

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## THIRD QUARTER REPORT

SEPTEMBER 30, 2008



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the Three and Nine Months Ended September 30, 2008

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Chartwell Seniors Housing Real Estate Investment Trust (“Chartwell” or the “Trust”) has prepared the following discussion and analysis (the “MD&A”) to provide information to assist its Unitholders’ understanding of the financial results for the three and nine months ended September 30, 2008. This MD&A should be read in conjunction with Chartwell’s financial statements for the three and nine months ended September 30, 2008 and the notes thereto (the “Financial Statements”), audited financial statements for the year ended December 31, 2007 and the notes thereto (the “2007 Financial Statements”) and annual Management’s Discussion and Analysis for the year ended December 31, 2007 (the “2007 MD&A”). 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 November 13, 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; “YTD” refers to the nine month period ended September 30.

Unless otherwise indicated, all comparisons of results for Q3 2008 are in comparison to results from Q3 2007 and all comparisons of results for 2008 YTD are in comparison to 2007 YTD.

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

## **Business Overview**

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

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. Chartwell indirectly owns and manages a portfolio of seniors housing communities across the complete spectrum of care from independent living communities (“IL Communities”), through retirement homes (“Retirement Homes”), to long-term care communities (“LTC Communities”), which are located in Canada and the United States. All references to “Chartwell”, “we” or “Trust”, unless the context indicates otherwise, refer to Chartwell Seniors Housing Real Estate Investment Trust and its subsidiaries. For ease of reference “Chartwell” and the “Trust” are used in reference to ownership of seniors housing communities and the operation of the seniors housing communities and the development management business. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust. As of September 30, 2008, Chartwell’s portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 37,923 suites in 273 communities which are operating, under construction or in various stages of development. Chartwell’s portfolio of owned and leased communities consisted of interests in 28,362 suites in 203 communities.

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

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

### **Our Mission is...**

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

### **Our Values are...**

**RESPECT** – We honour and celebrate seniors

**EMPATHY** – We believe compassion is contagious

**SERVICE EXCELLENCE** – We believe in providing excellence in customer service

**PERFORMANCE** – We believe in delivering and rewarding results

**EDUCATION** – We believe in life long learning

**COMMITMENT** – We value commitment to the Chartwell family

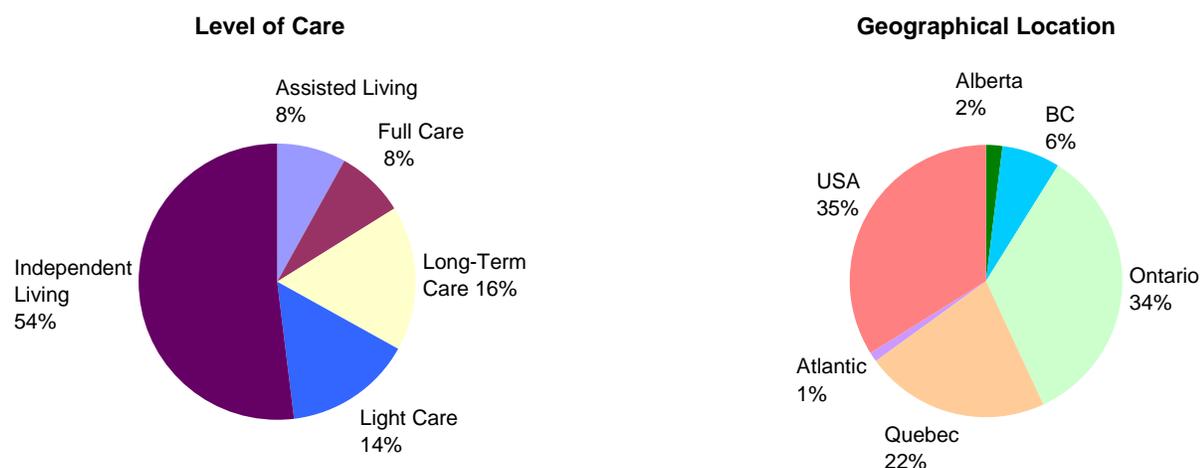
**TRUST** – We believe in keeping our promises and doing the right thing

The following is the composition of Chartwell’s owned, leased and managed portfolio of seniors housing communities in its four operating segments at September 30, 2008:

	Canadian Retirement Operations (2)(3)(6)	Canadian Long-Term Care Operations (4)	United States Operations (5)(7)(8)	Canadian Management Operations (2)	Total
Communities <sup>(1)</sup>	103	24	80	66	273
Suites/Beds	12,000	3,568	13,354	9,001	37,923

- (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 nine communities (1,478 suites) where Chartwell owns a 50% interest. On October 27, 2008, Chartwell acquired the remaining 50% interest in seven of these communities (1,226 suites). Refer to the “Subsequent Events” section of this MD&A.
- (4) Includes eight communities (1,700 suites) in which Chartwell owns a 50% interest.
- (5) Chartwell owns a 50% interest in 26 communities (4,648 suites), a 100% interest in 23 communities (2,281 suites), a 49% leased interest in 25 communities (5,632 suites), and a 100% leased interest in two communities (233 suites).
- (6) Includes 177 suites under development at three existing communities.
- (7) Includes 98 suites under development at one existing community 50% owned by Chartwell.
- (8) Includes four communities (560 suites) under operations and development management contracts.

**Composition of Portfolio of Owned, Leased and Managed Suites at September 30, 2008 by:**



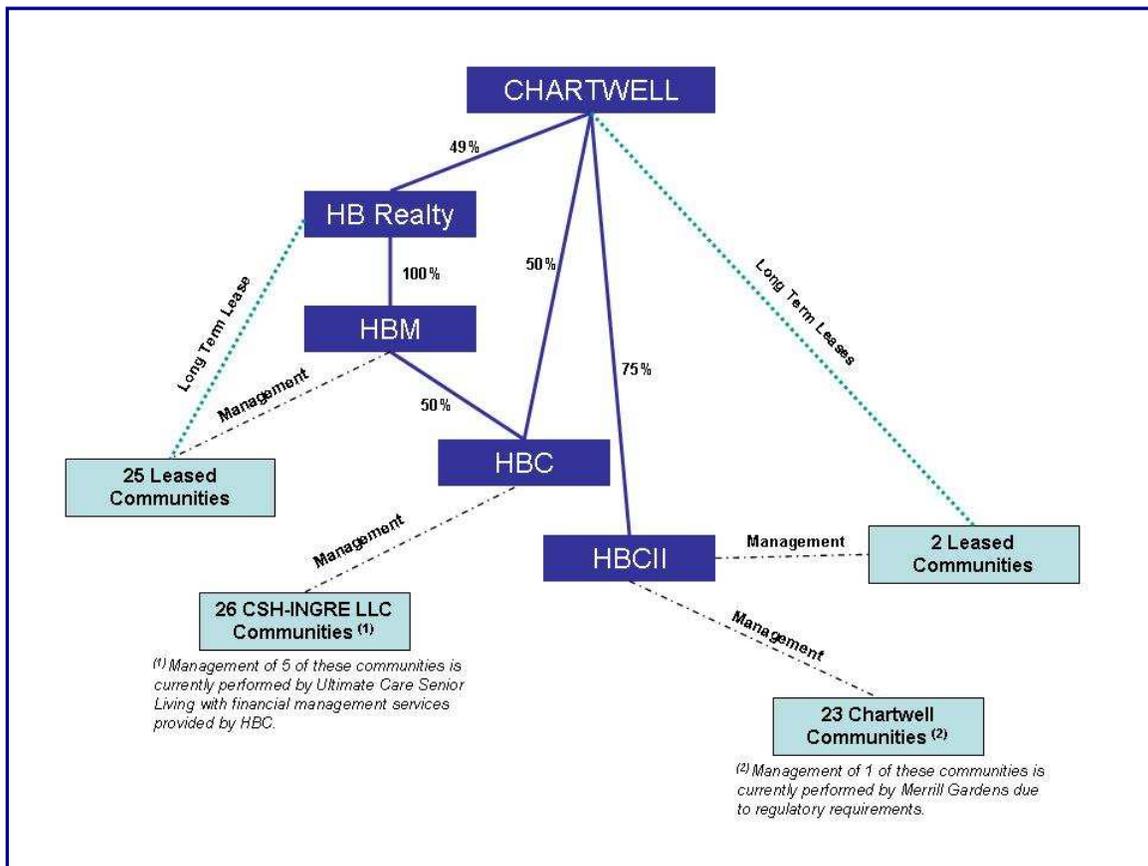
Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development program carried out by Spectrum Seniors Holdings LP (“Spectrum”) formerly Spectrum Seniors Housing Development LP, a development entity in which certain of the Trust’s senior executives have an ownership interest. Chartwell provides mezzanine financing to Spectrum and to certain of Spectrum’s joint venture partners for the development of seniors housing communities. In return, Chartwell has the ability to purchase Spectrum’s interest in such communities, when stabilized, at a discount to the appraised value. Stabilization occurs when a community has had an average suite occupancy rate of 90% or greater for the three preceding calendar months. As part of its seniors housing operations and development management business, Chartwell also provides management, financing, and advisory services, for a fee, to Spectrum and its joint venture partners in respect of their communities and development program.

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 September 30, 2008, Chartwell and ING each held a 50% interest in CSH-INGRE LLC (“CSH-INGRE”), which owned 26 seniors housing communities (4,648 suites) in the United States, In addition, Chartwell and ING each owned a 50% interest in eight seniors housing communities (1,700 suites) in Canada.

In 2007, Chartwell acquired a 49% interest in Horizon Bay Realty LLC (“HB Realty”), which, through its subsidiaries, owns leased interests in 25 seniors housing communities (5,632 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 HBCII Manager LLC (“HBCII”). Chartwell owns a 75% interest in HBCII.

The following chart describes the structure of Chartwell’s U.S. Portfolio:



## Owned and Leased Property Portfolio

The following table summarizes the composition of Chartwell's real estate portfolio of owned and leased communities as at September 30, 2008 and September 30, 2007:

	September 30, 2008 <sup>(1)(3)</sup>	September 30, 2007 <sup>(2)</sup>
Number of suites	28,362	27,702
Number of communities	203	200

- (1) Includes 46 communities (7,826 suites) in which Chartwell holds a 50% interest (On October 27, 2008, Chartwell acquired the remaining 50% interest in seven of these communities (1,226 suites). Refer to the "Subsequent Events" section of this MD&A), 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 43 communities (7,454 suites) in which Chartwell holds a 50% interest and one community (53 suites) in which Chartwell owns a 39% interest and 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.
- (3) Includes 275 suites under development at four existing communities.

### Composition of Portfolio of Owned and Leased Suites by Geographical Location at September 30



## 2008 Outlook and Significant Events

Over the last five years Chartwell has achieved an enviable presence in the North American seniors housing market. We have built or acquired a portfolio of properties with significant competitive advantages: our portfolio is relatively new – majority of our properties are less than 10 years old; our portfolio is diversified geographically; and a large portion of our assets are independent supportive living, appealing to the leading edge of baby boomers. Chartwell's growth has also been based on the strong fundamentals present in the North American seniors housing market. Significant demand is being driven by powerful demographic trends that are resulting in the seniors population growing at approximately three to four times the general population.

