Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month and nine-month periods
ended September 30, 2008 and 2007
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheets
(In thousands of Canadian dollars)

	September 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
Assets		
Properties (note 3)	$ 2,194,864	$ 2,110,985
Mezzanine loans receivable (note 4)	109,499	107,624
Management contracts, resident contracts, customer relationships and other intangibles (note 5)	86,024	109,814
Cash and cash equivalents	35,576	72,528
Other assets (note 6)	66,145	72,075
Capital funding receivable	46,529	48,078
Licenses	25,650	25,650
Goodwill	58,461	56,445
	$ 2,622,748	$ 2,603,199
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7(a))	$ 1,531,606	$ 1,445,711
Convertible debentures (note 8)	183,605	180,656
Accounts payable and other liabilities (note 9)	116,215	103,271
Deferred consideration on business combinations (note 10)	31,752	41,305
Distributions payable	6,268	8,915
Future income tax liabilities (note 19)	20,639	18,732
	1,890,085	1,798,590
Non-controlling interest (note 11)	20,237	47,005
Unitholders' equity	712,426	757,604
Commitments and contingencies (notes 4(b), 16 and 17)		
Subsequent events (notes 14 and 23)		
	$ 2,622,748	$ 2,603,199

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee

"Sidney Robinson" Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations and Comprehensive Income
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

	Three-month periods ended September 30, 2008	2007	Nine-month periods ended September 30, 2008	2007
Revenue:				
Resident	$ 172,690	$ 164,821	$ 506,997	$ 440,381
Management and other fees (note 14(a) and (b))	2,318	5,176	6,914	10,527
Mezzanine loan interest (notes 4 and 14)	2,773	3,366	8,219	10,774
Bank interest and other	1,118	2,509	3,057	6,196
Equity income from variable interest entities (note 16)	1,011	1,046	2,858	2,858
Below-market lease amortization	409	313	1,321	1,136
	180,319	177,231	529,366	471,872
Expenses:				
Direct operating	117,428	113,240	347,804	302,346
General, administrative and trust	4,098	5,832	14,600	15,895
	121,526	119,072	362,404	318,241
	58,793	58,159	166,962	153,631
Interest expense	25,287	25,483	76,480	66,051
Property lease expense	11,670	11,565	34,430	35,737
	36,957	37,048	110,910	101,788
	21,836	21,111	56,052	51,843
Unrealized and realized loss/(gain) on derivative financial instruments and unrealized and realized foreign exchange loss/(gain)	(3,358)	4,898	(5,648)	10,803
Depreciation of properties	17,198	16,319	50,708	42,343
Amortization of management contracts, resident contracts, customer relationships and other intangibles	12,322	16,025	40,065	41,717
Write-down in carrying values of assets	–	–	–	172
Loss/(gain) on sale of assets	(126)	(11)	(32)	(331)
	26,036	37,231	85,093	94,704
Loss before income taxes	(4,200)	(16,120)	(29,041)	(42,861)
Income taxes:				
Current	629	–	1,495	–
Future	1,500	1,802	1,737	18,191
	2,129	1,802	3,232	18,191
Loss before non-controlling interest	(6,329)	(17,922)	(32,273)	(61,052)
Non-controlling interest (note 11)	378	982	1,929	3,829
Loss for the period	(5,951)	(16,940)	(30,344)	(57,223)
Other comprehensive income/(loss):				
Unrealized foreign currency gain/(loss) on the translation of self-sustaining foreign operations	6,742	(13,677)	11,839	(30,408)
Net change in fair value of derivatives designated as cash flow hedges (note 20)	(231)	(266)	(598)	239
Non-controlling interest	(389)	922	(672)	2,078
	6,122	(13,021)	10,569	(28,091)
Comprehensive income (loss)	$ 171	$ (29,961)	$ (19,775)	$ (85,314)
Loss per Unit:				
Basic and diluted (note 13)	$ (0.062)	$ (0.186)	$ (0.325)	$ (0.679)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
(In thousands of Canadian dollars)
(Unaudited)

Nine-month period ended September 30, 2008	Trust Units issued, net (note 12)	LTIP Units (note 12)	LTIP instalment loan receivable (note 12)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components	Total
Unitholders' equity, January 1, 2008	$ 1,102,573	$ 31,894	$ (25,633)	$ (100,644)	$ (28,351)	$ (237,113)	$ 14,878	$ 757,604
Loss for the period	–	–	–	(30,344)	–	–	–	(30,344)
Other comprehensive income	–	–	–	–	10,569	–	–	10,569
Distributions to unitholders	–	–	–	–	–	(57,672)	–	(57,672)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	7,707	–	–	–	–	–	–	7,707
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	22,471	–	–	–	–	–	–	22,471
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	–	6,452	(5,754)	–	–	–	–	698
Disposition of LTIP Units surrendered, net of Units transferred to Treasury	932	(2,644)	2,385	–	–	–	(107)	566
Interest on instalment loan receivable	–	–	(829)	–	–	–	–	(829)
Distributions applied against instalment loan receivable	–	–	1,656	–	–	–	–	1,656
Unitholders' equity, September 30, 2008	$ 1,133,683	$ 35,702	$ (28,175)	$ (130,988)	$ (17,782)	$ (294,785)	$ 14,771	$ 712,426

Nine-month period ended September 30, 2007	Trust Units issued, net (note 12)	LTIP Units (note 12)	LTIP instalment loan receivable (note 12)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components	Total
Unitholders' equity, January 1, 2007	$ 874,165	$ 27,667	$ (23,343)	$ (33,319)	$ 587	$ (142,968)	$ 4,714	$ 707,503
Cumulative impact of adopting new accounting standards for financial instruments	–	–	–	14	–	–	–	14
Loss for the period	–	–	–	(57,223)	–	–	–	(57,223)
Other comprehensive loss	–	–	–	–	(28,091)	–	–	(28,091)
Distributions to unitholders	–	–	–	–	–	(69,407)	–	(69,407)
Issuance of Trust Units pursuant to secondary public offering	200,925	–	–	–	–	–	–	200,925
Issuance of Trust Units pursuant to exercise of over-allotment option	30,139	–	–	–	–	–	–	30,139
Issuance of 5.9% convertible debentures	–	–	–	–	–	–	10,563	10,563
Issuance of Trust Units under the DRIP	3,043	–	–	–	–	–	–	3,043
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	2,782	–	–	–	–	–	–	2,782
Trust Units issued under the LTIP, net of Units transferred to Treasury	59	5,530	(5,197)	–	–	–	–	392
Deposits received under the LTIP	–	–	206	–	–	–	–	206
Disposition of LTIP Units under Subscription	232	(846)	766	–	–	–	–	152
Disposition of Treasury Units	528	–	–	–	–	–	–	528
Issue costs	(11,773)	–	–	–	–	–	(396)	(12,169)
Interest on instalment loan receivable	–	–	(822)	–	–	–	–	(822)
Distributions applied against instalment loan receivable	–	–	1,930	–	–	–	–	1,930
Conversion of convertible debentures	72	–	–	–	–	–	(3)	69
Unitholders' equity, September 30, 2007	$ 1,100,172	$ 32,351	$ (26,460)	$ (90,528)	$ (27,504)	$ (212,375)	$ 14,878	$ 790,534

