characterized as return of capital. Management believes it is likely that a high return of capital component would continue in the reasonably foreseeable future.\* Chartwell continues to support the development of over 50 new seniors housing communities in Canada through its strategic alliances with Spectrum and Melior and intends to continue growing at a measured pace through focused acquisitions. Consequently, Chartwell believes that any impact of the SIFT Rules on Unitholders will be significantly mitigated due to the large proportion of distributions that are expected to be a return of capital. Chartwell considers that this likely tax impact would be less material than failing to take advantage of the many growth opportunities currently available in the marketplace.

As previously disclosed, in light of the changes to the federal income taxation of publicly traded income trusts, the Board of Directors of Chartwell set up a special committee ("the Special Committee") to review Chartwell's strategic options. At this time the Special Committee remains in place to address strategic matters as they arise.

**(C) GEOGRAPHIC CONCENTRATION:** A substantial portion of the business and operations of Chartwell is conducted in the United States, Ontario and Quebec, which at December 31, 2007 represented 34%, 34% and 22% of the total number of suites, respectively. The market value of these properties and the income generated from them could be negatively affected by changes in local and regional 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 higher profitability for 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 for distributions. The details of our actual capital asset spending for 2007 can be found in the "Capital Expenditures" section of this MD&A.

**(E) ACQUISITION AND DEVELOPMENT:** Chartwell's external growth prospects will depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. If 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 developers, managers and owners of seniors housing communities will compete with Chartwell in seeking residents. The existence of competing developers, managers and owners 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, its ability to meet its debt obligations. The supply of LTC Community suites in the regions in which Chartwell owns Retirement Homes may have an impact on the demand for suites in Retirement Homes.

**(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 LTC Communities in Ontario are operated pursuant to the Nursing Homes Act, the Charitable Institutions

\* These paragraphs contain forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section in this MD&A.

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 can not be fully proclaimed into force until regulations are drafted, which is expected to take approximately twelve months. It is therefore not anticipated that the LTC Act 2007 will be fully in force until 2008.

**(H) PERSONNEL COSTS:** Chartwell competes with other health-care 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 package 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 12,000 persons, of whom approximately 50% 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. However, 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 community 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 currently not 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 the property mortgages. Chartwell intends to finance its acquisitions and developments through a combination of its working capital and liquidity resources, including cash flow from operations, additional indebtedness and public or private sales of equity or debt securities.

Although Chartwell believes it is unlikely, it may not be able to renegotiate the terms of repayment of this 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 and may be provided by Chartwell to Spectrum pursuant to the Development Agreement, to Melior, and to Spectrum's joint venture partners, is generally secured behind construction financing. In addition, the \$20 million of equity that the shareholders of Spectrum were initially required to maintain in Spectrum is primarily invested in units or Class B Master LP units. 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. Additionally, 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 interest, 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, and may acquire further 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 hedging agreements, if any, entered into by the Trust to mitigate the potential impact of exchange rate fluctuations on Canadian dollar distributions will be sufficient to protect against currency rate losses.

**(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, Chartwell's management is not aware of any material non-compliance, liability or other claim in connection with any of the owned properties and the managed properties in respect of which acquisition 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.



## 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  
*Chief Executive Officer and Vice Chair*



Vlad Volodarski  
*Chief Financial Officer*

March 6, 2008

## 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, 2007 and 2006 and the consolidated statements of operations and comprehensive income, 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Toronto, Canada  
March 6, 2008

## Consolidated Balance Sheets

In thousands of Canadian dollars

December 31	2007	2006
<b>Assets</b>		
Properties (note 3)	\$ 2,110,985	\$ 1,510,209
Mezzanine loans receivable (note 5)	107,624	101,290
Management contracts, resident contracts, customer relationships and other intangibles (note 6)	109,814	78,903
Cash and cash equivalents	72,528	125,939
Other assets (note 7)	72,075	99,266
Capital funding receivable (note 4)	48,078	13,000
Licenses	25,650	16,760
Goodwill (note 8)	56,445	32,383
	<b>\$ 2,603,199</b>	<b>\$ 1,977,750</b>
<b>Liabilities and Unitholders' Equity</b>		
<i>Liabilities:</i>		
Mortgages payable (note 9)	\$ 1,445,711	\$ 987,046
Convertible debentures (note 10)	180,656	120,115
Loans payable (note 11)	2,386	2,303
Accounts payable and other liabilities (note 12)	142,190	98,995
Distributions payable	8,915	7,335
Future income tax liabilities (note 23)	18,732	-
	1,798,590	1,215,794
Non-controlling interest (note 13)	47,005	54,453
Unitholders' equity	757,604	707,503
Commitments and contingencies (notes 16, 20 and 21)		
Guarantees (note 25)		
Subsequent events (notes 12, 16, 18 and 26)		
	<b>\$ 2,603,199</b>	<b>\$ 1,977,750</b>

See accompanying notes to Consolidated Financial Statements.

Approved by the Trustees:



Charles Moses  
Trustee



Sidney Robinson  
Trustee

## Consolidated Statements of Operations and Comprehensive Income

In thousands of Canadian dollars, except per unit amounts

Year ended December 31	2007	2006
<b>Revenue:</b>		
Resident	\$ 604,195	\$ 318,977
Management and other fees (note 18(a) and (b))	14,180	12,487
Mezzanine loan interest (notes 5 and 18(a) and (b))	13,342	10,361
Bank interest and other	8,152	3,271
Equity income from variable interest entities ("VIEs")	3,774	3,440
Below-market lease amortization	1,394	2,039
	645,037	350,575
<b>Expenses:</b>		
Direct operating	417,410	226,066
General, administrative and trust	21,830	16,818
	439,240	242,884
	205,797	107,691
Interest expense	90,982	47,043
Property lease expense (note 17)	46,468	–
Unrealized and realized loss/(gain) on derivative financial instruments and unrealized and realized foreign exchange loss/(gain)	10,925	126
	148,375	47,169
	57,422	60,522
Depreciation of properties	58,359	33,095
Amortization of management contracts, resident contracts, customer relationships and other intangibles	53,944	42,915
Write-down in carrying value of assets (notes 6 and 7)	1,456	858
	113,759	76,868
Loss before the undernoted	(56,337)	(16,346)
Gain/(loss) on sale of assets (note 3)	(82)	396
Loss before income taxes	(56,419)	(15,950)
Income taxes (note 23):		
Current	2,004	–
Future	13,924	–
	15,928	–
Loss before non-controlling interest	(72,347)	(15,950)
Non-controlling interest (note 13)	5,008	1,252
Loss for the year	(67,339)	(14,698)
Other comprehensive income/(loss):		
Unrealized foreign currency gain/(loss) on the translation of self-sustaining foreign operations	(31,251)	1,761
Net change in fair value of derivatives designated as cash flow hedges (net of future taxes of \$96) (note 24)	223	–
Non-controlling interest	2,090	(143)
	(28,938)	1,618
Comprehensive loss	\$ (96,277)	\$ (13,080)
Loss per unit:		
Basic and diluted (note 15)	\$ (0.782)	\$ (0.248)

See accompanying notes to Consolidated Financial Statements.

## Consolidated Statements of Unitholders' Equity

In thousands of Canadian dollars

	Trust Units issued, net	LTIP Units under subscription	LTIP installment loan receivable
	(note 14)	(note 16)	(note 16)
<i>Year ended December 31, 2007</i>			
Unitholders' equity, January 1, 2007	\$ 874,165	\$ 27,667	\$ (23,343)
Cumulative impact of adopting new accounting standards for financial instruments (note 1(b))	-	-	-
Loss for the year	-	-	-
Other comprehensive loss	-	-	-
Distributions to Unitholders	-	-	-
Trust Units issued pursuant to secondary public offering	200,925	-	-
Trust Units issued pursuant to exercise of over-allotment option	30,139	-	-
Issuance of 5.9% Convertible Debentures	-	-	-
Trust Units issued under the Distribution Reinvestment Plan ("DRIP")	4,317	-	-
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	3,657	-	-
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury	223	4,313	(4,054)
Repayment of installment 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 installment loan receivable	-	-	(1,083)
Distributions applied against installment loan receivable	-	-	2,557
Trust Units issued on conversion of convertible debentures	72	-	-
<b>Unitholders' equity, December 31, 2007</b>	<b>\$ 1,102,573</b>	<b>\$ 31,894</b>	<b>\$ (25,633)</b>
<i>Year ended December 31, 2006</i>			
Unitholders' equity, January 1, 2006	\$ 539,780	\$ 19,138	\$ (16,391)
Loss for the year	-	-	-
Other comprehensive income	-	-	-
Distributions to Unitholders	-	-	-
Trust Units issued pursuant to secondary public and private offerings	342,509	-	-
Issuance of 6.0% Convertible Debentures	-	-	-
Trust Units issued under DRIP	2,476	-	-
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	2,233	-	-
Trust Units issued under LTIP	-	9,415	(9,039)
Repayment of installment loan receivable	-	-	220
Trust Units issued on dispositions of LTIP Units under subscription	867	(886)	818
Issue costs	(13,700)	-	-
Interest on installment loan receivable	-	-	(799)
Distributions applied against installment loan receivable	-	-	1,848
<b>Unitholders' equity, December 31, 2006</b>	<b>\$ 874,165</b>	<b>\$ 27,667</b>	<b>\$ (23,343)</b>

See accompanying notes to Consolidated Financial Statements.