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

### 2008 Outlook \*

During Q3 2008, both the Canadian and U.S. capital markets experienced a high degree of volatility, which saw Canadian growth slow, the U.S. recession continue and credit markets become tighter.

Despite these concerns, Chartwell is strongly positioned to meet these challenges and continue to deliver strong operating performance:

- Seniors housing, and Chartwell's continuum of care model particularly, is recession resistant.
- Our debt portfolio is well positioned: we have no U.S. debt maturing before 2013; the majority of 2008 debt maturities in Canada have been successfully renewed at competitive rates on CMHC-insured basis; and, our 2009 maturities, of which 82% are CMHC-insured, are expected to be renewed in due course.
- Factors leading us to revise our original guidance for 2008 AFFO per unit diluted downward have been managed effectively and we are executing on our plans ahead of our expectations. Our portfolio continues to deliver strong same property NOI growth of 5.2% for 2008 YTD compared to 2007 YTD.
- On a cash basis, our distributions are adequately covered by operating cashflows.
- In Q4 2008 we expect continued strong performance from all of our operating platforms, however, the normal effects of seasonality including increased utilities and staffing related costs, primarily statutory holidays and normal sick leave, will affect our results compared to Q3 2008. At this time, we reiterate our previous guidance of pre-tax AFFO per unit of \$0.69 - \$0.71 for the full year 2008.

### Seniors Housing Industry: Recession Resistant

Seniors housing is typically, and has historically, been resistant to economic downturns. Many important factors protect seniors housing from recessions:

- Corporate earnings do not affect demand or the financial ability of seniors to live in our communities. This is not the case with offices, hotels, and industrial real estate that are highly dependent on

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

corporate income to drive demand. Instead, demand in seniors housing is linked to the care needs of seniors and their income and net worth.

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

#### **Liquidity and Debt Profile:**

- At September 30, 2008, we had \$35.6 million of cash on hand.
- At September 30, 2008, our \$90.0 million credit facility with \$61.7 million borrowing capacity remained undrawn.
- Our debt leverage ratio is stable at 61.1% including convertible debentures, well below the 65% limitation set by our Declaration of Trust.
- Our cash distributions are covered by operating cashflows and our capital commitments and purchase obligations for the remainder of 2008 and 2009 are within our financial capacity.
- At September 30, 2008, we had \$1.5 billion of mortgages payable with weighted average term to maturity of 9.0 years and weighted average contractual rate of 5.70%.
- \$48.8 million and \$112.6 million of our mortgages mature in the remainder of 2008 and 2009 respectively.
- The majority of 2008 remaining renewals have now been approved by CMHC and we are working with the lenders on completion of legal documentation for refinancings.

- 82% of our 2009 maturities are CMHC-insured and we expect to renew all loans in due course.
- We have no U.S. debt maturities until 2013.

### **Property Operations:**

Consistent with our track record, we have continued to deliver strong same property NOI growth in 2008 – a strong 5.2% for 2008 YTD and a healthy 2.7% for Q3 2008.

- We continue to achieve strong growth in same property NOI from our U.S. operations – 8.4% for 2008 YTD compared to 2007 YTD and 1.4% for Q3 2008 compared to Q3 2007:

Our occupancies are higher than industry averages and our management team continues to be focused on implementing innovative marketing strategies and tightly controlling labour and supply costs.

In June, we began to find it more difficult in some of our U.S. properties than it had been in the past eighteen months to replace residents on normal turnover. We typically experience a seasonal occupancy dip during the summer months with normal rebounding in mid-September through November. With an uncertain economic climate in the U.S., we were less confident of our planned growth in the second half of the year.

Our initial occupancy targets for 2008 were to increase to approximately 95%. At Q2 2008 we had revised our guidance to reflect occupancies stabilizing at approximately 93.0%. At September 30, 2008, our U.S. properties occupancies exceeded our expectations at 93.5%.

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

We continue to monitor our U.S. platform closely and based on recent trends we have increasing confidence in our ability to weather the U.S. economic downturn well.

- Our Canadian retirement and long-term care properties continue to perform strongly and are achieving or exceeding our expectations with occupancies up and strong same property NOI growth in all platforms outside of Quebec.

We entered the Quebec market acquiring a number of properties in great locations for expansion projects or repositioning. As described in our Q2 2008 MD&A, due to construction delays, we were behind schedule in our lease-up projections. The vast majority of construction is now complete. Two suite expansion projects were opened in Q3 2008 and are now in lease-up with another 72-suite expansion scheduled to open in Q4 2008. In addition, the majority of the newly renovated suites in our repositioning projects are now available and upgrades on amenities and common area spaces completed, improving the property's marketability as a whole.

In addition, in certain local markets in Quebec challenging conditions have persisted for longer than anticipated. With the October 27, 2008 acquisition of Groupe Melior's 50% interest in the Quebec properties and management functions, we can now operate our Quebec properties under one platform. Having full control over management of our Quebec operations will allow us to improve occupancies, increase operating margins and take advantage of significant synergies. We expect to deliver solid performance improvements in the Quebec portfolio going forward, consistent with our track record in the balance of our portfolio.

We are seeing the gradual stabilization in Quebec that we anticipated and are now beginning to see gradual recovery of occupancy. We continue to forecast recovery of occupancy to over 90% by the end of 2009.

**Development Management Activities:**

- Our development team continues working with Spectrum and other development partners on a number of opportunities.
- While Spectrum was pursuing its corporate reorganization options, commencement of several of these projects was delayed.
- It is Chartwell's understanding that Spectrum's current plan calls for reduced development activity while it is pursuing sales opportunities on a number of stabilized assets.
- Chartwell is currently evaluating the potential acquisition of a number of these stabilized assets.
- In light of the current market conditions, we are reviewing the size and scale of our development management activities.

**Management of General, Administrative and Trust Expenses:**

In response to early identification of the risk areas described above in achieving AFFO per unit growth in 2008, we have continued to strictly manage spending of our general, administrative and trust ("G&A") expenses. We continue to hold on certain corporate activities and are actively reducing costs as much as possible while ensuring that support to our field operations driving the business continues to be strong.

In summary, we expect to continue our track record of strong property operating performance and growth. Our industry, and in particular, Chartwell's market segment of the seniors housing industry, have typically proven to be recession resistant. Our financial position is strong and our debt portfolio is well managed. We will be cautious in these uncertain times, continuing to manage our G&A spend and preserving our liquidity. Cash distributions are covered by our operating cash flows, and while our longer term strategy is to cover distributions on a fully diluted basis, we anticipate achieving this through steady AFFO per unit growth over time.

## Significant Events

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

## Acquisitions

The following table summarizes acquisitions completed in the first nine months of 2008:

(\$millions)	2008 YTD
# Communities	3 <sup>(1)</sup>
# Suites	317 <sup>(1)</sup>
Purchase price (including closing costs)	41.0
Financed as follows:	
Mortgage debt assumed	7.8
Discharge of mezzanine loan receivable	5.9
Cash	27.3
Total	41.0 <sup>(2)</sup>

<sup>(1)</sup> Includes 80 suites for which Chartwell acquired the remaining 50% interest.

<sup>(2)</sup> Subsequent to closing, Chartwell arranged mortgage financing on one of the acquisitions in the amount of \$21.8 million. The loan bears an interest rate of 4.71% and matures in April 2038.

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. The following summarizes significant portfolio acquisitions completed during 2007:

- On June 30, 2007, Chartwell and ING acquired the Regency portfolio consisting of eight long-term care communities (1,384 suites). In addition, Chartwell acquired management contracts for six other communities. Chartwell's share of the 50% interest in the LTC communities and the 100% interest in the management contracts amounted to \$146.6 million.
- On April 30, 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).
- On February 21, 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).
- On January 1, 2007, Chartwell acquired a 49% interest in HB Realty, which, through its subsidiaries, owns leased interests in 25 seniors housing communities (the "HCPI Leased Properties" (5,631 suites)). As we acquired these leases on the first day of 2007, the HCPI Leased Properties are included in our same property portfolio in 2008. In addition, as described in the "Business Overview" section of this MD&A, Chartwell acquired an interest in the management contracts for these properties.

## Acquisitions

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
<b>2008 Acquisitions:</b>					
1.	Cite Jardin IIIA	Gatineau, QC	Retirement	January 9, 2008	173
2.	Chateau Gardens Elmira	Elmira, ON	Retirement	April 24, 2008	64
3.	Brookside Manor <sup>(1)</sup>	Kanata, ON	Retirement	May 29, 2008	80
<b>Total 2008 Acquisitions</b>					<b>317</b>
<sup>(1)</sup> During Q2, Chartwell acquired the remaining 50% interest in this community.					
<b>2007 Acquisitions:</b>					
1.-25	HB Realty <sup>(1)</sup>	U.S. (various locations)	Retirement	January 1, 2007	5,631
26.	Bankside Terrace	Kitchener, ON	Retirement	February 1, 2007	91
27.	Queens Square Terrace	Cambridge, ON	Retirement	February 1, 2007	83
28.	Terrace on the Square	Waterloo, ON	Retirement	February 1, 2007	92
29.	Wellington Park Terrace	Guelph, ON	Retirement	February 1, 2007	116
30.	The 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
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
<b>Total 2007 Acquisitions</b>					<b>11,158</b>
<b>Total</b>					<b>11,475</b>

<sup>(1)</sup> Chartwell acquired a 49% leased interest and related management contracts for these communities, as they were acquired January 1, 2007.

These leased properties are included in our Same Property Portfolio for analysis purposes in this MD&A.

<sup>(2)</sup> Chartwell acquired a 50% interest in these communities.

<sup>(3)</sup> These communities were acquired from Spectrum.

<sup>(4)</sup> Chartwell acquired a leased interest in these communities.

## Internal Growth Initiatives

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

### Completed Internal Growth Projects

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

Project	Location	Suites	Total Cost (\$million)	Debt (\$million)	Construction Completion	Leased Units at September 30, 2008
<b>2008</b>						
Collegiate Heights Retirement Residence	Sault Ste. Marie, ON	32	6.7	4.3	Q3 2008	11
Residence Ste-Marthe	St. Hyacinthe, QC	135	14.8	10.5	Q3 2008	46
Manoir Pierrefonds	Montreal, QC	83	9.8	7.0	Q3 2008	4
<b>Total 2008</b>		<b>250</b>	<b>\$31.3</b>	<b>\$21.8</b>		<b>61</b>
<b>2007</b>						
Birchwood Retirement Residence	Chilliwack, BC	12	2.5	2.5	Q4 2007	12
Hartford Retirement Centre	Morrisburg, ON	22	5.9	5.5	Q3 2007	22
<b>Total 2007</b>		<b>34</b>	<b>\$8.4</b>	<b>\$8.0</b>		<b>34</b>
<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	28
New Edinburgh Square	Ottawa, ON	16	3.6	1.0	Q1 2006	16
<b>Total 2006</b>		<b>174</b>	<b>\$28.1</b>	<b>\$19.1</b>		<b>108</b>
<b>Total</b>		<b>458</b>	<b>\$67.8</b>	<b>\$48.9</b>		<b>203</b>

<sup>(1)</sup> Chartwell owned a 50% interest in this property as at September 30, 2008. On October 27, 2008, Chartwell acquired the remaining 50% interest in these communities. Refer to the "Subsequent Events" section of this MD&A.