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

	Three-month periods ended September 30, 2008	Three-month periods ended September 30, 2007	Nine-month periods ended September 30, 2008	Nine-month periods ended September 30, 2007
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (5,951)	$ (16,940)	$ (30,344)	$ (57,223)
Items not affecting cash:				
Depreciation and amortization	29,520	32,344	90,773	84,060
Write-down in carrying value of assets	–	–	–	172
Gain on sale of assets	(126)	(11)	(32)	(331)
Amortization of below-market resident contracts	(409)	(313)	(1,321)	(1,136)
Adjustment to record lease expense on a straight-line basis over the lease term	1,677	1,853	4,922	6,253
Non-cash LTIP compensation expense	156	96	523	445
Loss (income) from long-term investments	(24)	181	(65)	(43)
Unrealized loss/(gain) on derivative financial instruments and unrealized foreign exchange loss/(gain)	(3,358)	4,898	(5,648)	10,803
Non-controlling interest	(378)	(982)	(1,929)	(3,829)
Amortization of financing expenses	1,199	1,118	3,611	3,382
Accretion adjustment to convertible debenture liability	701	642	2,057	1,418
Amortization of debt discounts	354	2,308	1,049	1,657
Amortization of mezzanine placement fees	240	(499)	255	(2,507)
Amortization of legal costs integral to mezzanine lending activities	79	232	491	615
Future income taxes	1,500	1,802	1,737	18,191
Change in non-cash operating items (note 18)	7,780	(3,970)	16,661	20,246
	32,960	22,759	82,740	82,173
Financing activities:				
Proceeds from mortgage financing	10,827	11,275	60,375	476,217
Proceeds/(repayment) from bank loan payable	65	69	(54)	100
Mortgage principal repayments	(7,324)	(7,067)	(21,355)	(214,312)
Financing costs	(1,476)	(517)	(3,535)	(7,968)
Proceeds from ING	–	–	–	41,919
5.9% convertible debenture issued, net of issue costs	–	–	–	72,188
Trust Units issued pursuant to:				
Public offering	–	–	–	231,064
Issue costs	–	–	–	(11,773)
Redemption of non-voting preferred interests of CSH Master Care LLC	–	–	(971)	–
Disposition of Treasury Units	82	195	823	528
Distributions paid	(15,624)	(21,231)	(52,250)	(63,720)
Distributions paid to non-controlling interest unitholders	(582)	(1,734)	(3,401)	(5,126)
Deposits received under LTIP and repayment of LTIP instalment loan receivable	75	(697)	175	275
	(13,957)	(19,707)	(20,193)	519,392

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows (continued)
(In thousands of Canadian dollars)
(Unaudited)

	Three-month periods ended September 30, 2008	2007	Nine-month periods ended September 30, 2008	2007
Investing activities:				
Acquisition of assets, net of debt assumed and Units issued (note 2)	–	(36,171)	(27,277)	(593,832)
Payment of deferred consideration on business combinations	(695)	(487)	(12,049)	(2,942)
Additions to properties	(20,545)	(11,317)	(55,623)	(26,560)
Amounts received under income guarantees	52	222	641	660
Proceeds on sale of assets	219	479	269	4,768
Mezzanine loan advances, net of fees	(2,974)	(5,174)	(8,481)	(14,832)
Mezzanine loans repayments	–	4,161	–	4,161
Distributions on long-term investments	–	–	–	1,020
Restricted cash and deposits in escrow	2,153	7,005	(223)	24,993
Proceeds from capital funding receivables	524	495	1,549	841
	(21,266)	(40,787)	(101,194)	(601,723)
Foreign exchange gain/(loss) on U.S. dollar-denominated cash	553	(7,061)	1,695	(7,283)
Decrease in cash and cash equivalents	(1,710)	(44,796)	(36,952)	(7,441)
Cash and cash equivalents, beginning of period	37,286	163,294	72,528	125,939
Cash and cash equivalents, end of period	$ 35,576	$ 118,498	$ 35,576	$ 118,498

Supplemental cash flow information (note 18)

See accompanying notes to consolidated financial statements.

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

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

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

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

Chartwell's Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year (note 21).

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and are consistent with those policies and methods of application as disclosed in the annual audited consolidated financial statements prepared as at and for the year ended December 31, 2007, except as disclosed below.

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to annual financial statements and should be read in conjunction with the annual audited consolidated financial statements.

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1. Significant accounting policies (continued):

(b) Impact of new accounting standards:

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

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The disclosure of information enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new guidance did not have an effect on the financial position, operating results and cash flows of the Trust. Disclosures required under Section 1535, not provided elsewhere in these consolidated financial statements, are provided in note 21.

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Management has determined that the adoption of Sections 3862 and 3863 did not have any material effect on the Trust's operating results, financial position and cash flows. Disclosures required under Section 3862, not provided elsewhere in these consolidated financial statements, are provided in note 20.

(c) Future accounting changes:

(i) Goodwill and intangible assets:

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

1. Significant accounting policies (continued):

The objectives of this new section are to:

(a) reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and

(b) clarify the application of the concept of matching revenue and expenses such that current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated.

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

(ii) Harmonizing of Canadian and international standards:

In February 2008, the Canadian Accounting Standard Board issued an exposure draft proposing that accounting standards in Canada for publicly accountable profit-oriented enterprises will converge with International Financial Reporting Standards ("IFRS") for interim and annual reporting periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by Chartwell for the year ended December 31, 2010. The impact of the transition to IFRS on Chartwell's consolidated financial statements has not yet been determined. Chartwell will monitor the convergence process and adopt the new standards when required.

(d) Properties under development:

Costs incurred to established homes or expansions of existing homes are capitalized as properties under development. Depreciation commences once a property is designated as an operating property which is the earlier of the attainment of breakeven cash flow after debt service or twenty-four months after completion of construction.

2. Acquisitions:

(a) Acquisitions during the nine-month period ended September 30, 2008:

During the nine-month period ended September 30, 2008, Chartwell completed the following acquisitions:

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

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

(iii) On January 9, 2008, Chartwell acquired 100% interest in one seniors housing property in Gatineau, Quebec from Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell by virtue of common management, Le Groupe Melior ("Melior") and their joint venture partners for a purchase price of $29,183.

These acquisitions were accounted for using the purchase method of accounting, with the results of operations included in these consolidated financial statements from the date of acquisition.