	Losses	Accumulated other comprehensive income/(loss) <small>(note 1(b))</small>	Distributions	Convertible debentures <small>(note 10)</small>	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
	\$ (18,621)	\$ (1,031)	\$ (77,590)	\$ —	\$ 445,285
	(14,698)	—	—	—	(14,698)
	—	1,618	—	—	1,618
	—	—	(65,378)	—	(65,378)
	—	—	—	—	342,509
	—	—	—	4,954	4,954
	—	—	—	—	2,476
	—	—	—	—	2,233
	—	—	—	—	376
	—	—	—	—	220
	—	—	—	—	799
	—	—	—	(240)	(13,940)
	—	—	—	—	(799)
	—	—	—	—	1,848
	\$ (33,319)	\$ 587	\$ (142,968)	\$ 4,714	\$ 707,503

## Consolidated Statements of Cash Flows

In thousands of Canadian dollars

Years ended December 31	2007	2006
<i>Cash provided by (used in):</i>		
<b>Operating activities:</b>		
Loss for the year	\$ (67,339)	\$ (14,698)
<i>Items not affecting cash:</i>		
Depreciation and amortization	112,303	76,010
Write-down in carrying value of assets	1,456	858
Loss/(gain) on sale of assets	82	(396)
Amortization of below-market resident contracts	(1,394)	(2,039)
Adjustment to record lease expense on a straight-line basis over the lease term	8,068	–
Option benefit granted under the LTIP	540	376
Income from long-term investments	(49)	(22)
Unrealized loss/(gain) on derivative financial instruments and unrealized foreign exchange loss/(gain)	10,925	(599)
Non-controlling interest	(5,008)	(1,252)
Amortization of financing expenses	4,484	3,194
Accretion adjustment to convertible debenture liability	2,075	–
Amortization of debt discounts	1,743	420
Amortization of mezzanine loan fees and costs	(1,384)	–
Future income taxes	13,924	–
Change in non-cash operating items (note 22)	21,009	1,569
	101,435	63,421
<b>Financing activities:</b>		
Proceeds from mortgage financing	500,177	336,925
Mortgage principal repayments	(221,785)	(68,165)
Proceeds from loans payable	136	40
Repayment of loans payable	–	(29,450)
6.0% Convertible Debentures issued, net of issue costs	–	120,313
Financing costs	(9,418)	(8,091)
Proceeds received from ING (note 2)	41,919	–
5.9% Convertible Debentures issued, net of issue costs	72,188	–
Trust Units issued pursuant to:		
Public offering	231,064	342,509
Issue costs	(11,773)	(13,700)
Disposition of Treasury Units	755	–
Distributions paid	(86,797)	(66,632)
Distributions paid to non-controlling interest Unitholders	(6,816)	(5,795)
Repayment of LTIP installment loan receivable	220	1,038
	\$ 509,870	\$ 608,992

## Consolidated Statements of Cash Flows (continued)

In thousands of Canadian dollars

Years ended December 31	2007	2006
<b>Investing activities:</b>		
Acquisition of assets, net of debt assumed and units issued (note 2)	\$ (599,447)	\$ (471,163)
Payment of deferred consideration on acquisitions of properties	(29,494)	(2,871)
Additions to properties	(45,304)	(34,499)
Amounts received under income guarantees	1,548	757
Proceeds on sale of properties	5,010	1,907
Mezzanine loan advances	(17,478)	(30,119)
Mezzanine loan repayments	3,368	–
Distributions on long-term investments	1,020	1,731
Restricted cash and deposits in escrow	21,463	(32,009)
Proceeds from capital funding receivables	1,343	344
	(657,971)	(565,922)
Foreign exchange gain/(loss) on U.S. dollar-denominated cash	(6,745)	4,603
	(53,411)	111,094
Increase/(decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning of year	125,939	14,845
	\$ 72,528	\$ 125,939

Supplemental cash flow information (note 22)

See accompanying notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

In thousands of Canadian dollars, except per unit amounts  
Years ended December 31, 2007 and 2006

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 (the “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.

The Trust indenture for CSH Trust requires that it distribute amounts sufficient to ensure that it will not be liable to pay income taxes in any given year. The Trustees of the Trust are required to make cash distributions to all Trust Unitholders in accordance with the Declaration of Trust, as amended, at minimum equal to, on an annual basis, the greater of 80% of the Distributable income and its taxable income (note 23).

### 1. Significant accounting policies:

#### A. Basis of presentation:

These Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles. 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.

#### B. Impact of new accounting standards:

On January 1, 2007, Chartwell adopted the new accounting standards of The Canadian Institute of Chartered Accountants’ (“CICA”) Handbook Section 3855, “Financial Instruments – Recognition and Measurement”; Section 1530, “Comprehensive Income”; Section 3865, “Hedges”; Section 3251, “Equity”; and Section 3861, “Financial Instruments – Disclosure and Presentation” (collectively, the “New Standards”).

Section 3855 prescribes when a financial asset, financial liability, non-financial derivative or embedded derivative is to be recognized in the consolidated balance sheets and at what amount, requiring fair value or cost-based measures under different circumstances. In accordance with Section 3855, Chartwell has classified its financial instruments into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the consolidated balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost using the effective interest rate method.

Section 1530 establishes standards for reporting and presenting comprehensive income/(loss), which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income/(loss) refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3251 establishes standards for the presentation of equity and changes in equity.

Section 3861 establishes standards for the presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

Chartwell has adopted the New Standards retroactively without restatement and, accordingly, comparative amounts for prior periods have not been restated, except as noted below with respect to other comprehensive income/(loss), as required by the New Standards.



As a result of adopting the above New Standards, Chartwell recorded the following transition adjustments effective January 1, 2007:

Consolidated balance sheet	January 1, 2007
Increase/(decrease):	
Mezzanine loans receivable	\$ (5,295)
Other assets	(17,825)
Mortgages payable	(12,434)
Convertible debentures	(4,415)
Deferred revenue	(6,286)
Non-controlling interest	1
Losses	(14)

There are no significant non-financial derivatives or embedded derivatives that require separate fair value recognition in the consolidated balance sheet on the transition date.

**(i) DEFERRED EXPENSES:**

Effective January 1, 2007, unamortized deferred financing fees and related costs previously included in other assets are recorded as a reduction of the applicable mortgage, convertible debenture or loan payable balances and are amortized to interest expense in the consolidated statements of operations and comprehensive income using the effective interest rate method. Under the effective interest rate method, the amount recognized as interest expense varies over the life of the loan based on the principal outstanding. Previously, deferred financing fees and related costs were classified as other assets and were amortized on a straight-line basis over the terms of the related financing and the amortization was included in interest expense in the consolidated statements of operations and comprehensive income.

Similarly, effective January 1, 2007, deferred expenses related to mezzanine lending activities are recorded as an increase to the applicable mezzanine loan balances and are amortized to interest income in the consolidated statements of operations and comprehensive income using the effective interest rate method. Previously, deferred expenses were amortized on a straight-line basis over the terms of the related mezzanine loans and the amortization was included in general, administrative and trust expenses in the consolidated statements of operations and comprehensive income.

**(ii) DEFERRED REVENUE:**

Under the terms of various agreements with Le Groupe Melior and related entities (collectively “Melior”) and others, Chartwell earns interest from mezzanine loans as well as mezzanine placement fees, structuring fees, development fees and service fees. Such agreements are evaluated on a case-by-case basis and, where related services are separable into individual units of accounting, revenue is recorded in accordance with the policies

as disclosed in note (h). Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell’s lending activities and effective January 1, 2007 the fees are recorded as a reduction of mezzanine loans receivable. The discount is accrued to income as interest income using the effective interest rate method. Previously, these fees had been recorded as deferred revenue and recognized as fee revenue over the estimated term of the related mezzanine loan using the effective interest method.