### Internal Growth Projects in Progress

There are currently four internal growth projects (275 suites) in various stages of development, as follows:

Project	Location	Suites	Estimated Total Cost (\$million) *	Expected Construction Financing (\$million) *	Estimated Construction Completion *
<b>Canada</b>					
Quail Creek Retirement Centre	Renfrew, ON	34	6.3	5.5	Q2 2009
Maison Herron	Dorval, QC	72	9.3	5.4	Q4 2008
Carrington Place	Vernon, BC	71	10.9	9.2	Q1 2010
<b>Total Canada</b>		<b>177</b>	<b>\$26.5</b>	<b>\$20.1</b>	
<b>United States</b>					
Gayton Terrace <sup>(1)</sup>	Richmond, VA	98	22.1 U.S.	17.7 U.S.	Q2 2009
<b>Total United States</b>		<b>98</b>	<b>\$22.1 U.S.</b>	<b>\$17.7 U.S.</b>	

<sup>(1)</sup> Chartwell owns a 50% interest in this property.

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

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

## Mezzanine Loans

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

(\$millions)	2008 YTD	For the year ended December 31, 2007
Gross mezzanine loans outstanding (beginning of period)	112.0	101.3
Advances in the period to Spectrum, Melior and their joint venture partners	8.5	17.9
Discharge of mezzanine loans on our acquisition of an interest in the related property(ies)	(5.8)	(3.8) <sup>(1)</sup>
Other repayments of mezzanine loans	-	(3.4)
Gross mezzanine loans outstanding (end of period)	114.7	112.0

<sup>(1)</sup> Relates to three properties.

## 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.

## Taxation Related Matters

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to June 22, 2007, income earned by Chartwell and distributed annually to Unitholders was not subject to tax in Chartwell, but was taxed at the individual Unitholder level. Accordingly, Chartwell did not record a provision for income taxes or future income tax assets or liabilities prior to June 22, 2007.

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

Under the SIFT Rules, following a transition period for SIFTs existing on October 31, 2006, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Under the SIFT Rules, distributions paid by a SIFT as returns of

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

capital will not be subject to the tax. Approximately 97.7% of Chartwell's distributions in 2007 were non-taxable returns of capital.

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

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

Under the existing SIFT Rules, a flow-through subsidiary of Chartwell may also be a SIFT. 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. Draft legislation was released on July 14, 2008. The proposed technical amendment to the SIFT definition would exclude trusts and partnerships whose equity is not publicly traded, and/or is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. A subsidiary partnership of Chartwell may not meet this ownership requirement and therefore this entity may be a SIFT. Due to this uncertainty, we have provided for SIFT tax on the taxable income of this subsidiary and accordingly have recorded a current income tax provision of \$0.5 million for Q3 2008 and \$1.3 million for 2008 YTD. We are in the process of restructuring this entity such that the subsidiary partnership will no longer be subject to SIFT tax in 2009.

## **Distributions**

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

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

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

## **Key Performance Indicators**

Chartwell uses a number of key performance indicators for monitoring and analyzing its financial results. These key performance measures are not defined by Canadian generally accepted accounting principles (“GAAP”) and may not be comparable to similar measures presented by other income trusts or other companies. Key financial performance measures are described below.

## **Funds from Operations**

Funds from Operations (“FFO”) is not a recognized measure under GAAP and 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.

In our calculations of FFO per unit, we include the Class B Units of Chartwell Master Care LP and the FFO allocable to the related non-controlling interest.

The tables presented under the Consolidated Results of Operations, Non-GAAP Measures section of this MD&A provide a reconciliation of FFO to net income, as reported in Chartwell’s consolidated financial statements.

## **Normalized Funds from Operations**

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

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

### **Straight line adjustment to lease expense:**

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

**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.

In our calculations of NFFO per unit, we include the Class B Units of Chartwell Master Care LP and the NFFO allocable to the related non-controlling interest.

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

**Adjusted Funds from Operations**

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

**Straight line adjustment to lease expense:**

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

**Unrealized gains and losses on derivative financial instruments and unrealized foreign exchange gains and losses:**

These non-cash items are adjusted for as these amounts may fluctuate significantly over time and we believe that this adjustment improves comparability across periods.

**Amortization of below market leases:**

This non-cash item increases GAAP revenue and is commonly adjusted in AFFO calculations. On acquisition of a property, as required by GAAP, management records a liability for below market leases that exist on acquisition. This liability is amortized to revenue, as required by GAAP, over time with no effect on cash.

**Principal portion of capital subsidy receivable:**

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

**Amounts received under income guarantees:**

This item represents cash flow received from vendors of acquired communities. It is generally applicable to communities in lease-up.

**Amortization of debt mark to market adjustments, including accretion on the convertible debentures, and amortization of financing costs:**

Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

**Financing cost reserve:**

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

**Capital maintenance reserve:**

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

In our calculations of AFFO per unit, we include the Class B Units of Chartwell Master Care LP and the AFFO allocable to the related non-controlling interest.

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.

In Q3 2008, we reclassified three properties previously included in the Canadian long-term care operations segment to the Canadian retirement operations segment to more accurately reflect how the properties are managed. The comparative figures have been reclassified to reflect this change.

## Same Property Performance

The Trust evaluates its financial performance by analyzing a same property portfolio. In this MD&A, same property statistics refer to properties Chartwell owned or leased continuously since January 1, 2007 which is comprised as follows: 92 Canadian retirement properties; 14 Canadian long-term care; and, 46 (21 owned and 25 leased) U.S. retirement communities.

## Operating Margins

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

## Occupancy Percentage

Occupancy percentages are calculated as the number of days a suite is occupied divided by the maximum number of days available in the period.

## General, Administrative and Trust Expenses as a Percentage of Revenue

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

## Consolidated Results of Operations

### Overview of Consolidated Results of Operations

#### Same Property Portfolio Highlights: <sup>1</sup>

Operating performance continues to be strong. Same Property NOI increased \$1.1 million or 2.7% for Q3 2008 compared to Q3 2007 and \$6.2 million or 5.2% for 2008 YTD compared to 2007 YTD.

The successful execution of our 2008 business operating strategies, including taking advantage of the opportunities the size of our portfolio provides both in managing our supply chain and in implementing best practice staffing and operating models, is delivering improved results, both financially and by increasing the quality of the products and services we deliver, across our operating platforms. In Q3 2008 compared to Q3 2007:

- Our same property Canadian Retirement Portfolio occupancies are high at 91.4% excluding internal growth suites, average rate increases achieved have been between 2% and 6%, and same property NOI growth amounted to \$0.9 million or 3.8%. In addition, our yield management program continues to see rent increases on turnover in excess of inflationary rate increases for existing residents.
- In our U.S. same property portfolio, regular annual rent increases, and tight management of expenses have offset the decrease in occupancy to 92.0% or 1.5 percentage points, resulting in improved U.S. same property NOI of U.S.\$0.2 million or 1.4%.

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<sup>1</sup> Note: statistics in this section exclude the effects of foreign exchange translation.

- In addition, our same property Canadian Long-Term Care Portfolio delivered growth in NOI of \$0.1 million or 3.1%, primarily due to improved occupancies in preferred accommodation and in retirement units adjacent to our long-term care communities combined with the benefit of our purchasing programs.

Overall, occupancy was high at 91.7% in Q3 2008, a decrease compared to 93.2% in Q3 2007. Excluding the newly available internal growth suites, occupancy decreased to 92.3% or 1.4 percentage points compared to Q3 2007.

Same property portfolio operating margins were 33.4% in Q3 2008, an increase of 0.1 percentage points compared to Q3 2007.

In addition to the trends generating improved same property NOI growth for Q3 2008 compared to Q3 2007, same property NOI growth for 2008 YTD compared to 2007 YTD has been positively affected by the realization of a refund of insurance premiums based on favourable claims experience and increased deferred community fee revenue, approximately U.S. \$1.2 million combined. However, the costs associated with the additional day in 2008 YTD (February 29) increased direct operating expenses by approximately \$0.7 million compared to 2007 YTD.

#### **Acquisition Portfolio Highlights:**

In Q3 2008, acquisitions delivered NOI of \$14.1 million, or an additional \$2.7 million compared to Q3 2007, excluding foreign exchange. For 2008 YTD, acquisitions contributed \$39.5 million of NOI, or an additional \$19.4 million compared to 2007 YTD, excluding the impact of foreign exchange.

#### **General, Administrative and Trust Expenses:**

General, administrative and trust (“G&A”) expenses decreased as a percentage of revenues to 2.1% of revenues for Q3 2008 before costs attributable to the Board of Directors’ Special Committee and related advisory fees. G&A expenses decreased by \$0.9 million or 18.9% in Q3 2008 compared to Q3 2007 as a result of a one-time adjustment for over accrued acquisition costs in prior years of \$0.6 million and lower Special Committee and related advisory costs.

Excluding Special Committee and related advisory costs, G&A expenses increased for 2008 YTD compared to 2007 YTD by \$0.1 million or 1% due to increased staffing costs to support our significant growth activity in previous years.

#### **Per Unit Analysis:**

AFFO for Q3 2008 was \$0.21 per unit diluted or flat compared to Q3 2007. The factors affecting AFFO were as follows:

- Strong performance in our same property portfolio delivered improved NOI of \$1.1 million or \$0.01 of additional AFFO per unit diluted.
- Reduced G&A expenses, primarily as a result of a one-time adjustment related to acquisition costs combined with reduced Special Committee costs increased AFFO by \$1.5 million or \$0.02 per unit diluted for Q3 2008 compared to Q3 2007.
- In addition, during Q3 2008, we recorded capitalized interest of \$1.0 million which relates to the interest expense on our net investment in internal growth projects for the year to date period.

- Lower management and other fee income resulting from reduced development fee income attributed to delays in various projects. Development fees were \$1.4 million lower in Q3 2008 compared to Q3 2007. Due diligence fees were \$0.5 million lower in Q3 2008 compared to Q3 2007 due to a slow-down in acquisition activity.
- Lower invested cash balances reduced bank interest income by \$1.4 million or \$0.01 per unit diluted.
- Lower mezzanine loan interest income resulting from adjustments to placement fee amortization due to delays in estimated stabilization dates of certain development projects reduced AFFO by \$0.7 million or \$0.01 per unit diluted for Q3 2008 compared to Q3 2007. Placement fees received at the time of the loan advance are amortized to income over the expected term of the loan.