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

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

2. Acquisitions (continued):

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

	Spectrum, Melior and joint venture partners	Others		Total
Date of acquisition	January 9, 2008	April 24, 2008	May 29, 2008	
Segment	Canadian retirement operations	Canadian long-term care operations	Canadian retirement operations	
Location	Gatineau, Quebec (1 retirement home - 173 units)	Elmira, Ontario (1 long-term care home - 64 units)	Kanata, Ontario (50% interest in 1 retirement home - 80 units)	
Properties	$ 26,633	$ 6,406	$ 4,075	$ 37,114
Management contracts, resident contracts, customer relationships and other intangibles	2,135	822	575	3,532
Goodwill	981	–	402	1,383
Other assets	66	119	70	255
Mortgages assumed	–	(4,820)	(3,019)	(7,839)
Below-market resident contracts	(93)	–	–	(93)
Other liabilities	(185)	(104)	(926)	(1,215)
Net assets acquired	$ 29,537	$ 2,423	$ 1,177	$ 33,137
Discharge of mezzanine loans receivable	$ 5,860	$ –	$ –	$ 5,860
Cash consideration	23,323	1,880	1,091	26,294
Acquisition costs	354	543	86	983
Total consideration	$ 29,537	$ 2,423	$ 1,177	$ 33,137

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

2. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2007:

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

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

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

During the nine-month period ended September 30, 2008, the purchase price allocation was adjusted to reduce the allocation to building by $7,862 with the corresponding increase to other intangible assets and accrued liabilities.

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

3. Properties:

			September 30, 2008			December 31, 2007
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 220,539	$ –	$ 220,539	$ 213,626	$ –	$ 213,626
Buildings	2,005,888	136,624	1,869,264	1,908,584	95,363	1,813,221
Furniture, fixtures and equipment	80,832	40,615	40,217	74,640	28,615	46,025
	2,307,259	177,239	2,130,020	2,196,850	123,978	2,072,872
Properties under development	44,788	–	44,788	17,879	–	17,879
Land held for development	20,056	–	20,056	20,234	–	20,234
	$ 2,372,103	$ 177,239	$ 2,194,864	$ 2,234,963	$ 123,978	$ 2,110,985

Included in properties as at September 30, 2008 are assets under capital leases with a cost of $134,882 and accumulated depreciation of $5,958.

Included in properties under development are interest and incremental operating costs of $1,206 (2007 - nil) capitalized for the nine-month period ended September 30, 2008.

4. Mezzanine loans receivable:

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

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

4. Mezzanine loans receivable (continued):

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

				September 30, 2008	December 31, 2007
	Contractual interest rate	Principal amount	Lending expenses/ (deferred placement fees), net	Net balance	Net balance
Spectrum	10% - 14%	$ 50,849	$ 301	$ 51,150	$ 50,546
Melior	10% - 14%	47,129	(4,487)	42,642	41,149
Others	10% - 12%	16,697	(990)	15,707	15,929
		$ 114,675	$ (5,176)	$ 109,499	$ 107,624

(a) Spectrum:

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

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

Under the terms of the Development Agreement, Chartwell has the first right to purchase Spectrum's interest in each development property provided that Spectrum must offer Chartwell the opportunity to purchase any development property within one year of such property reaching a stabilized occupancy. If Chartwell elects to purchase a development property, Chartwell will acquire the property at an amount equal to 95%, 92% or 90% of appraised fair market value, depending upon the amount of mezzanine financing provided on the development property or at 100% of the appraised fair market value if no mezzanine financing had been advanced.

4. Mezzanine loans receivable (continued):

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

(b) Melior and other joint venture partners:

Chartwell has advanced 27 (2007 - 28) mezzanine loans totalling $63,825 (2007 - $61,909) to Melior and six other joint venture partners of Spectrum (the "Borrowers"). These loans are secured by second charges or pledges of the Borrowers' interest over 25 (2007 - 25) seniors housing development projects.

Chartwell has the first right to purchase the Borrowers' interest in these projects at fair market value upon properties reaching a stabilized occupancy. In addition, the Borrowers of 14 (2007 - 16) of these mezzanine loans can obligate Chartwell to acquire their interests in the projects at the appraised value, subject to certain conditions being satisfied.

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

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

5. Management contracts, resident contracts, customer relationships and other intangibles:

			September 30, 2008			December 31, 2007
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 12,373	$ 4,859	$ 7,514	$ 13,314	$ 3,834	$ 9,480
Resident contracts	130,554	85,146	45,408	159,794	87,196	72,598
Customer relationships	2,257	2,198	59	3,214	2,596	618
Other intangibles	40,308	7,265	33,043	29,175	2,057	27,118
	$ 185,492	$ 99,468	$ 86,024	$ 205,497	$ 95,683	$ 109,814

During the nine-month period ended September 30, 2008, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and customer relationships that were fully amortized by $39,517 (2007 - $35,873).

6. Other assets:

	September 30, 2008	December 31, 2007
Accounts receivable	$ 19,219	$ 24,086
Deposits on acquisitions	–	111
Long-term investment (a)	–	264
Due from Spectrum (note 14(a))	7,819	5,678
Due from ING	404	4,754
Prepaid expenses and deposits	11,019	10,251
Deposits in escrow	19,975	18,427
Other	7,709	8,504
	$ 66,145	$ 72,075

(a) During the three-month period ended September 30, 2008, Chartwell sold its 39% equity interest in a property.

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

7. Secured debt:

(a) Mortgages payable:

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

	Regular principal payments	Principal due on maturity	Total
2008	$ 8,745	$ 48,813	$ 57,558
2009	24,776	112,563	137,339
2010	24,172	56,264	80,436
2011	24,836	26,137	50,973
2012	26,638	76,476	103,114
2013	26,614	81,151	107,765
2014	24,267	31,061	55,328
2015	24,180	83,976	108,156
2016	20,676	178,900	199,576
2017	16,909	261,699	278,608
2018 - 2022	69,542	134,938	204,480
Thereafter	93,204	58,483	151,687
	$ 384,559	$ 1,150,461	1,535,020
Mark-to-market adjustment arising on acquisition			15,455
Financing costs			(18,869)
			$ 1,531,606

	September 30, 2008	December 31, 2007
Mortgages at fixed rates	$1,516,784	$1,411,243
Interest rates	3.50% - 8.75%	3.50% - 10.00%
Weighted average interest rate	5.71%	5.78%
Mortgages at variable rates	$18,236	$35,038
Interest rates	Prime plus 0.75% - 3.00%	Prime plus 0.75% - 3.00%
Weighted average interest rate	5.37%	6.86%
Blended weighted average rate of maturing debt	5.70%	5.81%

7. Secured debt (continued):

During the three-month and nine-month periods ended September 30, 2008, interest expense on mortgages payable amounted to $21,923 and $64,518 (three-month and nine-month periods ended September 30, 2007 - $20,221 and $54,932), respectively.

One of Chartwell's U.S. subsidiaries has not complied with certain financial covenants under the terms of a loan agreement for one of its individual properties. As at September 30, 2008, the amount of the loan was $12,898 and bears interest at 6.24%, maturing on January 1, 2014. The loan payments are current. Discussions are in progress with lenders to remedy the covenant matter. A pay down of $2,128 (U.S. $2,000) is estimated to be sufficient to remedy the covenant, hence this amount was reclassified as principal repayments in 2008.