**(iii) OTHER COMPREHENSIVE INCOME/(LOSS):**

The New Standards require presentation of new consolidated statements of comprehensive income/(loss). Cumulative changes in other comprehensive income/(loss) are included in accumulated other comprehensive income/(loss), which is a component of unitholders’ equity.

Pursuant to the transitional provisions of Section 1530, “Comprehensive Income,” the comparative consolidated statement of unitholders’ equity for the year ended December 31, 2006 has been adjusted to present unrealized foreign currency translation gains and losses arising from self-sustaining foreign operations as a component of other comprehensive income (loss).

**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.

Land held for development included in properties, is carried at the lower of cost and estimated net realizable value. The cost of land includes pre-development expense, interest, realty taxes and other directly related expenses.

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

Buildings	40 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.

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 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 net realizable 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 are 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 are 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 as well as meeting 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 revenues are recognized on a project-specific basis using the percentage-of-completion method reflecting 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 their 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 Melior and others, 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 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.

Employees belonging to the Hospital Employees Union are entitled to severance pay and a payout of 40% of accumulated sick pay benefits after 10 years of service under certain conditions of employment termination or on retirement. Chartwell accrues its obligations for these 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 new legislation 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. Until such technical amendments are substantively enacted, 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 periods 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 period that includes the date of enactment or substantive enactment.

The impact of the new SIFT Rules resulted in Chartwell recording a current income tax liability of \$1,770 and a future tax liability of \$18,732 as at December 31, 2007 (note 23).

#### **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. 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 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 and claims incurred but not reported and are 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 VIEs, the recoverability of mezzanine loans, the estimated useful lives and net recoverable amounts for properties, the fair value of goodwill, 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. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

**Q. Future accounting changes:**

(i) There are four new accounting standards that are effective for Chartwell's 2008 fiscal year: Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments – Disclosures"; Section 3863, "Financial Instruments – Presentation" and Section 3031, "Inventories."

Section 1535 includes required disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Sections 3862 and 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.

Section 3031 introduces changes to the measurement and disclosure of inventory and converges with international accounting standards. The standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Trust does not expect that the adoption of this standard will have a material impact on its financial statements.

(ii) In 2008, CICA issued Section 3064, "Goodwill and Intangible Assets." Section 3064, which replaces Section 3062, "Goodwill and Intangible Assets," and Section 3450, "Research and Development Costs," establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2009.

The Trust is in the process of evaluating the impact of these future accounting changes.

## 2. Acquisitions

The following table summarizes the net assets acquired, at fair value:

	2007	2006
<b>Assets</b>		
Properties	\$ 726,226	\$ 534,204
Management contracts, resident contracts, customer relationships and other intangibles	97,418	57,334
Land held for development	2,500	7,757
Other assets	14,936	–
Capital funding receivable	36,421	4,184
Licenses	8,890	4,825
Goodwill	25,267	9,613
Assets held for sale	122,505	–
	1,034,163	617,917
<b>Liabilities</b>		
Mortgages and loans payable	277,886	98,828
Below market resident contracts	–	3,364
Other liabilities	13,175	–
Future income tax liability	4,904	–
Liabilities related to assets held for sale	80,107	–
	376,072	102,192
Net assets acquired	\$ 658,091	\$ 515,725
<b>Settled by:</b>		
Issuance of Class B Units of Master LP (note 13)	\$ 10,145	\$ 11,091
Issuance of Class B Common Units of CSH Massapequa Inc.	663	–
Deferred consideration on business combinations (note 12)	44,005	27,206
Discharge of mezzanine loans receivable (note 5)	3,831	6,265
Cash	599,447	471,163
	\$ 658,091	\$ 515,725

The acquisitions have been recorded using the purchase method of accounting, with the results of operations included in these Consolidated Financial Statements from these date of acquisition.

During the year ended December 31, 2007, Chartwell completed the following acquisitions:

### A. RegencyCare Portfolio:

On June 30, 2007, Chartwell indirectly acquired from independent sellers a 100% interest in seven long-term care properties and a 50% interest in one long-term care property (the “RegencyCare LTC Properties”) for \$245,011 less estimated assumed mortgages payable of \$148,466, future income taxes of \$9,808 and other liabilities of \$1,984.

Under the participation agreement dated June 30, 2007 between Chartwell and the affiliates of ING Real Estate Investment Management Australia PTY Limited (collectively “ING”), ING was committed to participate as a 50% partner in the RegencyCare LTC Properties acquisition. However, as certain structuring and legal steps had not been completed at June 30, 2007, Chartwell was the owner of 100% of the portfolio as at June 30, 2007 and net assets of \$42,398 that were to be sold to ING were classified as held for sale in the consolidated balance sheet as at June 30, 2007.

On July 5, 2007, Chartwell acquired, from a different independent seller, the remaining 50% interest in one long-term care property in which it had previously acquired an initial 50% interest, pursuant to the RegencyCare LTC Properties acquisition. Total consideration was \$4,120, net of estimated assumed debt and working capital.

On August 1, 2007, the structuring and legal steps were completed and ING became a 50% partner in the RegencyCare LTC Properties for consideration of approximately \$42,398.

In addition, Chartwell had acquired all of the outstanding shares of three management and consulting companies for a total consideration of \$13,099. As a result of this acquisition and related agreements, Chartwell is the manager of the RegencyCare LTC Properties and two third-party long-term care properties. Chartwell continues to manage four other long-term care properties owned by third-parties on a month-by-month basis.

Chartwell continues to assess the initial valuation of the net assets acquired and based on this evaluation, the purchase price allocation for accounting purposes may be adjusted.

The following table summarizes Chartwell's 50% interest in the RegencyCare LTC Properties, its 100% interest in the associated management contracts and its 100% interest in third-party management contracts acquired:

<b>Assets</b>	
Properties	\$ 94,830
Management contracts, resident contracts, customer relationships and other intangibles	10,481
Capital funding receivable	27,991
Other assets	3,840
Land held for development	2,500
Licenses	6,920
	<u>146,562</u>
<b>Liabilities</b>	
Mortgages and loans payable	80,261
Other liabilities	5,095
Future income tax liability	4,904
	<u>90,260</u>
Net assets acquired	<u>\$ 56,302</u>

#### **B. Merrill Gardens Portfolio:**

On April 30, 2007, CSH Master Care USA Inc. ("Master Care USA"), an indirect wholly owned subsidiary of the Trust, indirectly acquired 22 seniors housing properties in the United States (the "Merrill Gardens Portfolio") for \$371,078 (U.S. \$333,853), less the assumption of existing mortgage debt in the amount of \$134,449 (U.S. \$120,961) and other liabilities of \$3,303 (U.S. \$2,972). The acquisition, and the refinancing of existing mortgage debt, were financed with new mortgage debt in the amount of \$238,992 (U.S. \$215,017), net of financing costs, and cash of \$128,783 (U.S. \$115,864).

Chartwell continues to assess the initial valuation of the net assets acquired and based on this evaluation, the purchase price allocation for accounting purposes may be adjusted.

On May 31, 2007, Master Care USA indirectly acquired the leasehold interest in two seniors housing properties in Florida for \$13,902 (U.S. \$13,016) less the assumption of certain liabilities of \$560 (U.S. \$542). The acquisition was financed with deferred consideration of \$2,704 (U.S. \$2,528) and cash of \$10,638 (U.S. \$9,946).

#### **C. Horizon Bay Realty, LLC:**

On January 1, 2007, CSH Master Care LLC, an indirect, wholly owned subsidiary of the Trust ("CSH Master Care"), acquired a 49% interest in WHSLH Realty, LLC, subsequently renamed Horizon Bay Realty, LLC ("HB Realty"), which through its subsidiaries owns leased interests in 25 seniors housing communities in the United States. In addition, HB Realty owns 100% of Horizon Bay Management LLC ("HBM"), which currently manages these seniors housing properties and has a 50% interest in Horizon Bay Chartwell LLC ("HBC"), which was formed by HBM and Chartwell as a 50/50 joint venture arrangement to manage certain of the Trust's properties in the United States. The value of the 49% interest in HB Realty's assets net of cash acquired was \$29,988 (U.S. \$25,744), which was satisfied by the assumption of accounts payable and other liabilities of \$3,553 (U.S. \$3,050), deferred purchase consideration of \$4,077 (U.S. \$3,500) and cash of \$22,358 (U.S. \$19,194). The deferred purchase consideration may first be applied to fund any cash shortfalls under the lease arrangements in the first two years following the closing.