AFFO for 2008 YTD was \$0.53 per unit diluted compared to \$0.57 per unit diluted for 2007 YTD. The factors affecting AFFO were as follows:

- Our same property portfolio delivered improved NOI of \$6.2 million or \$0.06 of additional AFFO per unit diluted.
- Reduced G&A expenses, primarily as a result of a one-time adjustment related to acquisition costs combined with reduced Special Committee costs increased AFFO by \$2.0 million or \$0.02 per unit diluted for 2008 YTD compared to 2007 YTD.
- In addition, during Q3 2008, we recorded capitalized interest of \$1.0 million which relates to the interest expense on our net investment in internal growth projects for the year to date period.
- Amortization of placement fees decreased by \$2.8 million or \$0.03 per unit diluted in 2008 YTD compared to 2007 YTD.
- Due diligence project management fees earned from ING decreased by \$1.5 million and development fees earned from Spectrum decreased by \$2.0 million or, together, \$0.04 per unit diluted.
- Lower invested cash balances reduced bank interest income by \$3.1 million or \$0.03 per unit diluted.
- As described in the “Significant Events” section of this MD&A, in 2008, one of Chartwell’s subsidiaries may be subject to SIFT tax. Accordingly, we have recorded a provision for current income tax expense of \$1.3 million or \$0.01 per unit diluted as a SIFT tax provision for which there is not a comparable amount in 2007 YTD.

FFO diluted per unit was \$0.24 for Q3 2008 an increase of \$0.08 cents compared to \$0.16 for Q3 2007. For 2008 YTD, FFO diluted per unit was \$0.59 or \$0.15 per unit diluted higher than YTD 2007. FFO diluted per unit is described fully in the “Funds from Operations” section of this MD&A.

Normalized FFO, which excludes the effect of foreign exchange gains and losses on intercompany debt, straight line lease expense adjustments and current SIFT income tax expense, was \$0.23 per unit diluted for Q3 2008, compared to \$0.23 per unit diluted for Q3 2007, no change quarter over quarter. For 2008 YTD, Normalized FFO diluted per unit was \$0.60 or \$0.02 per unit diluted lower than 2007 YTD.

Net loss decreased to \$0.06 per unit diluted for Q3 2008 compared to \$0.19 per unit diluted for Q3 2007 and decreased to \$0.33 per unit diluted for 2008 YTD from \$0.68 per unit diluted in 2007 YTD.

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

(\$000s, except per unit amounts, occupancy rates, and operating margins)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Property revenue	172,690	164,821	7,869	506,997	440,381	66,616
Total revenues	180,319	177,231	3,088	529,366	471,872	57,494
Net loss	5,951	16,940	(10,989)	30,344	57,223	(26,879)
Net loss per unit (basic and diluted)	0.06	0.19	(0.13)	0.33	0.68	(0.35)
Distributions declared	18,491	26,386	7,895	60,711	74,567	(13,856)
Distributions declared per unit	0.19	0.27	0.08	0.61	0.80	(0.19)
FFO <sup>(1)</sup>	24,451	16,160	8,291	59,875	40,859	19,016
Diluted FFO per unit	0.24	0.16	0.08	0.59	0.44	0.15
Normalized FFO <sup>(2)</sup>	23,315	22,911	404	60,411	57,915	2,496
Diluted Normalized FFO per unit	0.23	0.23	-	0.60	0.62	(0.02)
AFFO <sup>(3)</sup>	20,875	21,449	(574)	53,959	53,060	899
Diluted AFFO per unit	0.21	0.21	-	0.53	0.57	(0.04)
Weighted average occupancy rate:						
Same property portfolio	91.7%	93.2%	(1.5pp)	92.2%	92.7%	(0.5pp) <sup>(4)</sup>
Same property portfolio excluding internal growth suites	92.3%	93.7%	(1.4pp)	92.9%	93.1%	(0.2pp)
Operating margin – same property portfolio	33.4%	33.3%	0.1pp	32.8%	32.3%	0.5pp
Weighted average number of units including Class B Units of Chartwell Master Care LP <sup>(5)</sup> :						
Basic	98,677,288	97,713,166	964,122	98,376,860	90,741,424	7,635,436
Diluted (includes LTIP)	101,478,126	100,119,842	1,358,284	101,020,882	93,187,140	7,833,742

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

## Summary of Property Revenue

(\$000s, except occupancy rates)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Same property <sup>(1)</sup>	126,740	123,755	2,985	378,609	365,500	13,109
Acquisitions <sup>(1)</sup>	46,405	41,003	5,402	134,007	68,517	65,490
Foreign exchange on U.S. dollar revenue	2,569	2,976	(407)	3,461	14,967	(11,506)
Equity accounted VIEs	(3,024)	(2,913)	(111)	(9,080)	(8,603)	(477)
Total property revenue	172,690	164,821	7,869	506,997	440,381	66,616
Weighted average occupancy same property portfolio	91.7%	93.2%	(1.5pp)	92.2%	92.7%	(0.5pp)
Weighted average occupancy same property portfolio excluding internal growth suites	92.3%	93.7%	(1.4pp)	92.9%	93.1%	(0.2pp)

<sup>(1)</sup> Excluding the effect of foreign exchange on U.S. dollar revenue

Total property revenue increased by 4.8% in Q3 2008 compared to Q3 2007 and 15.1% for 2008 YTD compared to 2007 YTD due to contributions from acquisitions completed subsequent to January 1, 2007 and same property revenue growth. In addition, our U.S. Operations benefited from an adjustment to the amortization of deferred community fee revenue of approximately U.S.\$0.6 million.

Same property revenue increased by approximately \$3.0 million or 2.4% in Q3 2008 compared to Q3 2007 and \$13.1 million or 3.6% for 2008 YTD compared to 2007 YTD. We continue to drive revenue growth with our proven strategies as follows:

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

As at September 30, 2008, Chartwell owned 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. Subsequent to Q3 2008, we acquired the remaining 50% interest in these communities which we did not previously own. Refer to the "Subsequent Events" section of this MD&A.

Weighted average occupancy rates in the same property portfolio excluding internal growth suites were 92.3% in Q3 2008, a decrease of 1.4 percentage points from 93.7% in Q3 2007. As described in our Q2 2008 MD&A:

- We noted a softening of occupancies primarily in the U.S. toward the end of Q2 2008.
- In addition, due primarily to construction delays, lease up plans in certain of our Quebec properties were behind schedule. Our Quebec business is improving as we move through 2008 with NOI improving on a sequential quarter basis.

As anticipated, this affected occupancies throughout the summer months.

## Summary of Direct Operating Expenses

(\$000s)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Same property <sup>(1)</sup>	84,461	82,601	1,860	254,280	247,339	6,941
Acquisitions <sup>(1)</sup>	32,341	29,645	2,696	94,497	48,452	46,045
Foreign exchange on U.S. dollar expenses	1,614	1,867	(253)	2,174	9,416	(7,242)
Equity accounted VIEs	(2,013)	(1,867)	(146)	(6,222)	(5,745)	(477)
Total direct operating expenses – properties	116,403	112,246	4,157	344,729	299,462	45,267
Direct operating expenses – management operations	1,025	994	31	3,075	2,884	191
Total direct operating expenses	117,428	113,240	4,188	347,804	302,346	45,458

<sup>(1)</sup> Excluding the effect of foreign exchange on U.S. dollar expenses

Total direct operating expenses increased by 3.7% in Q3 2008 compared to Q3 2007 and 15.0% for 2008 YTD compared to 2007 YTD primarily due to additional expenses from acquisitions completed subsequent to January 1, 2007.

Same property direct operating expenses increased by approximately \$1.9 million or 2.3% in Q3 2008 as compared to Q3 2007 and \$6.9 million or 2.8% for 2008 YTD compared to 2007 YTD.

We have achieved below inflationary direct operating expense increases primarily as a result of ongoing cost management programs and continued focus on labour cost control.

In addition to the trends experienced in Q3 2008, our year to date results compared to the same period in 2007 were affected by the following factors:

- The first nine months of 2008 have one more day (February 29) than the same period in 2007. As a result many of our variable costs, primarily staffing, increased by approximately \$0.7 million without a corresponding increase in rent which is generally a set monthly fee.
- In our U.S. operations, we benefited from a refund of premiums for general and professional liability of approximately U.S.\$0.6 million during Q1 2008 as a result of favourable claims experience during the policy period.

## General, Administrative and Trust Expenses

(\$000s, except percentage of revenue)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
General, administrative and trust expenses ("G&A")	3,731	4,598	(867)	13,832	13,691	141
Special Committee and related advisory fees	367	1,234	(867)	768	2,204	(1,436)
Total G&A per financial statements	4,098	5,832	(1,734)	14,600	15,895	(1,295)
<b>As % of revenue:</b>						
Including Special Committee Costs	2.3%	3.3%	(1.0pp)	2.8%	3.4%	(0.6pp)
Excluding Special Committee Costs	2.1%	2.6%	(0.5pp)	2.6%	2.9%	(0.3pp)

G&A excluding Special Committee and related advisory fees decreased in Q3 2008 as compared to Q3 2007. This is primarily a result of a one-time adjustment for over accrued acquisition costs related to acquisitions for which the purchase price allocation is closed which reduced G&A expense in Q3 2008 by approximately \$0.6 million.

For 2008 YTD, G&A costs, excluding the costs of the Special Committee, increased 1.0%, which is due to severances of \$0.4 million combined with costs, primarily staffing, to support our significant growth in 2007.

G&A excluding Special Committee costs and related advisory fees decreased as a percentage of total revenues to 2.1% for Q3 2008 and to 2.6% for 2008 YTD. This is primarily due to significant growth in total revenues and management of our costs.

Including Special Committee costs, G&A decreased \$1.7 million for Q3 2008 compared to Q3 2007 and \$1.3 million for 2008 YTD compared to 2007 YTD.

## Interest and Property Lease Expense

(\$000s)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
<b>Interest Expense</b>						
Mortgages and loans payable	21,564	21,126	438	63,529	54,421	9,108
Convertible debentures	2,979	3,030	(51)	8,939	7,638	1,301
Operating credit facility and other	148	50	98	230	102	128
Interest capitalized to properties under development	(1,049)	(383)	(666)	(1,049)	(383)	(666)
	23,642	23,823	(181)	71,649	61,778	9,871
Accretion adjustment to convertible debenture liability	701	642	59	2,057	1,418	639
Amortization of debt mark-to-market adjustments arising on acquisition	(255)	(100)	(155)	(837)	(527)	(310)
Amortization of financing costs	1,199	1,118	81	3,611	3,382	229
Total Interest Expense:	25,287	25,483	(196)	76,480	66,051	10,429
<b>Property Lease Expense</b>						
Contractual lease payments for the period	9,993	9,712	281	29,508	29,484	24
Adjustment to record lease expense on a straight line basis over the lease term	1,677	1,853	(176)	4,922	6,253	(1,331)
Total Property Lease Expense	11,670	11,565	105	34,430	35,737	(1,307)

The increase in interest expense is consistent with the growth in Chartwell's debt portfolio. Mortgages payable increased significantly during 2007 primarily due to mortgages assumed on the acquisition of properties.

In addition, on April 20, 2007, Chartwell issued approximately \$75.0 million of 5.9% subordinated convertible debentures which results in increased interest expense in 2008 YTD for which these convertible debentures were outstanding for the full period.