(b) Secured revolving operating credit facility:

Chartwell has arranged for a $90,000 secured revolving operating credit facility (the "Credit Facility"). At September 30, 2008, the maximum available borrowing capacity under the Credit Facility was $61,731 (December 31, 2007 - $64,497) based on the security provided. The Credit Facility matures on June 28, 2009. Under the amended terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1% or at the applicable bankers' acceptance rate plus 2.25%. The amended terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. No amounts were outstanding under the Credit Facility at September 30, 2008.

8. Convertible debentures:

The Trust has the following series of convertible debentures outstanding:

(a) 6.0% convertible debentures, unsecured, subordinated with a principal amount of $124,900, maturing on December 1, 2011, bearing contractual interest at 6.0% per annum and paid semi-annually. Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 6.0% convertible debenture on redemption or maturity, in whole or part, by issuance of freely tradable Trust Units.

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

8. Convertible debentures (continued):

(b) 5.9% convertible debentures, unsecured, subordinated with a principal amount of $75,000, maturing on May 1, 2012, bearing contractual interest at 5.9% per annum, paid semi-annually. Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.9% convertible debenture on redemption or maturity, in whole or in part, by the issuance of freely tradable Trust Units.

9. Accounts payable and other liabilities:

	September 30, 2008	December 31, 2007
Accounts payable and accrued liabilities	$ 98,021	$ 86,557
Income taxes payable	3,499	2,004
Below-market resident contracts, net of accumulated amortization of $1,623 (December 31, 2007 - $979)	915	1,578
Resident deposits	4,941	5,199
Deferred revenue	8,839	7,933
	$ 116,215	$ 103,271

10. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

Business combinations	September 30, 2008	December 31, 2007
Castel Royale	$ 520	$ 520
Elizabeth Towers (a)	918	1,180
Heritage Glen	16,367	15,801
Van Horne Manor	–	50
HB Realty (b)	449	1,784
Bristal Portfolio (c) and (d)	10,588	17,907
Jardins de la Gare (e)	–	1,471
Merrill Gardens Portfolio	2,910	2,592
	$ 31,752	$ 41,305

10. Deferred consideration on business combinations (continued):

During the nine-month period ended September 30, 2008, Chartwell settled the following deferred consideration in cash:

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

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

During the nine-month period ended September 30, 2008 and the year ended December 31, 2007, $1,422 (U.S. $1,379) and $1,663 (U.S. $1,700), respectively, were used to fund cash shortfalls under the lease arrangements.

(c) $3,469 (U.S. $3,500) of the Series B Notes relating to the Bristal Portfolio acquisition, representing Chartwell's share of the principal and interest due on the first anniversary of acquisition.

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

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

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

11. Non-controlling interest:

The details of non-controlling interest are as follows:

	September 30, 2008	December 31, 2007
Balance, beginning of period	$ 47,005	$ 54,453
Cumulative impact of adopting the new accounting standards	–	1
Issuance of Class B Units of Master LP (note 2)	–	10,145
Non-controlling interest's share of loss for the period	(1,929)	(5,008)
Distributions on Class B Units of Master LP	(3,040)	(6,839)
Exchange of Class B Units of Master LP for Trust Units	(22,471)	(3,657)
Other comprehensive income (loss)	672	(2,090)
Balance, end of period	$ 20,237	$ 47,005

12. Unitholders' capital:

Chartwell is authorized to issue unlimited Trust Units.

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

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

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

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

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

12. Unitholders' capital (continued):

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

	Number of voting Units	Amount
Units outstanding, January 1, 2007	74,576,539	$ 874,165
Trust Units issued pursuant to secondary public offering	14,100,000	200,925
Trust Units issued pursuant to exercise of over-allotment option	2,115,000	30,139
Trust Units issued under the DRIP	328,065	4,317
Trust Units issued on exchange of Class B Units of Master LP	425,039	3,657
LTIP Units transferred to Treasury	–	223
Trust Units issued on dispositions of LTIP Units under subscription	5,000	93
Dispositions of LTIP Units surrendered	71,250	755
Issue costs	–	(11,773)
Trust Units issued on conversion of convertible debentures	4,808	72
Units outstanding, January 1, 2008	91,625,701	1,102,573
Trust Units issued under the DRIP	880,611	7,707
Trust Units issued on exchange of Class B Units of Master LP	3,123,526	22,471
Disposition of LTIP Units surrendered	70,000	932
Units outstanding, September 30, 2008	95,699,838	$ 1,133,683

12. Unitholders' capital (continued):

(b) Long-Term Incentive Plan:

Chartwell has established an LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the Units for 20 trading days preceding the date of issuance, which will be payable in cash instalments, over a term not to exceed 10 years. Participants are required to pay interest on the LTIP instalment loan receivable at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time LTIP Units are issued over a 10-year fixed period. Cash distributions received on the LTIP Units issued are to be applied as payment of the interest and principal against the LTIP instalment loan receivable. Participants may prepay any principal at their discretion. Units issued under the LTIP are held as security for the outstanding LTIP instalment loan receivable. If a participant fails to pay interest and/or any principal, Chartwell may elect to reacquire or sell the Trust LTIP Units in satisfaction of the outstanding amounts. Chartwell's recourse is limited to the Units it holds as security.

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

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 3,021,488 were issued and 2,879,402 are available to be issued at September 30, 2008.

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

12. Unitholders' capital (continued):

The following table summarizes LTIP Units issued under the LTIP:

	Number of Units under subscription	Amount
Balance, December 31, 2006	2,070,375	$ 27,667
Sale of Units	(76,250)	(86)
Issuance of Units	342,198	3,773
Compensation expense	–	540
Balance, December 31, 2007	2,336,323	31,894
Sale of Units	(15,000)	(150)
Issuance of Units	656,667	5,929
Compensation expense	–	523
Units transferred to treasury	(191,500)	(2,494)
Balance, September 30, 2008	2,786,490	$ 35,702

The market value of the Trust Units at September 30, 2008 was $7.10 per Unit (September 30, 2007 - $12.80).

The compensation expense attributable to the LTIP of $156 and $523 for the three-month and nine-month periods ended September 30, 2008 (three-month and nine-month periods ended September 30, 2007 - $96 and $445), respectively, is included in general, administrative and trust expenses with a corresponding amount included in unitholders' equity as Units under subscription. The LTIP instalment loans receivable are recognized as a deduction from LTIP Units under subscription. Distributions received under the LTIP are charged to unitholders' equity while interest received under the LTIP is credited to distributions.

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

13. Loss per Unit calculations:

The following table sets forth the calculations of the numerator and denominator of the basic and diluted loss per Unit computations.