#### **D. Bristol Portfolio:**

On February 21, 2007, CSH-INGRE LLC, a joint venture between Chartwell and ING, acquired five seniors housing properties in the United States ("Bristol Portfolio") for an aggregate purchase price of approximately \$340,056 (U.S. \$291,618). Chartwell's share of the purchase price amounted to \$170,028 (U.S. \$145,809) and was settled by the issuance of \$663 (U.S. \$569) of Class B Common Units of a subsidiary of CSH-INGRE LLC, deferred purchase consideration of \$35,809 (U.S. \$30,708) and cash of \$133,556 (U.S. \$114,532). To finance this acquisition, CSH-INGRE LLC arranged new mortgage financing in the amount of \$202,202 (U.S. \$173,400). Chartwell financed 100% of the cash requirements totalling U.S. \$57,867 by CSH-INGRE LLC to close this acquisition through two loans to the joint venture. In April 2007, these loans were settled through Chartwell's conversion of U.S. \$28,934 of such loans to equity of CSH-INGRE LLC and the repayment of the remaining U.S. \$28,933 of such loans from the proceeds of an equity contribution by Chartwell's joint venture partner.

#### E. Other:

During the year ended December 31, 2007, Chartwell acquired six seniors housing properties and one long-term care property in Canada for a total purchase price of \$93,626 and \$30,676, respectively, from three different vendors and an interest in three seniors housing properties from Spectrum for consideration of \$55,798. Chartwell assumed mortgages and loans payable totalling \$63,177 and assumed other liabilities of \$664 on these acquisitions. The net assets acquired in these acquisitions were financed with the issuance of \$10,145 of Class B Units of Master LP, the discharge of \$3,831 in mezzanine loans receivable, deferred consideration of \$1,415 and the balance settled in cash.

F. During the year ended December 31, 2006, Chartwell completed the acquisition of 22 seniors housing properties and a 50% interest in 15 other properties for total net consideration of \$515,725. Included in these acquisitions are the following:

#### (i) ACQUISITIONS IN THE UNITED STATES:

In 2006, Chartwell acquired a 50% interest in 13 properties and a 100% interest in one other property in the United States for a total purchase price of \$209,483.

#### (ii) OTHER ACQUISITIONS:

Included in 2006 acquisitions are four properties acquired from Spectrum and its joint venture partner for a total purchase price of \$58,436.

### 3. Properties:

	2007			2006		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 213,626	\$ –	\$ 213,626	\$ 162,465	\$ –	\$ 162,465
Buildings	1,926,463	95,363	1,831,100	1,344,944	52,575	1,292,369
Furniture, fixtures and equipment	74,640	28,615	46,025	53,143	15,917	37,226
	2,214,729	123,978	2,090,751	1,560,552	68,492	1,492,060
Land held for development	20,234	–	20,234	18,149	–	18,149
	\$ 2,234,963	\$ 123,978	\$ 2,110,985	\$ 1,578,701	\$ 68,492	\$ 1,510,209

At December 31, 2007, building costs included \$21,669 (2006 – \$3,222) related to the development of additional units at existing properties.

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.

Included in properties as at December 31, 2007, are assets under capital leases with a cost of \$134,706 and accumulated depreciation of \$3,137.

During the year ended December 31, 2006, Chartwell disposed of its 50% interest in the commercial section of a property as part of its acquisition of the remaining 50% interest in a seniors housing property from its joint venture partner. A gain of \$296 was recognized on sale proceeds of \$1,280.

During the year ended December 31, 2006, Chartwell disposed of land held for development with a carrying value of \$527.

This land was sold at an appraised value to an entity partially owned by Spectrum and Melior. A gain of \$100 was recognized on this sale.

### 4. Capital funding receivable:

The capital funding receivable of \$48,078 (2006 – \$13,000) represents the discounted cash flows receivable from the Government of Ontario over a period of approximately 15 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.



## 5. Mezzanine loans receivable:

			2007	2006
	Principal amount	Fees, net of lending expenses	Net balance	Principal amount
		(note 1(b))		
Spectrum	\$ 50,128	\$ 418	\$ 50,546	\$ 45,277
Melior	45,135	(3,986)	41,149	42,182
Others	16,774	(845)	15,929	13,831
	\$ 112,037	\$ (4,413)	\$ 107,624	\$ 101,290

### A. Spectrum:

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 Agreement, Chartwell provides mezzanine loans to Spectrum. At December 31, 2007, the principal amount of mezzanine loans due from Spectrum amounted to \$50,128 (2006 – \$45,277). In accordance with the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Canada bonds plus 5% and Chartwell's annualized cash distribution yield for the most recent quarter, subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum and is payable monthly. The loans outstanding as at December 31, 2007 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 32 (2006 – 35) seniors housing development properties.

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.

Spectrum has the right to terminate the Development Agreement upon providing six months' notice. Under such circumstances, certain rights of Chartwell in respect of existing mezzanine loans and options on related projects will continue.

Under the terms of the Development Agreement, Chartwell has the first right to purchase Spectrum's interest in each development property provided that Spectrum 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%, 92.5% 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.

### B. Melior and other joint venture partners:

In addition to providing development services, structuring services, operations management services and financing services in relation to arranging construction loans, Chartwell has advanced 28 (2006 – 25) mezzanine loans totalling \$61,909 (2006 – \$56,013) to seven of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling \$45,135 at December 31, 2007 (2006 – \$42,182), advanced to entities controlled by Melior. These loans bear interest at rates ranging from 10% to 14% per annum payable monthly and are secured by second charges or pledges of the Borrowers' interests over 25 (2006 – 23) seniors housing development projects.

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

In addition, the Borrowers of 17 (2006 – 13) of these mezzanine loans can obligate Chartwell to acquire their interests in the projects at the appraised value, subject to certain conditions being satisfied.

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 Agreement with Spectrum and loan agreements with the Borrowers. No principal is due prior to maturity of each loan.

## 6. Management contracts, resident contracts, customer relationships and other intangibles:

	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	\$ 13,314	\$ 3,834	\$ 9,480	\$ 6,277	\$ 2,714	\$ 3,563
Resident contracts	159,794	87,196	72,598	150,668	76,642	74,026
Customer relationships	3,214	2,596	618	3,497	2,183	1,314
Other intangibles	29,175	2,057	27,118	–	–	–
	\$ 205,497	\$ 95,683	\$ 109,814	\$ 160,442	\$ 81,539	\$ 78,903

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 (2006 – seven) management contracts resulted in a write-down of \$106 (2006 – \$539) and \$67 (2006 – \$319)

in the carrying value of management contracts and customer relationships, respectively.

During the year ended December 31, 2007, \$75 (2006 – \$115) and \$14 (2006 – \$34) of management contracts and customer relationships, respectively, were transferred to goodwill following the acquisition of the related seniors housing properties by Chartwell.

During the year ended December 31, 2007, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and customer relationships that were fully amortized by \$35,873 (2006 – nil).

## 7. Other assets:

	2007	2006
Accounts receivable	\$ 24,086	\$ 15,183
Deferred financing costs, net of accumulated amortization of nil (2006 – \$7,086) (note 1(b))	–	16,834
Deposits on acquisitions	111	11,683
Long-term investments	264	2,518
Due from Spectrum (note 18(a))	5,678	2,515
Due from ING	4,754	1,458
Prepaid expenses and deposits	10,251	8,974
Deposits in escrow	18,427	34,308
Other	8,504	5,793
	\$ 72,075	\$ 99,266

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

## 8. Goodwill:

	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
December 31, 2005	\$ 6,839	\$ 6,463	\$ 9,319	\$ –	\$ 22,621
Goodwill acquired during the year (note 2)	9,613	–	–	–	9,613
Management contracts and customer relationships transferred to goodwill (note 6)	149	–	–	–	149
December 31, 2006	16,601	6,463	9,319	–	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)
December 31, 2007	\$ 24,163	\$ 9,183	\$ 9,319	\$ 13,780	\$ 56,445

## 9. 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
2008	\$ 24,515	\$ 107,570	\$ 132,085
2009	22,181	102,305	124,486
2010	21,739	56,592	78,331
2011	22,167	25,976	48,143
2012	23,669	70,710	94,379
2013	23,697	56,515	80,212
2014	21,698	33,396	55,094
2015	21,629	77,167	98,796
2016	19,001	170,010	189,011
2017	14,578	246,935	261,513
2018–2021	62,507	96,819	159,326
Thereafter	76,394	48,511	124,905
	\$ 353,775	\$ 1,092,506	\$ 1,446,281
Mark-to-market adjustment arising on acquisition			17,147
Financing costs (note 1(b))			(17,717)
			\$ 1,445,711

	2007	2006
Mortgages at fixed rates	\$ 1,411,243	\$ 899,511
Interest rates	3.50%–10.00%	3.50%–10.00%
Weighted average interest rate	5.78%	5.71%
Mortgages at variable rates	\$ 35,038	\$ 78,563
Interest rates	Prime plus 0.75%–3.00%	Bankers' acceptance plus 0.65% - prime plus 3.00%
Weighted average interest rate	6.86%	5.58%

During the year ended December 31, 2007, interest expense on mortgages payable amounted to \$75,676 (2006 – \$44,576).