During Q3 2008, we capitalized interest of \$1.0 million which relates to our net investment in internal growth projects for the year to date period.

Contractual property lease expense increased \$0.3 million for Q3 2008 compared to Q3 2007. The increased payments relate to capital improvements in excess of the replacement reserve required by the lease. Some of our leased Texas properties sustained damage during Hurricane Ike, estimated at \$2.1 million. These costs are expected to be funded by the landlord under the terms of the lease agreement. As a result we expect that the contractual lease payments will increase commencing in Q4 2008 by approximately \$0.2 million per annum.

## Mezzanine Loans and Interest Income

(\$000s)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Gross mezzanine loan balances outstanding (end of the period)				114,675	111,171	3,504
Fees net of costs recorded as a reduction of mezzanine loan balances				(5,176)	(4,334)	(842)
Net mezzanine loan receivable				109,499	106,837	2,662
Mezzanine loan interest based on gross loan balances	3,091	3,098	(7)	8,965	8,882	83
Effective yield adjustments for:						
Placement Fees integral to lending activities	(240)	499	(739)	(255)	2,507	(2,762)
Legal costs integral to lending activities	(78)	(231)	153	(491)	(615)	124
Total Mezzanine Loan Interest Income	2,773	3,366	(593)	8,219	10,774	(2,555)

Mezzanine loan interest decreased by \$0.6 million and \$2.6 million for Q3 2008 compared to Q3 2007 and for 2008 YTD compared to 2007 YTD, respectively. Mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method of accounting for interest expense. Under this method, we update our expectations for targeted stabilization dates of the underlying development projects and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate. Delays in expected stabilization dates of certain of the properties resulted in a reduction in revenue both for Q3 2008 compared to Q3 2007 and for 2008 YTD compared to 2007 YTD.

## Other Items

(\$000s)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Bank interest and other income	1,118	2,509	(1,391)	3,057	6,196	(3,139)
Below market lease amortization revenue	409	313	96	1,321	1,136	185
Gain/(Loss) on sale of assets	126	11	115	32	331	299
Write down of assets	-	-	-	-	172	(172)
Unrealized / realized gains and (losses) on derivative financial instruments and unrealized foreign exchange gains and losses	3,358	(4,898)	8,256	5,648	(10,803)	16,451
Depreciation of properties	(17,198)	(16,319)	(879)	(50,708)	(42,343)	(8,365)
Amortization of limited life intangible assets	(12,322)	(16,025)	3,703	(40,065)	(41,717)	1,652
Current income tax (expense) recovery	(629)	-	(629)	(1,495)	-	(1,495)
Future income tax (expense) recovery	(1,500)	(1,802)	302	(1,737)	(18,191)	16,454
Non-controlling interest	378	982	(604)	1,929	3,829	(1,900)
Net loss	(5,951)	(16,940)	10,989	(30,344)	(57,223)	26,879

### *Bank Interest and Other Income*

The decrease in bank interest and other income for Q3 2008 compared to Q3 2007 and for 2008 YTD compared to 2007 YTD is primarily due to lower invested cash balances and non-property miscellaneous income in 2008.

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

Chartwell recorded an unrealized foreign exchange gain of \$3.4 million for Q3 2008 and an unrealized foreign exchange gain of \$5.6 million for 2008 YTD. Of these amounts, an unrealized foreign exchange gain of \$2.3 million for Q3 2008 and an unrealized foreign exchange gain of \$3.7 million for 2008 YTD related to the intercompany cross border U.S. dollar denominated loans receivable and payable used by Chartwell to finance its operations in a tax efficient manner. At September 30, 2008, Chartwell had net loans outstanding of approximately U.S.\$51.0 million from our U.S. subsidiaries. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange gains and losses are required to be recorded in income under GAAP.

In addition, included in these amounts are unrealized gains and losses related to the fluctuation in the translation 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.

### *Current and Future Income Tax (Expense) Recovery*

Under the SIFT Rules, Chartwell became subject to tax on certain income beginning in 2007 as described in the "Significant Events" section of this MD&A. During Q3 2008, we recorded a future income tax expense of \$1.5 million (\$1.7 million for 2008 YTD). The provision for future income tax expense relates to the temporary differences between the carrying amounts and tax bases of assets and liabilities, including those that are expected to reverse on or after September 30, 2008. These temporary differences are tax effected using the estimated substantively enacted SIFT tax rate at the time that these differences are expected to reverse.

As described in the "Significant Events" section of this MD&A, on July 14, 2008, the Department of Finance issued draft legislation which described potential changes in the determination of which legal entities are considered SIFTs. The clarifications set out in the draft legislation could result in a subsidiary partnership of Chartwell REIT being considered to be a SIFT. Consequently, Chartwell has recorded a provision for current income tax expense of approximately \$0.5 million for Q3 2008 (\$1.3 million for 2008 YTD) related to SIFT income taxes.

### *Net Loss*

Net loss for Q3 2008 decreased in comparison to Q3 2007 by \$11.0 million due to improvements in net operating income compared to prior periods and changes in unrealized foreign exchange gains and losses. This was offset by increased depreciation and amortization, interest and lease expenses.

In addition to the trends affecting the comparison of Q3 2008 to Q3 2007, 2008 YTD compared to 2007 YTD was affected by the SIFT tax provision for current income tax expense recorded in 2008 YTD for which there is not a comparable amount in 2007 YTD and by the the initial provision for future income tax expense which was recorded in Q2 2007.

## Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for Q3 2008 compared to Q3 2007.

In Q3 2008, we reclassified three properties previously included in the Canadian long-term care operations segment to the Canadian retirement operations segment to more accurately reflect how the properties are managed. The comparative figures have been reclassified to reflect this change.

### Canadian Retirement Operations

The following table presents the results of operations of our Canadian retirement operations segment.

(\$000s, except occupancy rates and operating margins)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Revenues						
Same property	64,300	62,394	1,906	190,832	185,060	5,772
Equity accounted VIEs	3,024	2,913	111	9,080	8,603	477
Total Same Property	67,324	65,307	2,017	199,912	193,663	6,249
Acquisitions	7,503	4,517	2,986	22,314	8,995	13,319
Total	74,827	69,824	5,003	222,226	202,658	19,568
Direct Operating Expenses						
Same property	40,337	39,304	1,033	121,853	118,214	3,639
Equity accounted VIEs	2,013	1,867	146	6,222	5,745	477
Total Same Property	42,350	41,171	1,179	128,075	123,959	4,116
Acquisitions	4,461	3,071	1,390	13,505	5,855	7,650
Total	46,811	44,242	2,569	141,580	129,814	11,766
Net operating income						
Same property	23,963	23,090	873	68,979	66,846	2,133
Equity accounted VIEs	1,011	1,046	(35)	2,858	2,858	-
Total Same Property	24,974	24,136	838	71,837	69,704	2,133
Acquisitions	3,042	1,446	1,596	8,809	3,140	5,669
Total Net Operating Income	28,016	25,582	2,434	80,646	72,844	7,802
Overall operating margins	37.4%	36.6%	0.8pp	36.3%	35.9%	0.4pp
Same property statistics:						
Operating margins	37.1%	37.0%	0.1pp	35.9%	36.0%	(0.1pp)
Weighted average occupancy rate	90.5%	92.3%	(1.8pp)	91.1%	92.1%	(1.0pp)
Weighted average occupancy rate excluding internal growth suites	91.4%	93.0%	(1.6pp)	92.0%	92.7%	(0.7pp)

Same property NOI increased by 3.5% in Q3 2008 compared to Q3 2007 due to revenue growth, contributions from completed internal growth projects, and benefits yielded from the new cost management programs that we began implementing in mid-2007.

Growth in same property NOI in our Eastern Canadian retirement properties outside Quebec for Q3 2008 compared to Q3 2007 was 8.5% and our Western Canadian platform increased by 2.9% compared to Q3 2007.

Our Quebec platform has been undergoing significant renovation and construction activity. Typically, where we are adding new capacity to a property, the significant construction activity temporarily

depresses occupancy in the existing building. In addition, in some cases, existing suites needed to be pulled out of inventory as part of the construction program. A similar situation exists in properties we reposition. For example, where we are upgrading key service amenities, such as dining and kitchen facilities, the temporary services will not be of the same quality. As a result, until the newly renovated amenities are available, the building is temporarily less marketable. For Q3 2008 compared to Q3 2007, NOI decreased 6.1%. The vast majority of construction activity was completed in mid to late Q3 2008 and we are beginning to see the benefits as indicated by increased NOI in each sequential quarter of 2008.

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

Same property revenues increased by 3.0% in Q3 2008 as compared to Q3 2007 as we continue achieving regular annual increases of between 2% and 6%, the continued implementation of yield management programs to establish increased market based rates on suite turnover, and higher contribution from internal growth suites.

Weighted average occupancy rates excluding internal growth suites in lease-up decreased to 91.4% in Q3 2008 from 93.0% in Q3 2007, or 1.6 percentage points. Outside of Quebec, occupancies in our Canadian Retirement platform have improved compared to Q3 2007 by approximately 0.4 percentage points.

Same property operating expenses increased by 2.9% in Q3 2008 compared to Q3 2007.

Overall operating margins increased by 0.8 percentage points for Q3 2008 compared to Q3 2007. Same property operating margins increased slightly in Q3 2008 compared to Q3 2007 by 0.1 percentage points.

Acquisitions completed subsequent to January 1, 2007 contributed \$3.0 million of NOI in Q3 2008.

## Canadian Long-Term Care Operations

The following table presents results of operations of our Canadian long-term care operating segment.

(\$000s, except occupancy rates and operating margins)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Revenues						
Same property	21,060	20,493	567	62,302	59,950	2,352
Acquisitions	13,990	12,999	991	40,292	16,864	23,428
Total revenues	35,050	33,492	1,558	102,594	76,814	25,780
Direct Operating Expenses						
Same property	18,438	17,949	489	55,194	53,369	1,825
Acquisitions	11,742	10,934	808	34,018	14,262	19,756
Total expenses	30,180	28,883	1,297	89,212	67,631	21,581
Net operating income						
Same property	2,622	2,544	78	7,108	6,581	527
Acquisitions	2,248	2,065	183	6,274	2,602	3,672
Total Net Operating Income	4,870	4,609	261	13,382	9,183	4,199
Overall operating margins	13.9%	13.8%	0.1pp	13.0%	12.0%	1.0pp
Same property statistics:						
Operating margins	12.5%	12.4%	0.1pp	11.4%	11.0%	(0.41pp)
Weighted average occupancy rate	99.0%	98.5%	0.5pp	98.8%	97.8%	1.0pp

Same property NOI increased 3.1% for Q3 2008 compared to Q3 2007. Improved NOI growth has been achieved by generating higher preferred rate revenue and improved occupancies in retirement suites adjacent to long-term care communities, combined with continuing benefits from the implementation of new cost management programs.

Acquisitions completed subsequent to January 1, 2007 provided an additional \$2.2 million of NOI in Q3 2008.

Operating margin in the same property portfolio was 12.5% in Q3 2008, a slight increase of 0.1 percentage points over Q3 2007.