	Three-month periods ended September 30, 2008	Three-month periods ended September 30, 2007	Nine-month periods ended September 30, 2008	Nine-month periods ended September 30, 2007
Numerator:				
Loss for the period	$ (5,951)	$ (16,940)	$ (30,344)	$ (57,223)
Denominator:				
Denominator for basic earnings per Unit - weighted average Units	95,527,436	91,230,943	93,242,411	84,323,727
Denominator for diluted earnings per Unit - weighted average Units	95,527,436	91,230,943	93,242,411	84,323,727
Loss per Unit:				
Basic and diluted	$ (0.062)	$ (0.186)	$ (0.325)	$ (0.679)

Excluded from the calculation of diluted weighted average Units outstanding are the following as they are not dilutive to loss per Unit:

	Three-month periods ended September 30, 2008	Three-month periods ended September 30, 2007	Nine-month periods ended September 30, 2008	Nine-month periods ended September 30, 2007
LTIP Units under subscription	2,800,838	2,406,676	2,644,022	2,445,716
Class B Units of Master LP	3,149,852	6,482,223	5,134,449	6,417,697
Assumed conversion of convertible debentures	12,623,398	12,623,398	12,623,398	10,764,568

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

14. Related party transactions and balances:

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

(a) Spectrum:

The following table summarizes interest and fees earned from Spectrum for the three-month and nine-month periods ended September 30:

	Three-month periods ended September 30, 2008	Three-month periods ended September 30, 2007	Nine-month periods ended September 30, 2008	Nine-month periods ended September 30, 2007
Contractual mezzanine loan interest income (note 4)	$ 1,398	$ 1,366	$ 4,091	$ 3,963
Effective interest rate adjustments	(25)	(20)	(160)	(65)
Development fees	436	1,861	1,250	3,270
Operations management fees	575	387	1,557	1,094
Other fees	17	483	101	483
Interest on overdue accounts receivable	212	59	241	68

During the nine-month period ended September 30, 2008, 0.1 acres of land owned by Chartwell was sold to Spectrum, Melior and their joint venture partners for a purchase consideration of $52.

Other assets as at September 30, 2008 include $7,819 (December 31, 2007 - $5,678) due from Spectrum. Subsequent to September 30, 2008, $501 of this balance related to mezzanine loan interest was collected. A portion of the remaining balance is past due as at the balance sheet date. Past due receivable balances bear interest at 10% and Chartwell is working with Spectrum to collect past due amounts. Management has concluded the amounts are collectible with no provision required.

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

14. Related party transactions and balances (continued):

(b) Melior:

	Three-month periods ended September 30, 2008	Three-month periods ended September 30, 2007	Nine-month periods ended September 30, 2008	Nine-month periods ended September 30, 2007
Contractual mezzanine loan interest income (note 4)	$ 1,264	$ 1,313	$ 3,634	$ 3,748
Effective interest rate adjustments	(274)	181	(600)	1,890
Project management fees paid to Melior	(455)	(174)	(1,713)	(1,793)
Reimbursement of expenses paid to Melior	(40)	–	(222)	(44)
Deferred purchase consideration paid to Melior	–	–	150	–
Referral and due diligence fees paid	–	434	–	959

At September 30, 2008, accounts receivable and other assets include $2,696 (December 31, 2007 - $3,123) due from Melior. Subsequent to September 30, 2008, $524 of the outstanding amounts receivable related to mezzanine loan interest was collected.

At September 30, 2008, Chartwell had accounts payable due to Melior of $266 related to management fees and other fees (December 31, 2007 - $569).

(c) Included in accounts receivable at September 30, 2008 is $66 (December 31, 2007 - $66) due from a company controlled by an officer of Chartwell relating to the previous sale of a property to the Trust.

14. Related party transactions and balances (continued):

(d) Included in mortgages payable at September 30, 2008 is a vendor take-back mortgage of $200 (December 31, 2007 - $1,097) due to an officer of Chartwell. During the three-month and nine-month periods ended September 30, 2008, the Trust incurred interest expense of $7 and $34 (three-month and nine-month periods ended September 30, 2007 - $26 and $92), respectively, related to this mortgage.

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

15. Segmented information:

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

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

During the quarter ended September 30, 2008, three properties previously included in Canadian long-term care operations segment were reclassified to the Canadian retirement operations segment to more accurately reflect how the properties are managed. The comparative figures have been reclassified to reflect this change.

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

15. Segmented information (continued):

	Three-month period ended September 30, 2008				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 71,803	$ 35,050	$ 2,318	$ 65,837	$ 175,008
Equity income from variable interest entities	1,011	–	–	–	1,011
Below-market lease amortization	78	–	–	331	409
Direct operating expense	(44,798)	(30,180)	(1,025)	(41,425)	(117,428)
Income before the undernoted	28,094	4,870	1,293	24,743	59,000
Interest expense	(8,604)	(2,442)	–	(10,255)	(21,301)
Property lease expense	(34)	(57)	–	(11,579)	(11,670)
Income before the following	19,456	2,371	1,293	2,909	26,029
Depreciation and amortization	(14,360)	(1,698)	(1,173)	(12,289)	(29,520)
Gain (loss) on sale of assets	159	–	(33)	–	126
	$ 5,255	$ 673	$ 87	$ (9,380)	(3,365)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					3,891
General, administrative and trust expenses					(4,098)
Interest on convertible debentures					(3,986)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					3,358
Non-controlling interest					378
Current income taxes					(629)
Future income taxes					(1,500)
Loss for the period					$ (5,951)
Expenditures for assets by land segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ –	$ –	$ –	$ –	$ –
Capital improvements	14,492	777	1,206	4,070	20,545

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

15. Segmented information (continued):

	Three-month period ended September 30, 2007				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 66,913	$ 33,492	$ 5,176	$ 64,416	$ 169,997
Equity income from variable interest entities	1,046	–	–	–	1,046
Below-market lease amortization	112	–	–	201	313
Direct operating expense	(42,375)	(28,883)	(994)	(40,988)	(113,240)
Income before the undernoted	25,696	4,609	4,182	23,629	58,116
Interest expense	(8,491)	(2,417)	–	(10,628)	(21,536)
Property lease expense	–	(28)	–	(11,537)	(11,565)
Income before the following	17,205	2,164	4,182	1,464	25,015
Depreciation and amortization	(16,264)	(2,923)	(423)	(12,734)	(32,344)
Gain on sale of assets	11	–	–	–	11
	$ 952	$ (759)	$ 3,759	$ (11,270)	(7,318)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					5,875
General, administrative and trust expenses					(5,832)
Interest on convertible debentures					(3,947)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					(4,898)
Non-controlling interest					982
Future income taxes					(1,802)
Loss for the period					$ (16,940)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 34,370	$ 10,853	$ –	$ –	$ 45,223
Capital improvements	7,718	929	119	2,551	11,317

