MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED

DECEMBER 31, 2008 AND 2007

08

CHARTWELL
SENIORS HOUSING REIT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the Years Ended December 31, 2008 and 2007

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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 year ended December 31, 2008. This MD&A should be read in conjunction with Chartwell's audited financial statements for the years ended December 31, 2008 and 2007 and the notes thereto (the "Financial Statements"). This material is available on Chartwell's website at www.chartwellreit.ca. Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of March 17, 2009.

In this document, "Q1" refers to the three month period ended March 31; "Q2" refers to the three month period ended June 30; "Q3" refers to the three month period ended September 30; "Q4" refers to the three month period ended December 31; "2008" refers to the twelve months ended December 31, 2008; and "2007" refers to the twelve months ended December 31, 2007.

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

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

Business Overview

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

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

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

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

Our Mission is…

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

Our Values are…

RESPECT – We honour and celebrate seniors

EMPATHY – We believe compassion is contagious

SERVICE EXCELLENCE – We believe in providing excellence in customer service

PERFORMANCE – We believe in delivering and rewarding results

EDUCATION – We believe in life long learning

COMMITMENT – We value commitment to the Chartwell family

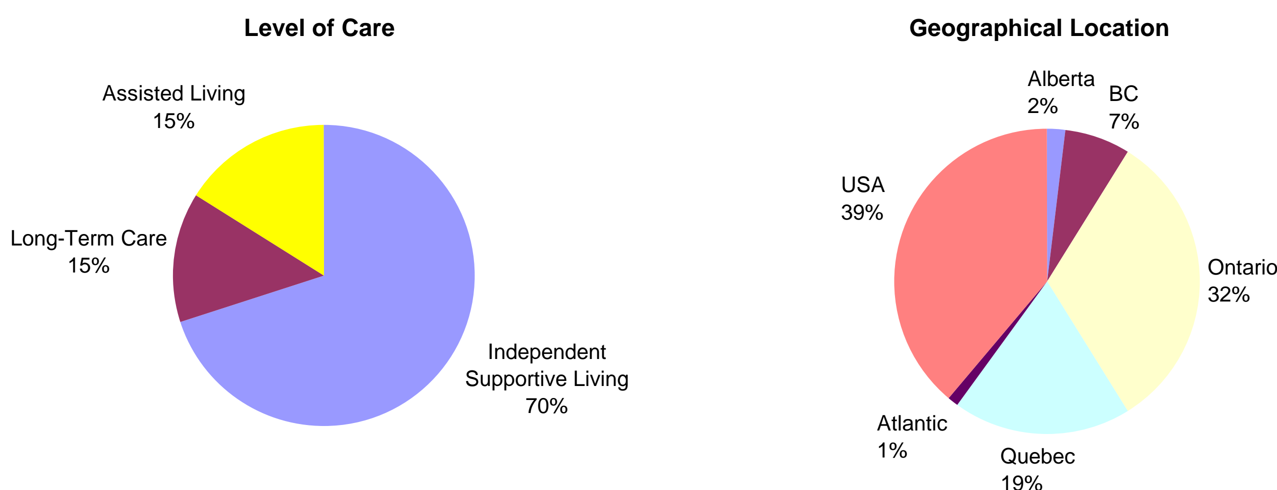
TRUST – We believe in keeping our promises and doing the right thing

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

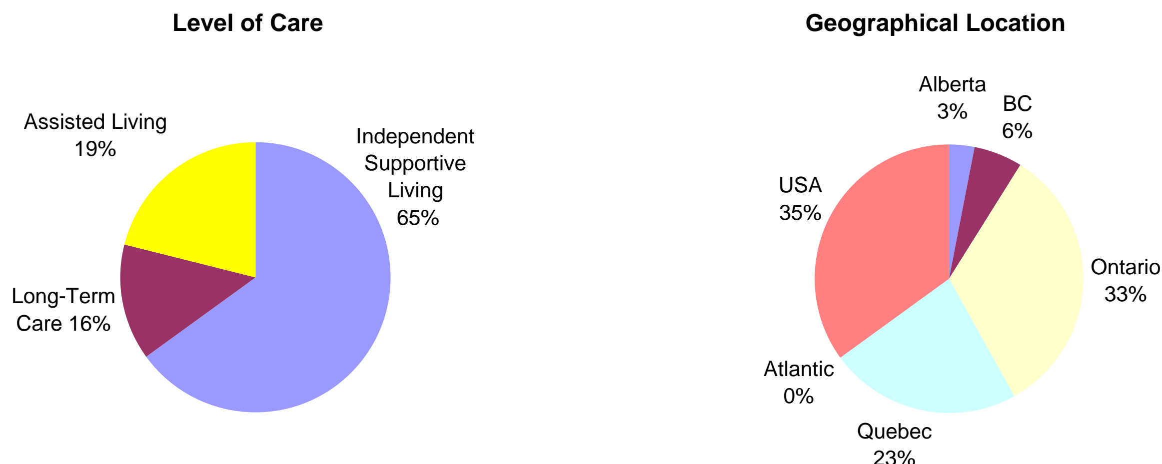
	Canadian Retirement Operations		Canadian Long-Term Care Operations		United States Operations		Canadian Management Operations		Total	
	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds
Owned Properties: [1]										
100% Owned	98[2]	11,832	16	1,779	23	2,294	-	-	137	15,905
50% Owned	2	248	11[3]	1,700	26[4]	4,752	-	-	39	6,700
Total Owned	100	12,080	27	3,479	49	7,046			176	22,605
Properties under Operating Lease:										
100% Interest	-	-	-	-	2	237	-	-	2	237
49% Interest	-	-	-	-	25	5,622	-	-	25	5,622
Total Leased	-	-	-	-	27	5,859	-	-	27	5,859
Total Owned and Leased	100	12,080	27	3,479	76	12,905	-	-	203	28,464
Other:										
Managed Properties	-	-	-	-	8	2,426	48[6]	5,765	56	8,191
Mezzanine Loans[5]	-	-	-	-	-	-	11	1,995	11	1,995
Total Other	-	-	-	-	8	2,426	59	7,760	67	10,186
Total	100	12,080	27	3,479	84	15,331	59	7,760	270	38,650