Weighted average occupancies in the same property portfolio are at 99.0% for Q3 2008, an increase of 0.5 percentage points from Q3 2007. Occupancy in the Ontario long-term care communities exceeded 97% for 2008 YTD in all properties. As a result, these communities receive funding as though fully occupied.

## U.S. Operations

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

(U.S.\$000s, except as noted otherwise)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Revenues						
Same property	38,356	37,955	401	116,395	111,887	4,508
Acquisitions and other	24,912	23,487	1,425	71,401	42,658	28,743
Total revenues	63,268	61,442	1,826	187,796	154,545	33,251
Direct Operating Expenses						
Same property	23,673	23,481	192	71,011	70,011	1,000
Acquisitions and other	16,138	15,640	498	46,974	28,335	18,639
Total expenses	39,811	39,121	690	117,985	98,346	19,639
Net Operating Income						
Same property	14,683	14,474	209	45,384	41,876	3,508
Acquisitions and other	8,774	7,847	927	24,427	14,323	10,104
Total Net Operating Income	23,457	22,321	1,136	69,811	56,199	13,612
Foreign Exchange in CDN	955	1,109	(154)	1,287	5,551	(4,264)
Total Net Operating Income in CDN	24,412	23,430	982	71,098	61,750	9,348
Overall operating margins (%) <sup>(1)</sup>	37.1%	36.4%	0.7pp	37.2%	36.4%	0.8pp
Same property statistics:						
Operating margins (%) <sup>(1)</sup>	38.3%	38.1%	0.2pp	39.0%	37.4%	1.6pp
Weighted average occupancy rate (%)	92.0%	93.5%	(1.5pp)	92.7%	92.2%	0.5pp

<sup>(1)</sup> Calculated based on U.S. Dollars.

Same property NOI increased by U.S.\$0.2 million or 1.4% in Q3 2008 compared to Q3 2007.

Same property revenue increased by U.S.\$0.4 million or 1.1% for Q3 2008 compared to Q3 2007. In addition, regular annual rent increases which ranged between 4% and 7% helped to offset the impact of an occupancy decline from 93.5% to 92.0%.

As described in our Q2 2008 MD&A, in June 2008 we began to find it more difficult than it had been in the past eighteen months to replace residents on normal turnover. We typically experience a seasonal occupancy dip during the summer months with normal rebounding in mid-September through November, with 2007 being an exception to this trend where occupancies remained high all summer. With an uncertain economic climate in the U.S., we had been less confident of normal rebounding from this traditional seasonal dip.

To mitigate the risks during the U.S. slowdown, we continue the implementation of strategies to provide more payment flexibility to existing and potential residents and continue to invest in marketing and advertising initiatives. We also continue to focus on cost control through new procurement and labour management programs.

Same property direct operating expenses have increased by 0.8% for Q3 2008 compared to Q3 2007. Tight management of labour costs and implementation of new cost management programs that began in the latter half of 2007 offset increased utility costs and insurance expense.

Acquisitions completed subsequent to January 1, 2007 and the U.S. management operations added U.S.\$8.8 million of NOI in Q3 2008.

Same property operating margins increased by 0.2 percentage points in Q3 2008 to 38.3% as compared to 38.1% in Q3 2007.

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

	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	1.041	1.046	(0.005)	1.018	1.106	(0.088)

In addition to the trends affecting Q3 2008 compared to Q3 2007, the 2008 YTD results benefited from a one time insurance premium refund of \$0.6 million achieved due to the positive claims experienced during the policy period, combined with increased amortization of deferred community fees of approximately U.S.\$0.6 million reflecting updated assumptions on suite turnover rates.

## Canadian Management Operations

The following table presents the results of operations of our Canadian management operations segment.

(\$000s)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Management and Other Fee Revenue						
Spectrum:						
Development management	436	1,858	(1,422)	1,250	3,267	(2,017)
Operations management	575	386	189	1,557	1,093	464
Other	17	313	(296)	101	313	(212)
Total Spectrum	1,028	2,557	(1,529)	2,908	4,673	(1,765)
ING	586	1,512	(926)	1,788	3,736	(1,948)
Other	704	1,105	(401)	2,218	2,118	100
Total Management and Other Fee Revenue:	2,318	5,174	(2,856)	6,914	10,527	(3,613)
Direct operating expenses	1,025	994	31	3,075	2,884	191
Income from Management Operations	1,293	4,180	(2,887)	3,839	7,643	(3,804)

In Q3 2008, management operations revenue decreased by \$2.9 million as compared to Q3 2007 primarily due to lower fees earned from Spectrum, ING and other third-parties.

In Q3 2008, development management fees from Spectrum decreased by \$1.4 million as compared to Q3 2007. Operation management fees increased due to a larger number of projects currently in the lease-up phase.

Fees from ING decreased in Q3 2008 as compared to Q3 2007 primarily as a result of reduced due diligence fees.

Revenue from other third parties was lower in Q3 2008 as compared to Q3 2007 due to approximately \$0.2 million of revenue related to a one-time fee earned in Q3 2007.

### Management Operations Direct Operating Expenses:

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

## Non-GAAP Measures

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

- Funds from Operations (“FFO”)
- Normalized Funds from Operations (“NFFO”)
- Adjusted Funds from Operations (“AFFO”)

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

### Funds from Operations (FFO)

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

(\$000s, except per unit amounts)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Net loss per financial statements	(5,951)	(16,940)	10,989	(30,344)	(57,223)	26,879
Add (Subtract):						
Depreciation of properties	17,198	16,319	879	50,708	42,343	8,365
Amortization of management contracts, resident contracts and customer relationships	12,322	16,025	(3,703)	40,065	41,717	(1,652)
Depreciation of leasehold improvements included in depreciation of properties	(114)	(53)	(61)	(330)	(181)	(149)
Loss/ (Gain) on sale of assets	(126)	(11)	(115)	(32)	(331)	299
Write down of carrying value of assets	-	-	-	-	172	(172)
Future income tax expense	1,500	1,802	(302)	1,737	18,191	(16,454)
Non-controlling interest	(378)	(982)	604	(1,929)	(3,829)	1,900
Funds from operations <sup>(1)</sup>	24,451	16,160	8,291	59,875	40,859	19,016
Funds from operations per unit:						
Basic	0.25	0.17	0.08	0.61	0.45	0.16
Diluted	0.24	0.16	0.08	0.59	0.44	0.15

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

FFO and FFO diluted per unit increased by \$8.3 million or \$0.08 per unit diluted for Q3 2008 compared to Q3 2007 and \$19.0 million or \$0.15 per unit diluted for 2008 YTD compared to 2007 YTD as follows:

- Changes in unrealized foreign exchange gains and losses of approximately \$8.3 million or \$0.08 per unit diluted increased FFO for Q3 2008 compared to Q3 2007. For 2008 YTD compared to 2007 YTD, changes in unrealized foreign exchange gains and losses increased FFO by \$16.5 million or \$0.16 per unit diluted. These unrealized gains and losses primarily relate to cross-border U.S. dollar denominated loans used by Chartwell’s Canadian subsidiaries to finance its investments in our operations in a tax efficient manner. Under GAAP, changes in the underlying value of these loans resulting from the changes in foreign exchange rates are required to be recorded in income.
- FFO in Q3 2008 and 2008 YTD reflected strong, positive contributions from our property portfolio resulting from rate increases and cost management programs.

## Normalized and Adjusted Funds from Operations (NFFO and AFFO)

The following table provides the calculation of NFFO and AFFO:

(\$000s, except per unit amounts)	Q3 2008	Q3 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
<b>FFO<sup>(1)</sup></b>	24,451	16,160	8,291	59,875	40,859	19,016
Add (Subtract):						
Adjustment to record lease expense on a straight line basis over the lease term	1,677	1,853	(176)	4,922	6,253	(1,331)
Unrealized foreign exchange and derivative (gains)/losses	(3,358)	4,898	(8,256)	(5,648)	10,803	(16,451)
SIFT Income Tax Expense (Recovery)	545	-	545	1,262	-	1,262
<b>NFFO<sup>(2)</sup></b>	23,315	22,911	404	60,411	57,915	2,496
Add (Subtract):						
SIFT Income Tax (Expense) Recovery	(545)	-	(545)	(1,262)	-	(1,262)
Amortization of below market leases	(409)	(312)	(97)	(1,321)	(1,135)	(186)
Principal portion of capital subsidy receivable from Health Authorities	524	495	29	1,549	841	708
Amounts received under income guarantees	52	222	(170)	641	660	(19)
Amortization of financing costs	1,199	1,118	81	3,611	3,382	229
Accretion adjustment to convertible debenture liability	701	642	59	2,057	1,418	639
Amortization of debt mark-to-market adjustments arising on acquisition	(255)	(100)	(155)	(837)	(527)	(310)
Deferred financing fee reserve <sup>(3)</sup>	(253)	(232)	(21)	(750)	(671)	(79)
<b>AFFO before Capex reserve</b>	24,329	24,744	(415)	64,099	61,883	2,216
Maintenance Capex reserve - 2% of property revenue	(3,454)	(3,295)	(159)	(10,140)	(8,823)	(1,317)
<b>AFFO<sup>(4)</sup></b>	20,875	21,449	(574)	53,959	53,060	899
<b>NFFO per unit</b>						
Basic	0.24	0.23	0.01	0.61	0.64	(0.03)
Diluted	0.23	0.23	-	0.60	0.62	(0.02)
<b>AFFO per unit</b>						
Basic	0.21	0.22	(0.01)	0.55	0.58	(0.03)
Diluted	0.21	0.21	-	0.53	0.57	(0.04)

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

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

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

## Quarterly Financial Information

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

(\$000s, except per unit amounts)	2008			2007			2006	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	180,319	174,698	174,349	173,165	177,231	156,299	138,342	100,790
Direct operating expenses	(117,428)	(115,155)	(115,221)	(115,064)	(113,240)	(99,840)	(89,266)	(68,094)
General, administrative and trust expenses	(4,098)	(5,302)	(5,200)	(5,935)	(5,832)	(5,129)	(4,934)	(4,590)
	58,793	54,241	53,928	52,166	58,159	51,330	44,142	28,106
Interest expense	(25,287)	(25,841)	(25,352)	(24,931)	(25,483)	(23,426)	(17,142)	(15,061)
Property lease expenses	(11,670)	(11,339)	(11,421)	(10,731)	(11,565)	(11,785)	(12,387)	-
Foreign exchange gains/(losses)	3,358	(559)	2,849	(122)	(4,898)	(5,279)	(626)	615
Depreciation and amortization	(29,520)	(30,191)	(31,062)	(28,243)	(32,344)	(27,869)	(23,847)	(20,979)
Write down of carrying value of management contracts	-	-	-	(1,284)	-	(172)	-	(159)
(Loss)/Gain on sale of assets	126	(102)	8	(413)	11	320	-	-
Non-controlling interest	378	786	765	1,179	982	2,117	730	572
Current income tax (expense) recovery	(629)	133	(999)	(2,004)	-	-	-	-
Future income tax (expense) recovery	(1,500)	-	(237)	4,267	(1,802)	(16,389)	-	-
Net loss for the period	(5,951)	(12,872)	(11,521)	(10,116)	(16,940)	(31,153)	(9,130)	(6,906)
Net loss per unit, diluted	(0.06)	(0.14)	(0.13)	(0.11)	(0.19)	(0.36)	(0.12)	(0.02)
FFO	24,451	16,524	18,900	14,317	16,160	10,785	13,914	13,574
FFO per unit, diluted	0.24	0.16	0.19	0.14	0.16	0.11	0.17	0.18

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.