## 10. Convertible debentures:

	2007			2006		
	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	\$ 125,000	\$ –	\$ 125,000
Debt component	\$ 117,266	\$ 63,390	\$ 180,656	\$ 120,115	\$ –	\$ 120,115

### 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 or 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 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 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 \$125,000,000 of convertible, unsecured subordinated debentures (the "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.

## 11. Loans payable:

	2007	2006
Non-voting Series A preferred interests of CSH Master Care (a)	\$ 1,645	\$ 2,013
Other loans	741	290
	\$ 2,386	\$ 2,303

Chartwell has arranged for a \$90,000 secured revolving operating facility. At December 31, 2007, the maximum available borrowing capacity was \$64,497 (2006 – \$75,737) based on the security provided. Under the terms of the operating facility, Chartwell's distributions may not exceed distributable income as defined in the agreement. In 2007 and 2006, distributions paid or payable in cash exceeded distributable income, as defined in this credit agreement and in Chartwell's Declaration of Trust, on an accrual basis and Chartwell has obtained waivers of this covenant from its lenders for each of these years. No amounts were outstanding under this facility as at December 31, 2007.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific properties. The credit facility is due on June 28, 2008. The term may be extended with the consent of the lenders for an additional 364-day period.

(a) On October 1, 2005, CSH Master Care LLC, a U.S. subsidiary of Chartwell, issued 144,405 Series A Interests to the vendors of two seniors housing properties acquired in the United States at \$14.87 per unit interest. These vendors are joint venture partners of Chartwell in other projects.

Series A Interests become redeemable at the option of the holders at specific points in time over three years ending 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, 2007, the redemption price of Series A Interests was \$11.35 (2006 – \$13.94) per unit interest; consequently, a gain of \$73 (2006 – loss of \$298) 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, 2007, these distributions are recorded as interest expense in these Consolidated Financial Statements and amounted to \$154 (2006 – \$154).

## 12. Accounts payable and other liabilities:

	2007	2006
Accounts payable and accrued liabilities	\$ 84,171	\$ 50,808
Income taxes payable	2,004	–
Below market resident contracts, net of accumulated amortization of \$979 (2006 – \$5,197)	1,578	3,260
Resident deposits	5,199	4,805
Deferred consideration on business combinations	41,305	29,820
Deferred revenue	7,933	10,302
	\$ 142,190	\$ 98,995

Included in deferred consideration on business combinations at December 31 are the following:

Acquisition	2007	2006
Castel Royale (a)	\$ 520	\$ 520
Elizabeth Towers (b)	1,180	1,180
Heritage Glen (c)	15,801	20,365
Van Horne Manor (d)	50	50
Domaine Bellerive (e)	–	5,250
Devonshire Seniors Residence (f)	–	2,455
HB Realty (note 2(c) and (g))	1,784	–
Bristol Portfolio (note 2(d) and (h)):		
Series A notes	3,014	–
Series B notes	9,877	–
Class B Preferred Units	5,016	–
Jardins de la Gare (i)	1,471	–
Merrill Gardens Portfolio (note 2(b) and (j))	2,592	–
	\$ 41,305	\$ 29,820

(a) \$520 related to the acquisition of Castel Royale in 2006, which is due between the third and the seventh anniversary of the closing upon conversion of certain apartment units into seniors housing units.

(b) \$1,180 related to the acquisition of Elizabeth Towers in 2006, which is due each anniversary date starting on July 31, 2007 upon conversion of certain apartment units into seniors housing units. \$262 of this amount was paid in February 2008.

(c) \$15,801 representing the net present value of \$18,000 of deferred purchase consideration related to the acquisition of Heritage Glen in 2006 with \$4,500 due on the second anniversary, \$3,500 due on the third anniversary, \$2,500 due on the fourth anniversary, \$2,500 due on the fifth anniversary and \$5,000 due on the sixth anniversary of closing. The

portion of the purchase price being deferred is in connection with the conversion of the units into seniors housing suites and the implementation of seniors housing property programs. A discount rate of 4.81% was used to determine the net present value of the deferred consideration. During the year ended December 31, 2007, the amount of \$5,500, due on the first anniversary of closing, was paid.

(d) \$50 related to the acquisition of Van Horne Manor in 2006. This amount was paid in February 2008.

(e) \$5,250 related to the acquisition of Domaine Bellerive in 2006, which is due each anniversary date starting on November 9, 2007 upon conversion of certain apartment units to seniors housing suites and the implementation of seniors housing facility programs. This amount was paid during the year ended December 31, 2007.

(f) \$2,455 related to the acquisition of Devonshire Seniors Residence in 2003 which achieved predetermined operating targets in 2006, at which time this portion of the deferred consideration became due. This amount was paid during the year ended December 31, 2007.

(g) In connection with the HB Realty acquisition (note 2(c)) CSH Master Care issued deferred consideration of \$3,470 (U.S. \$3,500). The deferred consideration may first be applied to fund cash shortfalls under the lease arrangements in the first two years following closing. During the year ended December 31, 2007, \$1,663 (U.S. \$1,700) of this amount was used to fund cash shortfalls under the lease arrangements.

(h) In connection with the Bristol Portfolio acquisition (note 2(d)), non-interest bearing Series A and Series B notes were issued as deferred consideration for the four stabilized properties. At acquisition the Series A notes had a principal value (Trust's share) of \$3,857 (U.S. \$3,308) and mature on the third anniversary of the date of acquisition. The Series B notes had a principal value (Trust's share) of \$12,469 (U.S. \$10,693) and mature as to 25.0%, 32.1% and 42.9% of the principal on the first, second and third anniversary dates of the acquisition, respectively. On February 21, 2008, Chartwell paid \$3,469 of the Series B notes (U.S. \$3,500), representing its share of the principal and interest due on the first anniversary of acquisition.

In addition, as part of the Bristol Portfolio acquisition (note 2(d)), CSH Massapequa Inc. issued (Trust's share) \$9,883 (U.S. \$8,475) of Class A Preferred Units and \$11,661 (U.S. \$10,000) of Class B Preferred Units.

The Class A Preferred Units were redeemable by the holders at their principal amount during the period from August 1, 2007 to October 30, 2007. These units paid a dividend equal to the interest rate negotiated for the mortgage on the Massapequa facility until August 1, 2007 and subsequently at this rate less 50 basis points. During the year ended December 31, 2007, pursuant to the option exercised by the vendor, CSH-INGRE LLC acquired all the outstanding Class A Preferred Units. Chartwell's portion of the consideration was \$8,478 (U.S. \$8,475) plus accrued and unpaid dividends.

The Class B Preferred Units were redeemable by the holders at their principal amount in three separate tranches of 25%, 25% and 50% for a period of 90 days commencing on the earlier of: the achievement of occupancy milestone corresponding to each tranche, or the second anniversary of the date of the acquisition. In no event could this put option be exercised prior to August 1, 2007. These units paid a dividend equal to the Class A Preferred Units; however, entitlement to this dividend did not commence until the corresponding right to put the units (by tranche) had vested.

During the year ended December 31, 2007, pursuant to the put options exercised by the vendor, CSH-INGRE LLC acquired the first tranche (50,000 units) and second tranche (50,000 units) of the outstanding Class B Preferred Units. Chartwell's portion of the consideration was \$5,027 (U.S. \$5,000) plus accrued and unpaid dividends.

CSH-INGRE LLC also received the put option notice for the third tranche (100,000 units) of the Class B Preferred Units on October 10, 2007. CSH-INGRE LLC has 90 days from receipt of the notice to acquire the units. Chartwell's share of the acquisition price of the units is \$4,956 (U.S. \$5,000) plus accrued and unpaid dividends. This amount was paid on January 8, 2008.

(i) \$1,471 representing the net present value of \$1,500 of deferred purchase consideration related to the acquisition of Jardins de la Gare in April 2007 due on the first anniversary of closing. A discount rate of 5.81% was used to determine the net present value of the deferred consideration.