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

15. Segmented information (continued):

	Nine-month period ended September 30, 2008				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 213,146	$ 102,595	$ 6,914	$ 191,256	$ 513,911
Equity income from variable interest entities	2,858	–	–	–	2,858
Below-market lease amortization	233	–	–	1,088	1,321
Direct operating expense	(135,358)	(89,212)	(3,075)	(120,159)	(347,804)
Income before the undernoted	80,879	13,383	3,839	72,185	170,286
Interest expense	(27,426)	(7,323)	–	(29,842)	(64,591)
Property lease expense	(95)	(153)	–	(34,182)	(34,430)
Income before the following	53,358	5,907	3,839	8,161	71,265
Depreciation and amortization	(43,559)	(6,631)	(2,205)	(38,378)	(90,773)
Gain (loss) on sale of assets	65	–	(33)	–	32
	$ 9,864	$ (724)	$ 1,601	$ (30,217)	(19,476)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					11,276
General, administrative and trust expenses					(14,600)
Interest on convertible debentures					(11,889)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					5,648
Non-controlling interest					1,929
Current income taxes					(1,495)
Future income taxes					(1,737)
Loss for the period					$ (30,344)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 40,901	$ –	$ –	$ –	$ 40,901
Capital improvements	43,934	1,676	1,703	8,310	55,623

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

15. Segmented information (continued):

	Nine-month period ended September 30, 2007				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 194,055	$ 76,816	$ 10,527	$ 169,510	$ 450,908
Equity income from variable interest entities	2,858	–	–	–	2,858
Below-market lease amortization	481	35	–	620	1,136
Direct operating lease expense	(124,069)	(67,631)	(2,884)	(107,762)	(302,346)
Income before the undernoted	73,325	9,220	7,643	62,368	152,556
Interest expense	(26,092)	(4,806)	–	(25,402)	(56,300)
Property lease expense	–	(28)	–	(35,709)	(35,737)
Income before the following	47,233	4,386	7,643	1,257	60,519
Depreciation and amortization	(46,007)	(5,579)	(1,369)	(31,105)	(84,060)
Write-down in the carrying value of assets	–	–	(172)	–	(172)
Gain on sale of assets	331	–	–	–	331
	$ 1,557	$ (1,193)	$ 6,102	$ (29,848)	(23,382)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					16,970
General, administrative and trust expenses					(15,895)
Interest on convertible debentures					(9,751)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					(10,803)
Non-controlling interest					3,829
Future income taxes					(18,191)
Loss for the period					$ (57,223)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 125,908	$ 136,916	$ –	$ 567,748	$ 830,572
Capital improvements	17,794	2,861	1,011	4,894	26,560

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

15. Segmented information (continued):

September 30, 2008	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,280,842	$ 309,350	$ 16,855	$ 870,222	$ 145,479	$ 2,622,748
Total liabilities	850,765	191,598	–	638,615	209,107	1,890,085

December 31, 2007	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,261,894	$ 302,766	$ 16,680	$ 836,953	$ 184,906	$ 2,603,199
Total liabilities	810,539	190,602	–	592,046	205,403	1,798,590

16. Joint venture operations and variable interest entities ("VIEs"):

(a) Joint venture operations:

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

	September 30, 2008	December 31, 2007
Assets	$ 707,785	$ 713,494
Liabilities	547,572	520,354

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

16. Joint venture operations and variable interest entities ("VIEs") (continued):

	Three-month periods ended September 30, 2008	Three-month periods ended September 30, 2007	Nine-month periods ended September 30, 2008	Nine-month periods ended September 30, 2007
Revenue	$ 61,836	$ 48,676	$ 179,297	$ 146,032
Expenses, including depreciation and amortization of $9,751 and $30,373 (2007 - $9,711 and $25,176), respectively	67,087	54,746	198,141	166,684
Loss for the period	(5,251)	(6,070)	(18,844)	(20,652)
Cash provided by (used in):				
Operating activities	$ 14,625	$ (4,219)	$ 11,142	$ 14,218
Financing activities	(7,098)	61,170	(13,371)	247,228
Investing activities	(3,143)	(52,941)	1,636	(247,164)

Chartwell's joint venture operations are generally undertaken through entities in which it holds an indirect interest. The joint venture entities have liabilities in excess of Chartwell's proportionate share amounting to $547,572 (December 31, 2007 - $520,354), which have not been recorded in the Trust's consolidated financial statements. The assets of these joint ventures are available and sufficient to satisfy these liabilities.

(b) VIEs:

(i) At September 30, 2008, Chartwell holds variable interests in 19 (December 31, 2007 - 19) VIEs. Chartwell provides development services, mezzanine loans, structuring services and consulting services to these entities. These VIEs are expected to incur total development costs of approximately $485,602 (December 31, 2007 - $471,803).

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

As of September 30, 2008, Chartwell had mezzanine loans receivable of $72,107 (December 31, 2007 - $69,105) from these entities. During the three-month and nine-month periods ended September 30, 2008, Chartwell earned $1,545 and $4,578 (three-month and nine-month periods ended September 30, 2007 - $2,151 and $7,292), respectively, in interest from these entities.

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

16. Joint venture operations and variable interest entities ("VIEs") (continued):

(ii) At September 30, 2008, Chartwell, through a holding company, holds variable interests in seven (2007 - seven) VIEs. These entities are structured to lease the respective properties from Chartwell and an entity controlled by Melior. At September 30, 2008, Chartwell recognizes its proportionate direct interest in these properties which have a cost of $67,406 (December 31, 2007 - $66,704) and accumulated amortization of $7,507 (December 31, 2007 - $5,871). Under the terms of the operating lease, Chartwell and an entity controlled by Melior will receive the net revenue of the properties less $1 per property.

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

Pursuant to the exercise of the put option by Melior on September 4, 2008, Chartwell acquired 100% ownership interest in the above VIEs. The details of the acquisition in co-ownership properties are disclosed in note 23.

17. Commitments and contingencies:

(a) Operating leases of seniors housing properties:

Chartwell has a leasehold interest in 25 properties through the acquisition of a 49% interest in HB Realty and a leasehold interest in two properties acquired with the Merrill Gardens Portfolio in 2007. Chartwell's share of the aggregate amount of all future minimum lease payments under the leases are as follows for the years ending December 31:

2008	$ 10,012
2009	41,335
2010	42,849
2011	44,227
2012	45,652
Thereafter	325,759
	$ 509,834

(b) Other leases:

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

17. Commitments and contingencies (continued):

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

In addition, Chartwell has operating leases on office space in Canada which expire on various dates up to May 31, 2015. Annual payments in aggregate on these leases vary from $958 to $1,004 over the term of the leases. Further, Chartwell has an operating lease in the United States which expires on April 30, 2013. Annual payments on this lease vary from U.S. $770 to U.S. $884 over the term of the lease. Chartwell's share is 49% of the amounts due under this lease.

(c) Purchase obligations:

Chartwell has entered into various construction contracts related to various internal growth projects. As at September 30, 2008, the remaining commitments under these contracts amounted to approximately $25,464.

As at September 30, 2008, Chartwell entered into fixed-price natural gas contracts with a new third-party natural gas supplier for $1,539 to provide gas for its own use at its properties. During the three-month period ended September 30, 2008, the previous supplier defaulted in the supply of gas to Chartwell and obtained creditors' protection under the Companies Creditors Agreement Act. Chartwell did not have any material financial exposure due to this default. Chartwell has also entered into fixed-price electricity contracts with local utilities in the United States for $543 (U.S. $510) to provide electricity for its own use at its properties.