## Financial Position

### Balance Sheet Analysis

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

	Increase / (Decrease) (\$millions)	Explanation
Properties	83.9	Properties increased as follows: properties acquired to date in 2008 added \$37.1 million; internal growth developments and building improvements added \$29.4 million; acquisition related capital expenditures increased properties by \$4.0 million; capital additions increased properties by \$21.8 million, and foreign exchange translation added \$50.5 million. These increases were offset by depreciation and amortization of \$50.8 million and a purchase price re-allocation to intangible assets of \$8.1 million.
Mezzanine loans	1.9	Mezzanine loans increased due to new advances of \$8.5 million. The increase was offset by the discharge of \$5.9 million of mezzanine loans on the acquisition of the related property, along with amortization of placement fees of \$0.7 million.
Total assets	19.5	The increase in total assets in 2008 YTD is principally due to the increase in properties as described above offset by a decrease in cash balances and in resident contracts.
Mortgages payable	85.9	Mortgages payable increased as a result of new mortgage financings of \$60.4 million, assumed mortgages of acquired properties of \$7.8 million and foreign exchange translation of \$39.9 million. These increases were offset by regular amortizing principal repayments of \$21.4 million and amortization of financing costs, net of additions of \$0.8 million.
Total liabilities	91.5	The increase in total liabilities is primarily due to increases in mortgages payable as discussed above.
Non-controlling interest	(26.8)	Non-controlling interest decreased due to distributions to the holders of the Class B Units of Master LP of \$3.0 million, allocation of the non-controlling interest's share of comprehensive loss for the period of \$1.3 million and exchanges of Class B Units of Master LP for Trust Units of \$22.5 million.
Unitholders' equity	(45.2)	The decrease in Unitholders' equity in 2008 YTD is due primarily to cash distributions and allocation of the net loss to the Trust's Unitholders.

## Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at September 30, 2008.

(\$000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Remainder of 2008	8,745	48,813	57,558	4.2%	6.2%
2009	24,776	112,563	137,339	9.8%	5.2%
2010	24,172	56,264	80,436	4.9%	5.5%
2011	24,836	26,137	50,973	2.3%	5.9%
2012	26,638	76,476	103,114	6.6%	5.7%
2013	26,614	81,151	107,765	7.1%	5.3%
2014	24,267	31,061	55,328	2.7%	6.0%
2015	24,180	83,976	108,156	7.3%	5.4%
2016	20,676	178,900	199,576	15.6%	6.0%
2017	16,909	261,699	278,608	22.7%	5.7%
2018-2022	69,542	134,938	204,480	11.7%	6.0%
Thereafter	93,204	58,483	151,687	5.1%	5.6%
<b>Total</b>	<b>384,559</b>	<b>1,150,461</b>	<b>1,535,020</b>		
Mark-to-market adjustments arising on acquisition			15,455		
Less: Financing costs			(18,869)		
<b>Total Mortgage Debt</b>			<b>1,531,606</b>		

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

	As at September 30, 2008	As at December 31, 2007
Average term to maturity	9.0 years	9.1 years
Weighted average contractual interest rate	5.70%	5.81%
Variable rate mortgage debt	\$18.2 million	\$35.0 million

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

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

Debt maturing in 2008 and 2009 relates exclusively to mortgages on properties in our Canadian portfolio of assets and we anticipate renewing the 2008 and 2009 maturities in due course.\* We have access to low cost CMHC-insured debt and we intend to continue financing our properties through this program. The majority of the remaining 2008 renewals have now been approved by CMHC and we are working with the lenders on completion of legal documentation for re-financings. 82% of our 2009 maturities are represented by CMHC insured mortgages.

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

## Convertible Debentures

At September 30, 2008 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.

## 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 September 30, 2008, including the indebtedness of third parties guaranteed by Chartwell:

(\$000s)	September 30, 2008
Mortgages payable	1,535,020
Loans payable <sup>(1)</sup>	1,029
Guarantees	63,062
<b>Total indebtedness excluding convertible debentures</b>	<b>1,599,111</b>
Convertible debentures (face value)	199,925
<b>Indebtedness</b>	<b>1,799,036</b>
Total assets	2,622,748
Accumulated depreciation and amortization <sup>(2)</sup>	352,097
<b>Gross book value ("GBV") of assets</b>	<b>2,974,845</b>
Less: Assets financed by deferred purchase consideration on acquisition properties	31,752
<b>Gross book value of assets (net of deferred consideration)</b>	<b>2,943,093</b>
Debt to GBV before convertible debentures	54.3%
Debt to GBV including convertible debentures	61.1%

<sup>(1)</sup> Included in Accounts Payable and Accrued Liabilities as described in Note 9 to the Financial Statements.

<sup>(2)</sup> Includes accumulated depreciation and amortization related to fully amortized intangible assets of \$75,390.

## Outstanding Units Data

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

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2007	91,625,701	2,336,323	6,273,378	100,235,402
Trust Units issued pursuant to Dividend Reinvestment Plan ("DRIP")	880,610	-	-	880,610
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	656,667	-	656,667
LTIP Units under subscription surrendered	-	(15,000)	-	(15,000)
Trust Units issued on disposition of LTIP Units surrendered	70,000	-	-	70,000
Units transferred to treasury	-	(191,500)	-	(191,500)
Exchange of Class B Units of Master LP <sup>(1)</sup>	3,123,526	-	(3,123,526)	-
Balance September 30, 2008	95,699,837	2,786,490	3,149,852	101,636,179

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

## Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between the nine months ended September 30, 2008 and 2007.

Cash provided by (used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	0.6	Cash flows from operating activities increased primarily due to reduced operating loss in 2008 of \$26.8 million and an increase in depreciation and amortization of \$6.7 million. This was offset by a decrease in future taxes of \$16.5 million and a decrease in unrealized foreign exchange losses of \$16.4 million.
Financing activities	(539.6)	Cash flows from financing activities decreased by \$539.6 million in 2008 compared to 2007. This decrease is primarily attributable to a decrease in proceeds from mortgage financings which, net of repayments, decreased cash flow from financing activities by \$222.8 million. In addition, 2007 YTD included proceeds from ING of \$41.9 million, the issuance of convertible debentures for proceeds of \$72.2 million and proceeds of a secondary public offering of \$219.3 million (net of issue cost) for which there is not a comparable amount in 2008 YTD. The above decrease in cash inflow from financing activities was partially offset by lower distributions paid.
Investing activities	500.5	Cash flow used in investing activities decreased by \$500.5 million for 2008 compared to 2007 which is primarily attributable to lower 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 were reduced to \$0.74 per annum per unit from the previous level of \$1.065 per annum per unit. The declaration and payment of future distributions is subject to the discretion of the Board of Trustees and will be dependent upon a number of factors including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors deemed relevant by the Board of Trustees. At our Annual General Meeting held May 22, 2008, Chartwell received Unitholder approval to remove any reference to Distributable Income from the Declaration of Trust. Our Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information including internal forecasts and budgets to establish the level of cash distributions, provided that such annual distributions continue to be not less than Chartwell’s net income for tax purposes for the year. It is Chartwell’s intention that annual distributions will be at least equal to 70% of the Trust’s adjusted funds from operations for the year, as disclosed in the relevant year’s Management’s Discussion and Analysis for the Trust.

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

The following table summarizes distributions made in Q3 2008, 2008 YTD and the years ended December 31, 2007 and 2006:

(\$000s)	Q3 2008	2008 YTD	Year Ended December 31	
			2007	2006
Distributions declared	17,908	57,672	94,145	65,378
Distributions on Class B units of Master LP	582	3,040	6,839	5,744
Distributions reinvested under DRIP	(2,273)	(7,707)	(4,317)	(2,476)
Distributions applied against LTIP installment loan receivable	(520)	(1,656)	(2,557)	(1,848)
Distributions paid or payable in cash	15,697	51,347	94,110	66,798

The following table summarizes cash distributions made by Chartwell in Q3 2008, 2008 YTD and for the years ended December 31, 2007 and 2006 in relation to net loss and cash flows from operating activities:

(\$000s)	Q3 2008	2008 YTD	Year Ended December 31	
			2007	2006
Cash flows from operating activities	32,960	82,740	101,435	63,421
Loss before non-controlling interest	(6,329)	(32,273)	(72,347)	(15,950)
Cash distributions declared <sup>(1)</sup>	15,697	51,347	94,110	66,798
Excess(shortfall) of cash flows from operating activities over cash distributions paid	17,263	31,393	7,325	(3,377)
Excess (shortfall) of net loss over cash distributions paid	(22,026)	(83,620)	(166,457)	(82,748)

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

The following table provides the details of additional sources of cash available to Chartwell to fund its distributions to Unitholders in Q3 2008, 2008 YTD and for the years ended December 31, 2007 and 2006:

(\$000s)	Q3 2008	2008 YTD	Year Ended December 31	
			2007	2006
Principal portion of capital subsidy receivable from Health Authorities <sup>(1)</sup>	524	1,549	1,343	344
Amounts received under income guarantees <sup>(1)</sup>	52	641	1,548	757

<sup>(1)</sup> Refer to the “Key Performance Indicators – Adjusted Funds from Operations” section of this MD&A for the description of these items.

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

The excess of cash flow from operating activities over cash distributions in Q3 2008, 2008 YTD and the year ended December 31, 2007, partially relates to the positive changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period and we do not consider this to be a sustainable source of cash inflow. For the first nine months of 2008, non-cash working capital increased cash flows from operating activities by approximately \$16.7 million.

## Liquidity and Capital Resources

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

Chartwell’s principal source of liquidity is cash flow from operations. In order to provide for its operating and capital requirements, Chartwell raises funds through the capital markets, arranges mortgage debt financing and has arranged for a secured revolving operating facility (“Credit Facility”) of up to \$90.0 million. As of September 30, 2008, Chartwell had a borrowing capacity under the credit facility of approximately \$61.7 million based on available security.

The Credit Facility matures on June 28, 2009. Amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1% or at the applicable banker's acceptances rate plus 2.25%. The terms of the Credit Facility include minimum equity requirements and covenants requiring a limitation of cash distributions that can be paid to Unitholders. At September 30, 2008, there were no amounts outstanding under the Credit Facility.

At September 30, 2008, one of Chartwell's U.S. subsidiaries did not comply with certain financial covenants under a loan agreement for one of its properties. The loan balance at September 30, 2008 was \$12.9 million bearing interest at 6.24% per annum and matures on January 1, 2014. Chartwell is current with its principal and interest payments and discussions with the lenders are in progress to remedy the financial covenants. The property cash flow exceeds debt payments. As part of remedying these covenants, we anticipate that we may be required to make a one-time principal repayment. A pay down of U.S.\$2.0 million is estimated to be sufficient to remedy the covenant, hence this amount was reclassified as due in 2008.