(j) \$2,592 (U.S. \$2,615) representing the present value of a \$2,612 (U.S. \$2,633) 4.62% promissory note due January 2, 2011 related to the acquisition of the leasehold interest in two seniors housing properties in Florida. A discount rate of 5.83% was used to determine the net present value of the deferred consideration.

### 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:

	2007	2006
Balance, beginning of year	\$ 54,453	\$ 52,448
Cumulative impact of adopting the New Standards	1	–
Issuance of Class B Units of Master LP (note 2)	10,145	11,091
Non-controlling interest's share of loss for the year	(5,008)	(1,252)
Distributions on Class B Units of Master LP	(6,839)	(5,744)
Exchange of Class B Units of Master LP for Trust Units	(3,657)	(2,233)
Other comprehensive income/(loss)	(2,090)	143
Balance, end of year	\$ 47,005	\$ 54,453

### 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, 2006	49,218,102	\$ 539,780
May 9, 2006:		
Trust Units issued pursuant to secondary public offering	13,310,000	185,009
November 28, 2006:		
Trust Units issued pursuant to secondary public offering	3,676,475	50,000
Trust Units issued pursuant to private placement	7,150,000	97,240
November 30, 2006:		
Trust Units issued pursuant to exercise of over-allotment option	551,470	7,500
Trust Units issued pursuant to private placement	202,941	2,760
Trust Units issued under DRIP	181,626	2,476
Trust Units issued on exchange of Class B Units of Master LP	223,425	2,233
Trust Units issued on dispositions of LTIP Units under subscription	62,500	867
Issue costs	–	(13,700)
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 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

**B. 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%.

**15. Loss per unit calculation:**

	2007		2006	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the year	86,134,046	\$ (67,339)	59,165,726	\$ (14,698)
Loss per unit (basic and diluted)		\$ (0.782)		\$ (0.248)

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:

	2007	2006
LTIP Units under subscription	2,421,472	1,766,962
Class B Units of Master LP	6,394,515	5,367,091
Assumed conversion of convertible debentures	11,233,099	724,447

## 16. Long-Term Incentive Plan:

Chartwell has established an LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of issuance, which will be payable in cash installments, over a term not to exceed 10 years. Participants are required to pay interest on the LTIP installment 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 installment loan receivable. Participants may prepay any principal at their discretion. Units issued under the LTIP are held as security for the outstanding LTIP installment 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 has no recourse to the participants' assets.

In 2005, the LTIP was amended to include vesting provisions for subsequent issuances of LTIP Units under the LTIP, where Trust Units vest as to 1/3 in the first year of employment, 1/3 in the third year of employment and 1/3 in the fifth year of employment.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,707,000 were issued and 2,336,323 were outstanding at December 31, 2007.

The following table summarizes LTIP Units issued under LTIP in 2007 and 2006:

	Number of Units under subscription	Amount
Balance, December 31, 2005	1,475,000	\$ 19,138
Sale of Trust Units	(62,500)	(886)
Issuance of Trust Units	657,875	9,039
Compensation expense	–	376
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

The market value of the Trust Units at December 31, 2007 was \$11.35 per unit (2006 – \$13.94).

The compensation expense attributable to the LTIP of \$540 (2006 – \$376) is charged against earnings with a corresponding amount included in Unitholders' equity as Units under subscription. The unit installment loans receivable are recognized as a deduction from Units under subscription. Distributions received under the LTIP are charged to Unitholders' equity while interest received under the LTIP is credited to distributions.

The fair value of the LTIP on the date of issuance in 2006 and 2007 was estimated using the Black-Scholes option pricing model with the following assumptions:

October 4, 2005 and subsequent issuances	
Dividend yield	7.0%
Volatility	10.0%–12.0%
Risk-free interest rate	3.34%–3.94%
Expected life	1–10 years
Average expected employee tenure	6.7 years
Imputed interest benefit	4.60%

At December 31, 2007, Chartwell was committed to issue an additional 971,177 units (2006 – 557,875) for eligible employees subject to board approval.

## 17. Property lease expense:

Through its acquisition of a 49% interest in HB Realty (note 2(c)), 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 (note 2(b)).

A summary of property lease expense is as follows:

	2007	2006
Lease payments	\$ 38,400	\$ –
Adjustment to record lease expense on a straight-line basis over the lease term	8,068	–
Property lease expense	\$ 46,468	\$ –

## 18. Related party transactions and balances:

Except as disclosed elsewhere in these Consolidated Financial Statements, related party transactions were as follows:

### A. Spectrum:

	2007	2006
Mezzanine loan interest (note 5(a))	\$ 5,228	\$ 5,144
Development fees	4,477	4,523
Operations management fees	1,591	863
Financing fees	–	662
Other fees	501	627

Other assets as at December 31, 2007 include \$5,678 (2006 – \$2,515) due from Spectrum. Subsequent to December 31, 2007, \$423 of this balance was collected.

Included in distributions payable at December 31, 2007 is \$273 (2006 – \$273) due to Spectrum.

Included in accounts payable is \$600 in deferred consideration due to Spectrum with respect to a property acquired from Spectrum in 2006.

### B. Melior:

	2007	2006
Mezzanine loan interest (note 5(b))	\$ 6,364	\$ 4,120
Development fees	–	1,981
Referral and due diligence fees paid (note 21(h))	(959)	(3,241)
Fees paid for net increase in economic value created (note 21(h))	(3,486)	(216)
Reimbursed expenses paid	(98)	(245)

At December 31, 2007, accounts receivable and other assets include \$2,309 (2006 – \$2,613) due from Melior. Subsequent to December 31, 2007, \$804 of the outstanding amounts receivable from Melior was collected.

At December 31, 2007, Chartwell had accounts payable due to Melior of \$569 (2006 – nil) relating to referral fees, management fees, incentive fees and legal fees.

C. Included in accounts receivable at December 31, 2007 is \$66 (2006 – \$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, 2007 is a vendor take-back mortgage of \$1,097 (2006 – \$2,270) due to an officer of Chartwell. During the year ended December 31, 2007, the Trust incurred interest expense of \$114 (2006 – \$189) 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.

## 19. Segmented information:

Chartwell monitors and operates its Canadian retirement, Canadian long-term care, Canadian management and United States operations separately.

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

2007	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	\$ 240,602	\$ 133,749	\$ 14,180	\$ 229,844	\$ 618,375
Equity income from VIEs	3,774	–	–	–	3,774
Below market lease amortization	560	35	–	799	1,394
Direct operating expense	151,032	116,890	3,996	145,492	417,410
Income before the undernoted	93,904	16,894	10,184	85,151	206,133
Interest expense	33,984	8,331	–	35,048	77,363
Property lease expense	–	39	–	46,429	46,468
Income before the following	59,920	8,524	10,184	3,674	82,302
Depreciation and amortization	57,196	10,065	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
	\$ 1,358	\$ (1,541)	\$ 7,758	\$ (39,114)	\$ (31,539)
<i>Items not allocated to operating segments:</i>					
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)
<i>Expenditures for assets by segment:</i>					
Acquisitions – properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	\$ 142,101	\$ 138,097	\$ –	\$ 569,772	\$ 849,970
Capital improvements	30,586	6,298	1,529	6,891	45,304

2006	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	\$ 181,068	\$ 85,580	\$ 12,487	\$ 52,329	\$ 331,464
Equity income from VIEs	3,440	–	–	–	3,440
Below-market lease amortization	1,329	211	–	499	2,039
Direct operating expense	114,556	74,755	4,027	32,728	226,066
Income before the undernoted	71,281	11,036	8,460	20,100	110,877
Interest expense	30,170	4,473	–	11,628	46,271
Income before the following	41,111	6,563	8,460	8,472	64,606
Depreciation and amortization	51,741	5,140	2,573	16,556	76,010
Write-down in carrying value of assets	–	–	858	–	858
Gain on sale of assets	(396)	–	–	–	(396)
	\$ (10,234)	\$ 1,423	\$ 5,029	\$ (8,084)	\$ (11,866)

*Items not allocated to operating segments:*

Mezzanine loan interest, bank interest and other income	13,632
General, administrative and trust expenses	(16,818)
Interest on convertible debentures	(772)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain/(loss)	(126)
Non-controlling interest	1,252
Loss for the year	\$ (14,698)

*Expenditures for assets by segment:*

Acquisitions – properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	\$ 350,968	\$ 43,669	\$ –	\$ 209,483	\$ 604,120
Capital improvements	29,277	3,305	–	1,917	34,499