(d) Contingent consideration on acquisition of properties:

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

At September 30, 2008, contingent consideration on acquisitions of properties amounted to $4,095.

17. Commitments and contingencies (continued):

(e) Mezzanine loans receivable:

As at September 30, 2008, Chartwell has committed to provide additional mezzanine financing in the amount of $4,908 (December 31, 2007 - $10,690) (note 4).

(f) Letters of credit:

As at September 30, 2008, Chartwell was contingently liable for letters of credit in the amount of $2,264 (December 31, 2007 - $1,940).

(g) Other contracts:

(i) Chartwell's properties in the Province of Quebec are managed by CM Management Limited Partnership ("CM"), a joint venture between Chartwell and Melior. The properties' management agreements are for a term of five years and call for payment of management fees between 4% and 5% of gross revenue. At September 30, 2008, Chartwell owned a 50% interest in CM (note 23).

(ii) Properties Chartwell owns in the United States are managed by Horizon Bay Chartwell LLC ("HBC") and HBC II Manager LLC ("HBC II"). The properties' management agreements are for terms ranging from 20 to 30 years and call for payment of management fees between 4% and 5.5% of gross revenue plus an incentive fee based on certain operating targets. Through Chartwell's acquisition of HB Realty, Chartwell owns a 74.5% effective interest in HBC. Chartwell also owns a 75% interest in HBC II.

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

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

17. Commitments and contingencies (continued):

(b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50 and 3% of total budgeted development costs for the related project (note 14).

(c) For as long as Chartwell and Melior are co-owners of at least one property in the Province of Quebec, payment of 25% of net increased economic value created on Chartwell's internal growth projects in the Province of Quebec, as determined by independent appraisals (note 23).

(h) Litigation and claims:

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

18. Supplemental cash flow information:

During the three-month and nine-month periods ended September 30, 2008, interest paid amounted to $21,848 and $69,993 (three-month and nine-month periods ended September 30, 2007 - $21,330 and $56,846), respectively. Distributions payable of $6,268, including distributions payable to non-controlling interests of $194 (2007 - $567), were excluded from financing and operating activities on the consolidated statements of cash flows for the three-month and nine-month periods ending September 30, 2008 (three-month and nine-month periods ended September 30, 2007 - $8,905).

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

18. Supplemental cash flow information (continued):

The change in non-cash operating items for the three-month and nine-month periods ending September 30 are as follows:

	Three-month periods ended September 30, 2008	2007	Nine-month periods ended September 30, 2008	2007
Change in non-cash operating items:				
Accounts receivable	$ 1,065	$ (7,422)	$ 4,867	$ (10,774)
Deposits on acquisitions	–	378	111	11,072
Due from Spectrum	(1,867)	(903)	(2,141)	(1,781)
Due from ING	86	(1,458)	4,350	–
Accounts payable and other liabilities	5,089	47,571	7,345	20,447
Prepaid expenses	3,507	3,279	768	(2,722)
Deferred purchase consideration payable	–	(39,480)	–	–
Other	(100)	(5,935)	1,361	4,004
	$ 7,780	$ (3,970)	$ 16,661	$ 20,246

The following amounts recognized during the three-month and nine-month periods ended September 30 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

	Three-month periods ended September 30, 2008	2007	Nine-month periods ended September 30, 2008	2007
Non-cash consideration on acquisitions:				
Class B Units of Master LP	$ –	$ –	$ –	$ 10,145
Class B Common Units of CSH-INGRE LLC	–	–	–	663
Discharge of mezzanine loans receivable	–	–	5,860	1,688
Distributions applied against instalment loans receivable related to LTIP	520	644	1,656	1,930
Interest on instalment loans receivable related to LTIP	287	273	829	822
Trust Units issued pursuant to the DRIP	2,273	1,180	7,707	3,043

19. Income taxes:

Chartwell currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly listed or traded trusts, as discussed below, income earned by Chartwell and distributed annually to unitholders was not, and would not be, subject to taxation in Chartwell, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and was committed to continue distributing all of its taxable income to its unitholders. Accordingly, Chartwell did not previously record a provision for income taxes or future income tax assets or liabilities, in respect of Chartwell or its investment in its subsidiary trust and partnership.

On June 22, 2007, legislation relating to the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") received royal assent (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership and trust, such as an income trust and a real estate investment trust. On July 14, 2008, the draft SIFT legislation was released.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

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

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

19. Income taxes (continued):

Due to the SIFT Rules, Chartwell commenced recognizing current and future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, including those related to its subsidiary trust. In addition, the SIFT Rules resulted in Chartwell recording a current income tax expense of $1,235 using an effective tax rate applicable for SIFTs of 32.5% and a future income tax expense of $1,737 for the nine-month period ended September 30, 2008.

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At September 30, 2008, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately $28,267 (U.S. $26,561). Of these losses, approximately $1,007 (U.S. $946) expire in 2025, $2,215 (U.S. $2,081) expire in 2026, $12,598 (U.S. $11,838) expire in 2027, and $12,449 (U.S. $11,696) expire in 2028.

As at September 30, 2008, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of $21,715 (U.S. $20,405) against which a valuation allowance of $21,715 (U.S. $20,405) has been recorded.

The difference between the expected Canadian SIFT tax rate and the effective income tax rate is primarily due to deductible temporary differences and losses, the benefit of which has not been recorded in these financial statements.

20. Financial instruments and financial risk management:

(a) Classification:

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

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

20. Financial instruments and financial risk management (continued):

Classification, carrying value and fair value of financial instruments:

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

	September 30, 2008		December 31, 2007	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and receivables, recorded at amortized cost:				
Mezzanine loans receivable (i)	$ 109,499	$ 105,177	$ 107,624	$ 103,411
Capital funding receivable (ii)	46,529	47,101	48,078	49,999
Financial liabilities:				
Financial liabilities, recorded at amortized cost:				
Mortgages payable (iii)	1,531,606	1,472,696	1,445,711	1,469,280
Convertible debentures (iv)	198,376	185,680	195,534	190,547

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

Basis for determining fair values:

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

(i) The fair value of mezzanine loans receivable is estimated based on discounted expected future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The carrying value of the mezzanine loans has not been written down as management intends to hold them to maturity such that it will recover the carrying amount, and these loans have not been identified as impaired.

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

20. Financial instruments and financial risk management (continued):

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

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

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

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

	September 30, 2008	December 31, 2007
Liability	$ 183,605	$ 180,656
Equity	14,771	14,878
	$ 198,376	$ 195,534

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

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

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20. Financial instruments and financial risk management (continued):

(b) Financial risk management objectives and policies:

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

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

These risks are managed as follows:

(i) Credit risk:

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

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

Chartwell's exposure to credit risk from resident receivables is influenced mainly by the individual characteristics of each resident, the demographics of its resident base and general economic conditions. Due to the nature of the Trust's business and geographic spread of its resident base, there is no significant concentration of receivables from residents.