Management expects that our principal use of funds in the future will be for regular amortizing debt repayments, distributions, capital expenditures on our existing property portfolio, the acquisition of seniors housing properties, and mezzanine financing to Spectrum and other third-parties\*. As at September 30, 2008, Chartwell had cash on hand of approximately \$35.6 million.

## 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 additions of new suites, conversion of suites and capital expenditures incurred in order to introduce new services to residents.
- Acquisition related capital expenditures – capital expenditures which 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 Q3 2008 and 2008 YTD:

(\$000s)	Q3 2008	2008 YTD
Building improvements and additions	9,151	30,788
Acquisitions related capital expenditures	4,947	11,454
Long-term replacement items	866	1,334
Furniture, fixtures and equipment	3,403	5,935
Other	2,178	6,112
<b>Total</b>	<b>20,545</b>	<b>55,623</b>

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

## **Contractual Obligations and Guarantees**

The nature of Chartwell's major contractual obligations and guarantees have been set out in our annual MD&A. There have not been any material changes in the specified contractual obligations and guarantees to date in 2008 that are outside of the ordinary course of our business.

## **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 three and nine months ended September 30, 2008:

### **Spectrum**

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

As of September 30, 2008, mezzanine loans receivable from Spectrum amounted to approximately \$50.9 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 34 seniors housing development properties.

During Q3 2008 and 2008 YTD, Chartwell recorded contractual mezzanine loan interest of approximately \$1.4 million and \$4.0 million from Spectrum.

During Q3 2008 and 2008 YTD, Chartwell earned development, operations management and other fees of approximately \$1.0 million and \$2.9 million from Spectrum.

Other assets as of September 30, 2008, include approximately \$7.8 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell on behalf of Spectrum. Subsequent to September 30, 2008, approximately \$0.5 million of this balance related to mezzanine loan interest was paid. A portion of the outstanding amounts related to fees and certain cash reimbursements is past due at the balance sheet date. All past due amounts bear interest at 10% and Chartwell is working with Spectrum to collect past due amounts.

At September 30, 2008, Spectrum was in breach of certain covenants under its agreements with Chartwell. Chartwell has not delivered a default notice and is currently working with Spectrum to have these breaches corrected. These breaches are not expected to have any adverse effect on the collectibility of outstanding accounts receivable and mezzanine loans.

In Q1 2008, Chartwell acquired one seniors housing community from Spectrum, Melior and Spectrum Joint Venture partners for a total purchase price of approximately \$29.8 million. The purchase price was settled by a discharge of mezzanine loans receivable of approximately \$5.9 million, and approximately \$23.3 million of cash and \$0.3 million of accrued acquisition costs.

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

### **Melior and Other Spectrum Partners**

As of September 30, 2008, Chartwell had mezzanine loans receivable of approximately \$63.8 million from six of Spectrum's joint venture partners (including approximately \$47.0 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 25 development projects.

During Q3 2008 and 2008 YTD, Chartwell recorded contractual mezzanine loan interest from Melior of approximately \$1.3 million and \$3.6 million respectively.

In addition, during Q3 2008 and 2008 YTD, Chartwell paid Melior project management fees of \$0.4 million and \$1.7 million respectively. During Q3 2008 and 2008 YTD, we reimbursed Melior for costs of \$0.04 million and \$0.2 million respectively.

Accounts receivable and other assets at September 30, 2008 included approximately \$2.7 million due from Melior. Subsequent to September 30, 2008, approximately \$0.5 million of outstanding amounts due from Melior related to mezzanine loan interest was collected.

At September 30, 2008 Chartwell had accounts payable of \$0.3 million due to Melior relating to management fees, legal fees, promissory notes and deferred purchase consideration.

### **Other**

Included in mortgages payable at September 30, 2008 is a vendor-take-back loan of approximately \$0.2 million due to an officer of Chartwell.

Included in accounts receivable at September 30, 2008 is \$0.1 million due from an officer of Chartwell related to the previous sale of a property to the Trust.

### **Subsequent Events**

Subsequent to September 30, 2008, Chartwell received partial repayment of a mezzanine loan in the amount of \$3.8 million from Melior.

On October 27, 2008, pursuant to the put option right under the Co-Ownership Agreements with Residence Melior Inc., an affiliate of Groupe Melior and Chartwell's joint venture partner, Chartwell acquired the remaining 50% ownership interest in seven co-owned retirement properties (1,226 suites in total) and the joint venture property management company, CM Management LP, in the province of Quebec. Under the terms of this agreement, Chartwell paid approximately \$63.3 million for the 50% interest in the seven properties and CM Management LP, which was funded with cash on hand of approximately \$14 million, with the remainder of the purchase price being satisfied by the assumption of mortgages of approximately \$46.1 million, bearing a weighted average interest rate of 4.8% and having a remaining term of 2.75 years, the assumption of other liabilities of approximately \$0.5 million, and the discharge of approximately \$2.7 million of mezzanine loans issued by Chartwell.

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

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

Effective January 1, 2008, CICA's new accounting standard, Section 1535, Capital Disclosures, was implemented. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate Chartwell's objectives, policies and processes for managing capital. The new guidance did not have an effect on Chartwell's financial position or earnings. Disclosures required by this new section are provided in Note 21 of the Financial Statements.

Management is considering the future accounting impact of the new CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will be effective retroactively on January 1, 2009. The new section reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition.

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

- 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, the Trust may be required to start amortizing the value of its long term care licenses over the respective license term.
- Convergence with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")
  - Canada's Accounting Standards Board recently confirmed its strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) over a transitional period to be completed by 2011. Chartwell will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011.
  - Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: first, as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced

in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and secondly, standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The IASB currently has projects underway that are expected to result in new pronouncements that continue to evolve.

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

The following provides a summary of Chartwell's IFRS Implementation Plan and Status of our activities:

### ***Initial Assessment Phase***

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

### ***Detailed Assessment Phase***

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

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

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

### ***Design Phase***

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

### ***Testing & Implementation Phase***

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

### *Status of Convergence Plan*

Currently, impact assessment and training activities are underway and progressing according to plan.

### **Critical Accounting Estimates**

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

Chartwell's Annual MD&A sets out the nature of critical accounting estimates that may affect our financial statements. There have not been any significant changes in the nature of the critical accounting estimates that could affect Chartwell's financial statements during the first nine months of 2008.

### **Controls and Procedures**

Chartwell is committed to maintaining effective disclosure control procedures and internal controls over financial reporting ("internal controls"). Over the past two years, we made significant investments in improvements to our information systems and financial processes. We expect to continue these efforts to further strengthen our internal controls in 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, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by 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 Chief Executive Officer 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 June 30, 2008. Based on this evaluation, we have concluded that Chartwell maintains appropriate information systems, procedures and controls to ensure information used internally and disclosed externally is complete, reliable and timely.

## **Evaluation of and Changes in Internal Controls over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer have also evaluated, or caused an evaluation under their direct supervision, of the design of the Trust's internal controls over financial reporting during the quarter and have not noted any material changes in internal controls during 2008 YTD. A material weakness is a control deficiency, or combination of control deficiencies, that result in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We believe one material internal control weakness exists 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. As discussed in the "Subsequent Events" section of this MD&A, on October 27, 2008 we acquired full control over our Quebec management company. As part of the integration plan, we will implement our IT change management policies and procedures and will provide proper segregation of IT responsibilities. In addition, we continue assessing effectiveness of our compensating controls to mitigate the risk of an error.

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, completely and 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.

## **Forward-Looking Information and Risks and Uncertainties**

### **Forward-Looking Information**

This MD&A contains forward-looking information that reflects the current expectations of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or other similar variations. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which

are beyond Chartwell's control, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

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

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- possible benefits from the implementation of new purchasing programs, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods that offset any benefits from our purchasing power and is subject to the assumption that we can negotiate favourable terms with our vendors in the future;
- growth or lack thereof of G&A expenses, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase; and
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks.

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

## Risks and Uncertainties

(a) **Business Risks:** Chartwell is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date 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 Rules, please refer to the "2008 Outlook and Significant Events – Taxation Related Matters" section of this MD&A.

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

Under the existing SIFT Rules, a flow-through subsidiary of Chartwell may also be a SIFT. 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. Draft legislation was released on July 14, 2008. The proposed technical amendment to the SIFT definition would definitely exclude trusts and partnerships whose equity is not publicly traded, and/or is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. A subsidiary partnership of Chartwell may not meet this ownership requirement and therefore this entity may be a SIFT. Due to this uncertainty, we have provided for SIFT tax on the taxable income of this subsidiary and accordingly have recorded a current income tax provision of \$1.3 million in 2008 YTD.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's units. In 2007, 97.7% of Chartwell's distributions were characterized

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

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 and Canada, and within Canada in Ontario and Quebec. At September 30, 2008 a geographic concentration of our suites as a percentage of total suites was: U.S. – 46%; Canada – 54%; by province as a percentage of total suites as follows: Ontario – 29%; Quebec – 18%; and other Canadian provinces – 7%. The market value of these Properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.
- (d) **Maintenance of Productive Capacity:** Chartwell is committed to keep its communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio the annual capital maintenance requirements are approximately 2% of annual gross property revenues.\* In addition to recurring capital maintenance projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the capital maintenance requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in capital maintenance requirements of our communities could adversely impact cash available for distributions. The details of our actual capital asset spending for Q3 2008 and 2008 YTD 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.

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

- (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 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 at least twelve months. It is therefore anticipated that the LTC Act 2007 will not be fully in force until 2009.

- (h) **Personnel Costs:** Chartwell competes with other healthcare providers with respect to attracting and retaining qualified personnel. Chartwell is also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits 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 over 15,000 persons, of whom approximately 40% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that Chartwell will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on Chartwell’s business, operating results and financial condition. 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 its 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 Chartwell Trust 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, management of Chartwell 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.
- (o) **Joint Venture Interests:** Chartwell has entered into joint venture arrangements in respect of certain of its seniors housing operations. These joint venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing facilities including those risks described above. However, Chartwell relies, in part, on its joint venture partners to successfully manage and operate certain of its seniors housing operations, including those owned by the joint ventures. Such reliance may include, but is not limited to: personnel; local, regional and/or industry expertise and licensing; historical performance; technical resources and information systems; financial strength and access to capital; economies of scale; and operations management. Therefore, Chartwell may be exposed to adverse developments, including a possible change in control, in the business and affairs of its joint venture partners which could have a significant impact on, or termination of, Chartwell's interests in its joint ventures and could affect the value of the joint ventures to Chartwell and/or cause Chartwell to incur additional costs if it were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint venture arrangements themselves, including: the risk that the other joint venturer may exercise buy-sell, put or other sale or purchase rights which could obligate Chartwell to sell its interest or buy the other joint venturer's interest at a price which may not be favourable to Chartwell or at a time which may not be advantageous to Chartwell, the effect of which could be materially adverse to Chartwell's financial position or resources.