2007	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	\$ 1,234,363	\$ 330,297	\$ 16,680	\$ 836,953	\$ 184,906	\$ 2,603,199
Total liabilities	784,783	216,358	–	592,046	205,403	1,798,590
<b>2006</b>						
Total assets	\$ 1,192,399	\$ 155,884	\$ 18,393	\$ 383,845	\$ 227,229	\$ 1,977,750
Total liabilities	680,336	110,791	6,813	290,404	127,450	1,215,794

## 20. Joint venture operations and variable interest entities (“VIE”):

### A. Joint venture operations:

The following amounts included in these Consolidated Financial Statements are Chartwell’s proportionate interest in its joint ventures:

	2007	2006
Assets	\$ 713,494	\$ 439,660
Liabilities	520,354	323,517
Revenue	\$ 214,572	\$ 59,129
Expenses, including depreciation and amortization of \$37,118 (2006 – \$20,219)	244,186	68,801
Loss for the year	(29,614)	(9,672)
<i>Cash provided by (used in):</i>		
Operating activities	\$ 10,395	\$ 21,181
Financing activities	259,167	198,626
Investing activities	(259,090)	(217,707)

Chartwell’s joint venture operations are generally undertaken through entities in which the Trust holds an indirect interest. The joint venture entities are borrowers of liabilities in excess of Chartwell’s proportionate share amounting to \$520,534 (2006 – \$323,517), 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:

- (i) At December 31, 2007, Chartwell holds variable interests in 20 (2006 – 18) 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 \$471,803 (2006 – \$419,187).

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. As of December 31, 2007, Chartwell had mezzanine loans receivable of \$69,105 (2006 – \$62,708) from these entities. During the year ended December 31, 2007, Chartwell earned \$8,600 (2006 – \$5,316) in interest from these entities.

- (ii) At December 31, 2007, Chartwell, through a holding company, holds variable interests in seven (2006 – seven) VIEs. These entities are structured to lease the respective properties from Chartwell and an entity controlled by Melior. At December 31, 2007, Chartwell recognizes its proportionate direct interest in these properties which have a cost of \$66,704 (2006 – \$61,140) and accumulated amortization of \$5,871 (2006 – \$3,781). Under the terms of the operating lease,

Chartwell and an entity controlled by Melior will receive the net revenue of the properties less \$1 per property.

Chartwell is not considered to be the primary beneficiary and is required to account for its interest in these entities using the equity method of accounting.

- (iii) At December 31, 2007, Chartwell, through its acquisition of CPAC (Care) Holdings Inc., held a variable interest in one VIE. This entity was created to construct a condominium development project in Langley, British Columbia and is jointly owned by Chartwell and a third-party. At December 31, 2006, this investment was accounted for using the equity method of accounting with a cost of \$978.

During 2007, Chartwell acquired the remaining 50% of the entity it did not already hold. At December 31, 2007, CPAC (Care) Holdings Inc. is no longer considered a VIE and is now consolidated in the financial statements.

## 21. 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 (note 2(c)) and a leasehold interest in two properties acquired with the Merrill Gardens Portfolio (note 2(b)). 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:

2008	\$ 37,305
2009	38,502
2010	39,739
2011	41,017
2012	50,255
Thereafter	293,251
	<b>\$ 500,069</b>

### 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 (note 2(a)), 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 which expire on various dates up to May 31, 2015. Annual payments in aggregate on these leases vary from \$958 to \$1,004 over the terms of the leases. Further, Chartwell has an

operating lease in the United States that expires on April 30, 2013. Annual payments on this lease vary from \$763 to \$875 over the term of the lease. Chartwell's share is 49% of the amounts due under the lease.

#### **C. Acquisitions:**

As of December 31, 2007, Chartwell is committed to acquire varying interests in two seniors housing properties in the United States for an aggregate purchase price of approximately \$23,989 (U.S. \$24,200) and two seniors housing properties in Canada for an aggregate purchase price of \$35,683.

#### **D. Purchase obligations:**

Chartwell has entered into various construction contracts related to various internal growth projects. As at December 31, 2007, the remaining commitments under these contracts amounted to approximately \$23,112.

As at December 31, 2007, Chartwell has entered into fixed-price natural gas contracts with a third-party natural gas supplier for \$1,806 to provide gas for its own use at its properties. Chartwell has also entered into fixed-price electricity contracts with local utilities in the United States for \$2,377 (U.S. \$2,398) to provide electricity for its own use at its properties.

**E.** At December 31, 2007, contingent consideration on acquisitions of properties amounted to \$7,095 and consisted of the following:

- (i) The vendor of one property is entitled to receive an additional \$1,795 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually.
- (ii) Spectrum is entitled to receive additional consideration of \$300 with respect to one property sold to Chartwell in 2006 contingent upon the property achieving certain earnings targets within three years following the close of the acquisition.
- (iii) The vendor of one property is entitled to receive an additional \$4,000 in respect of certain suites that had been added to the property.
- (iv) The vendor of one property is entitled to receive an additional \$1,000 contingent upon the property achieving predetermined operating income increases over the three-year period following acquisition.

#### **F. Mezzanine loans receivable:**

As at December 31, 2007, Chartwell has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of \$10,690 (2006 – \$41,577) (note 5).

Borrowers of 16 mezzanine loans (2006 – 13) can obligate Chartwell to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

#### **G. Letters of credit:**

As at December 31, 2007, Chartwell was contingently liable for letters of credit in the amount of \$1,940 (2006 – \$639).

#### **H. Other contracts:**

- (i) Chartwell's properties in the Province of Quebec are managed by CM Management Limited Partnership ("CM"), a joint venture between Chartwell and Melior. The properties' management agreements are for a term of five years and call for payment of management fees between 4% and 5% of gross revenue. Chartwell owns a 50% interest in CM.
- (ii) 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% of gross revenue plus incentive fee based on certain operating targets. Through Chartwell's acquisition of HBC Realty, Chartwell owns a 74.5% effective interest in HBC (note 2(c)). Chartwell also owns a 75% interest in HBC II.
- (iii) 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 \$50,000 and 3% of total budgeted development costs for the related project (note 18(b)).
  - (c) For as long as Chartwell and Melior are co-owners of at least one property in the Province of Quebec, payment of 25% of net increased economic value created on Chartwell's internal growth projects in the Province of Quebec, as determined by independent appraisals.

#### **I. Litigation and claims:**

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

## 22. Supplemental cash flow information:

The 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:

	2007	2006
Distributions payable, including distributions payable to non-controlling interests of \$557 (2006 – \$553)	\$ 8,915	\$ 7,335
<i>Non-cash consideration on acquisitions:</i>		
Class B Units of Master LP	10,145	11,091
Class B Common Units of CSH Massapequa Inc.	663	–
Deferred consideration	44,005	27,206
Discharge of mezzanine loans receivable	3,831	6,265
Distributions applied against installment loans receivable related to LTIP	2,557	1,848
Interest on installment loans receivable related to LTIP	1,083	799
Trust Units issued pursuant to DRIP	4,317	2,476
<i>Change in non-cash operating items:</i>		
Accounts receivable	\$ (1,450)	\$ (7,780)
Deposits on acquisitions	11,572	(11,019)
Due from Spectrum	(3,163)	149
Due from ING	(3,296)	(1,458)
Accounts payable and other liabilities	11,548	20,300
Other	5,798	1,377
	<b>\$ 21,009</b>	<b>\$ 1,569</b>

In accordance with Chartwell's Third Amended and Restated Declaration of Trust, the Trust may distribute to the Trust Unitholders such percentage of the Distributable Income of the Trust as the Trustees in their discretion may determine and declare. Notwithstanding the foregoing, the Trust shall distribute in each year an amount equal to at least 80% of the distributable income of the Trust provided that the Trust receives amounts equal to such distributions from its investments. While the Trustees have discretion over the determination of Distributable Income to be distributed, Chartwell is required under the Declaration of Trust to distribute an amount at least equal to the income of Chartwell for tax purposes.

During the year ended December 31, 2007, interest paid amounted to \$83,230 (2006 – \$45,296).

During the year ended December 31, 2007, cash distributions on Trust Units amounted to \$86,797 (2006 – \$66,632).

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 statement of cash flows.

## 23. Income taxes:

Due to the SIFT Rules (note 1(k)), 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 \$1,770 and a future income tax expense of \$13,924 for the year ended December 31, 2007.

The tax effects of temporary differences that give rise to significant portions of the Canadian future tax assets and liabilities are as follows as at December 31, 2007:

<i>Future income tax assets:</i>	
Mortgages payable	\$ 5,467
Issue costs	8,623
Losses carried forward	2,823
Other	4,831
Valuation allowance	(3,900)
	17,844
<i>Future income tax liabilities:</i>	
Properties	(21,874)
Management contracts, resident contracts	
customer relationships and other intangibles	(11,357)
Other	(3,345)
	(36,576)
Net future income tax liability	<b>\$ (18,732)</b>

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, 2007, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately \$32,882 (U.S. \$33,170). Of these losses, approximately \$938 (U.S. \$946) expire in 2025, \$2,063 (U.S. \$2,081) expire in 2026 and \$29,881 (U.S. \$30,143) expire in 2027.