20. Financial instruments and financial risk management (continued):

In addition to project specific security, all Spectrum mezzanine loans contain cross-default provisions and are secured by Spectrum's corporate guarantee. All loans to entities affiliated with Melior are guaranteed by Residences Melior Inc. Chartwell is involved in the development and operations management of these development projects. The mezzanine loan compliance group monitors performance and risk of each loan on an on-going basis and reports quarterly to the investment committee of Chartwell.

At September 30, 2008, Spectrum was in breach of certain covenants of the Development Agreement. Chartwell is currently working with Spectrum to have these covenants remedied. These covenants are not expected to have any adverse effect on the collectibility of outstanding accounts receivable and mezzanine loans.

Chartwell has evaluated its mezzanine loan portfolio and determined that no impairment exists on any of its mezzanine loans at September 30, 2008.

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

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

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible. As at September 30, 2008 and December 31, 2007, the Trust does not have material past due resident receivables.

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20. Financial instruments and financial risk management (continued):

(ii) Liquidity risk:

Liquidity risk is the risk that Chartwell will encounter difficulty in meeting its financial obligations, described in notes 7, 8, 9, 10 and 17, when they become due. Chartwell manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Trust's policy is to ensure adequate funding is available from operations, established lending facilities and other sources as required.

(iii) Market risk:

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

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At September 30, 2008, $18,924 (December 31, 2007 - $35,779) of Chartwell's mortgages and loans payable, excluding hedged loans, bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell fixes the term of long-term debt within a range from 5 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed rate long-term debt over time.

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

20. Financial instruments and financial risk management (continued):

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell entered into an interest rate swap contract with a current notional principal amount of $11,942 that entitles Chartwell to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.9% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on an estimate of the cost to close the contract as at September 30, 2008 is a loss position of $1,044 (December 31, 2007 - $689), which is included in accrued liabilities on the consolidated balance sheet (note 9). Included in other comprehensive loss for the three-month and nine-month periods ended September 30, 2008 is a loss of $231 and $598 (net of future income taxes of $50 and $170) (three-month and nine-month periods ended September 30, 2007 - loss of $266 and gain of $239 (net of future income taxes of nil and $159)), respectively, that relate to the effective portion of the net change in fair value of the interest rate swap designated as a hedge.

At September 30, 2008, the Trust's interest-bearing financial instruments were:

	Carrying amount	
	September 30, 2008	December 31, 2007
Fixed rate instruments:		
Financial assets	$ 109,499	$ 107,624
Financial liabilities	1,696,974	1,591,899
Variable rate instruments:		
Financial liabilities	$ 18,924	$ 35,779

A change in interest rates at September 30, 2008 would not affect net income with respect to the fixed rate instruments, including hedged loans. Therefore, no sensitivity analysis is provided for the fixed rate instruments. An increase of 100 basis points in interest rates at September 30, 2008 for the variable rate mortgages would have decreased equity by $47 and increased the loss for the period by $47 (on a pre-tax basis).

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

20. Financial instruments and financial risk management (continued):

(b) Foreign currency exchange risk:

At September 30, 2008, through its self-sustaining United States operations, 33% (December 31, 2007 - 32%) of Chartwell's assets and 39% (December 31, 2007 - 37%) of Chartwell's mortgages payable were held in the United States and, for the three-month and nine-month periods ended September 30, 2008, 36% and 37% (three-month and nine-month periods ended September 30, 2007 - 38% and 38%), respectively, of its revenue was generated in the United States. Foreign currency exchange risk results from changes in the exchange rate between Chartwell's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. dollar-denominated financial instruments, which are not a component of the self-sustaining U.S. operations or part of the net investment in self-sustaining U.S. operations.

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency fluctuation risk. For example, cash flow from U.S. operating activities is first used for repayment of loans denominated in U.S. dollars. Chartwell may use derivative financial instruments to hedge its net foreign currency exposures. Chartwell's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the consolidated financial statements. The U.S. operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk. There were no foreign exchange hedge contracts outstanding as at September 30, 2008.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining U.S. operations at September 30, 2008:

	U.S. dollar
Cash	$ 2,930
Loans receivable from self-sustaining U.S. operations	66,462
Loan payable to self-sustaining U.S. operations	(15,500)
Net investment in self-sustaining U.S. operations	151,203
Net exposure	$ 205,095

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

20. Financial instruments and financial risk management (continued):

A $0.01 reduction in the foreign exchange translation rate of U.S. dollars to Canadian dollars would have decreased the loss for the period and decreased other comprehensive loss (on a pre-tax basis) for the period by the amounts shown below:

	September 30, 2008
Decrease in loss for the period	$ 538
Decrease in other comprehensive loss for the period	1,512

(iv) Reliance on government funding:

Chartwell holds licenses related to each of is long-term care properties. Holders of these licenses receive funding from the relevant provincial government. During the three-month and nine-month periods ended September 30, 2008, the Trust received approximately $23,771 and $70,093 (three-month and nine-month periods ended September 30, 2007 - $22,848 and $54,271), respectively, in funding in respect of these licenses, which has been recorded as resident revenue. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

21. Capital structure financial policies:

The Trust's primary objectives in managing capital are:

- to continue as a going concern and to provide returns to unitholders;
- to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements by ensuring that the Trust complies with externally imposed capital requirements;

21. Capital structure financial policies (continued):

- to ensure that the Trust has sufficient capital to meet its targeted capital maintenance expenditures;

- to ensure that the Trust has sufficient capital to meet its internal growth requirements; and

- to ensure that the Trust has access to sufficient capital for strategic acquisitions.

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

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

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

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

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

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

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

21. Capital structure financial policies (continued):

The following are the debt leverage ratios at September 30, 2008 and at December 31, 2007:

	September 30, 2008	December 31, 2007	Increase
Debt to adjusted gross book value ratio (excluding convertible debentures)	54.3%	53.8%	0.5%
Debt to adjusted gross book value ratio (including convertible debentures)	61.1%	60.9%	0.2%

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

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

The debt to adjusted gross book value ratio at September 30, 2008 was consistent with the ratio at December 31, 2007.

22. Comparative figures:

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

23. Subsequent events:

(a) On September 4, 2008, pursuant to the put option right under a Co-ownership Agreement, Residence Melior Inc., an affiliate of Melior and Chartwell's joint venture partner, exercised its option to sell its 50% ownership interest in seven retirement properties and one joint venture property management company in the province of Quebec to Chartwell. In accordance with the Co-ownership Agreement, the purchase price was determined by independent appraisers and amounted to $63,317. The transaction closed on October 27, 2008. As part of the transaction, Melior repaid three mezzanine loans in the amount of $2,742.

(b) Subsequent to September 30, 2008, Chartwell received partial repayment of a mezzanine loan in the amount of $3,841 from Melior.