As at December 31, 2007, 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 \$16,407 (U.S. \$16,551) against which a valuation allowance of \$16,407 (U.S. \$16,551) has been recorded.



The provision for income taxes in the consolidated statement of operations and comprehensive income represents an effective income tax rate different than the Canadian SIFT tax rate of 34%. The differences are as follows:

Loss before income taxes	\$ (56,419)
Computed income tax recovery at Canadian SIFT tax rate	(19,182)
<i>Increase/(decrease) resulting from:</i>	
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	1,688
Income of trust taxed directly to Unitholders	760
Change in valuation allowance	18,501
International income tax rate differences	(1,686)
Other	576
<b>Income tax expense</b>	<b>\$ 15,928</b>

On the acquisition of the RegencyCare Portfolio, Chartwell recorded a future tax liability of \$4,904.

## 24. Financial instruments and financial risk management:

In the normal course of business, Chartwell is exposed to various financial risks, including changes in interest rates, changes in foreign currency exchange rates and government regulatory controls. The following describes these financial risks and how they are managed by Chartwell and the fair values of these financial instruments:

### A. Foreign currency exchange risk:

At December 31, 2007, through its self-sustaining United States operations, 32% (2006 – 19%) of Chartwell's assets and 37% (2006 – 26%) of Chartwell's mortgages payable were held in the United States and for the year ended December 31, 2007, 37% (2006 – 16%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in exchange rates 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.

Chartwell may use derivative financial instruments to hedge its 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.

### B. Interest rate risk:

Interest rate risk arises with changes in interest costs, which affect Chartwell's floating rate debt on an ongoing basis and its fixed-rate debt upon renewal. At December 31, 2007, \$35,038 (2006 – \$78,563) 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 notional principal amount of \$13,836 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 5.95% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled quarterly 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, 2007 is a loss position of \$689 (2006 – \$934), which is included in accrued liabilities on the consolidated balance sheet (note 12). Included in other comprehensive loss for the year ended December 31, 2007 is a gain of \$223 (net of future taxes of \$96) that relates to the effective portion of the net change in fair value of interest rate swaps designated as hedges.

### C. Credit and collection risk:

Chartwell has four significant categories of receivables: mezzanine borrowers, various provincial governments, resident clients and retirement homes and long-term care properties to which it provides management services. Chartwell is exposed to credit risk in the collection of its mezzanine loans receivable and the normal credit risk from residents. Collection risk associated with these residents relates to their ability to potentially challenge certain charges. Chartwell provides management and other services to the borrowers of mezzanine loans and through such activities, monitors the status of the underlying development projects securing these loans for signs of possible impairment.

#### D. Fair value:

Fair value represents management's estimates of the market value at a given point in time. The fair values of Chartwell's financial assets and financial liabilities, except as noted, approximate their carrying values due to their short-term nature.

	Carrying value of loans receivable and non-trading liabilities	Fair value of loans receivable and non-trading liabilities
<i>Financial assets:</i>		
Mezzanine loans receivable (i)	\$ 107,624	\$ 103,411
Capital funding receivable (ii)	48,078	49,999
<i>Financial liabilities:</i>		
Mortgages payable (iii)	1,445,711	1,469,280
Debt component of convertible debentures (iv)	180,656	190,547

- (i) The fair value of mezzanine loans receivable is an estimate based on the rates currently charged on Chartwell's mezzanine loans. The carrying value of the mezzanine loans has not been written down as management intends to hold them to maturity such that it will recover the carrying amount.
- (ii) The fair value of capital funding receivable is an estimate based on the yield of the applicable bonds issued by the Province of Ontario.
- (iii) The fair value of mortgages payable is an estimate based on the rates currently prevailing for similar instruments of similar maturities.
- (iv) The fair value of the convertible debentures is based on market quotes. The carrying value of the convertible debentures is recorded as financial liability and equity as follows:

Liability	\$ 180,656
Equity	14,878
	\$ 195,534

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

The fair value of mortgages payable as at December 31, 2006 was \$994,165 as compared to its carrying value of \$987,046. As at December 31, 2006, the fair values of mezzanine loans receivable, capital funding receivable, loans payable and convertible debentures approximated their carrying values.

#### E. Reliance on government subsidies:

Chartwell holds licenses related to each of its long-term care properties, which receive funding from the relevant provincial government. During the year ended December 31, 2007, the Trust received approximately \$78,754 (2006 – \$60,176) in respect of these licenses, which has been recorded as resident revenue.

## 25. Guarantees:

At December 31, 2007, Chartwell remains as a guarantor on the debt of two properties to a maximum amount of \$23,850 (2006 – \$23,850). As at December 31, 2007, \$18,197 (2006 – \$18,560) of the loans was outstanding. The guarantees are in relation to the properties that were sold to Spectrum for \$3,865. Spectrum has indemnified Chartwell for these guarantees and pays an annual guarantee fee, subject to rental achievement provisions.

At December 31, 2007, Chartwell remains as a guarantor of the debt of one managed property with a balance of \$3,100. The borrower has indemnified Chartwell for this guarantee.

At December 31, 2007, Chartwell and its joint venture partners provided joint and several guarantees of the debt of the co-owned properties. Effectively, Chartwell guarantees its partners' 50% share of this debt to a maximum amount of \$53,437, of which \$45,692 (2006 – \$45,516) was outstanding at December 31, 2007. In the opinion of management, at December 31, 2007, the value of each of these properties exceeds the respective total amount of debt outstanding.

## 26. Subsequent event:

Subsequent to December 31, 2007, Chartwell acquired a seniors housing facility in Canada for a purchase price of approximately \$29,183 from Spectrum, Melior and Spectrum joint venture partners.

## 27. Comparative figures:

Certain 2006 figures have been reclassified to conform with the financial statement presentation adopted in 2007.

# Corporate Information

## Trustees, Directors and Officers

### Trustees and/or Directors

Michael D. Harris, *Chair* <sup>(2)</sup>  
*Corporate Director and Consultant*  
*Senior Business Advisor, Goodmans LLP*

Charles Moses C.A. <sup>(1)</sup>  
*Private Consultant and Chairman*  
*Canadian Depository for Securities Ltd.*

Sidney P.H. Robinson LL.B. <sup>(1) (2)</sup>  
*Corporate Director and Consultant*

Thomas Schwartz C.A. <sup>(2) (3)</sup>  
*President and CEO*  
*Canadian Apartment Properties REIT*

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

Lise Bastarache <sup>(1) (3)</sup>  
*Corporate Director*

Stephen A. Suske M.B.A.  
*Chief Executive Officer*  
*and Vice Chair of Chartwell*

W. Brent Binions, LL.B.  
*President of Chartwell*

### Officers and Senior Management

Stephen A. Suske M.B.A.  
*Chief Executive Officer and Vice Chair*

W. Brent Binions LL.B.  
*President*

Cam Crawford C.A.  
*Chief Operating Officer*

Vlad Volodarski C.A.  
*Chief Financial Officer*

Richard Noonan  
*Chief Operating Officer*  
*Canadian Retirement Communities*

Jonathan Boulakia LL.B.  
*Senior Vice President and Legal Counsel*

## 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](http://www.chartwellreit.ca)

(1) Audit Committee

(2) Compensation, Governance and Nominating Committee

(3) Investment and Environmental Committee

## 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  
Website: [www.chartwellreit.ca](http://www.chartwellreit.ca)

### Auditors

KPMG LLP  
Toronto, Ontario

### Legal Counsel

Borden Ladner Gervais LLP  
Toronto, Ontario

### Transfer Agent and Registrar

Computershare Investor Services  
Toronto, Ontario  
Telephone: (800) 564-6253  
Facsimile: (866) 249-7775  
Email: [service@computershare.com](mailto:service@computershare.com)

### Stock Exchange Listing

Toronto Stock Exchange  
(Symbol: CSH.UN)

### Unitholder and Investor Contact

Mr. Stephen Suske  
*Chief Executive Officer and Vice Chair*  
Website: [www.chartwellreit.ca](http://www.chartwellreit.ca)

### Annual Meeting of Unitholders

4:30 pm ET  
Thursday May 22, 2008  
Le Royal Meridien King Edward  
37 King Street East  
Toronto, Ontario



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