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

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



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



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

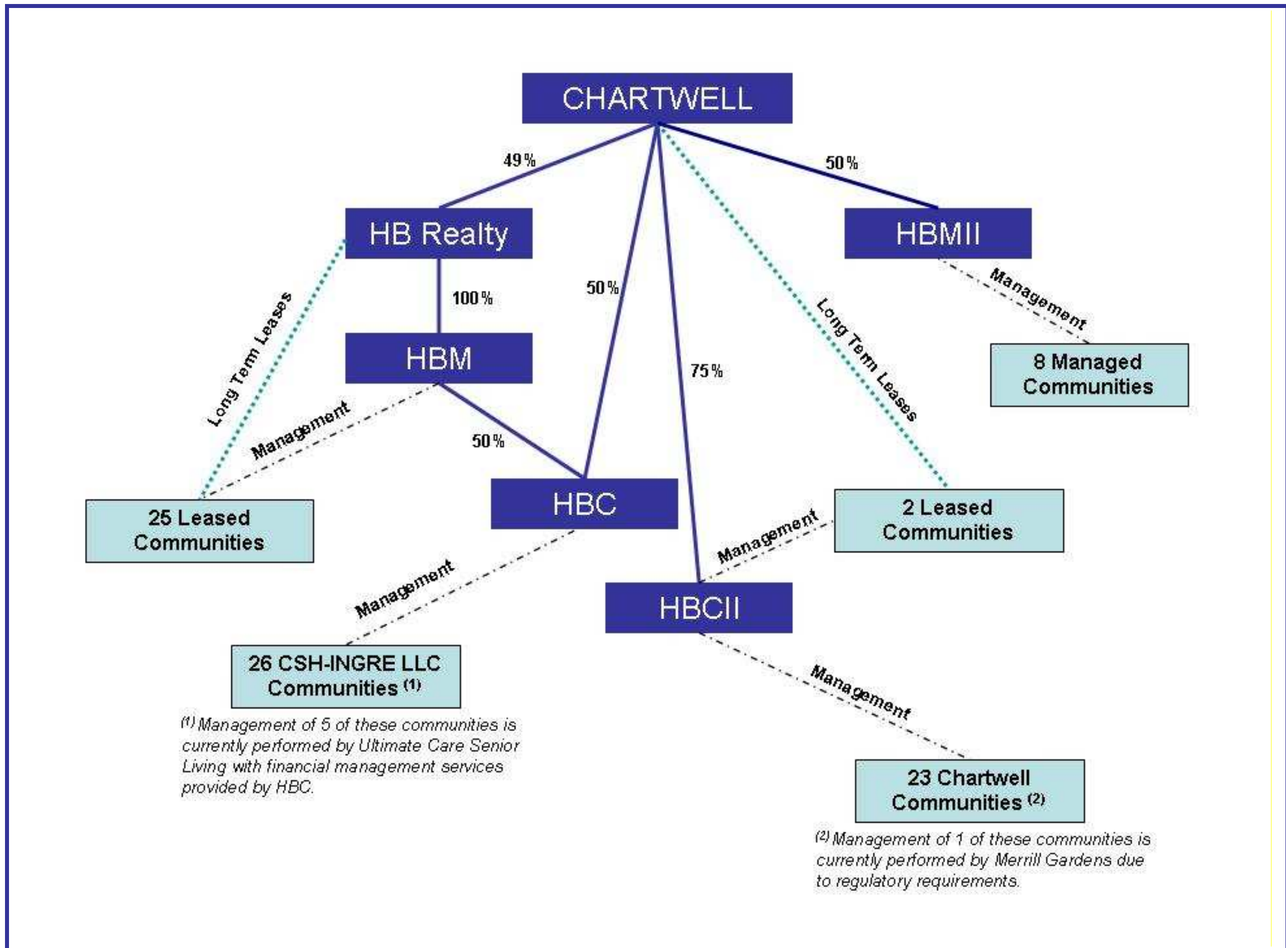
Chartwell also provides mezzanine financing to entities affiliated with Le Groupe Melior ("Melior") and its joint venture partners to develop seniors housing communities. Chartwell has a right to purchase these communities upon stabilization at their fair market value. Melior and its joint venture partners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

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

In 2007, Chartwell acquired a 49% interest in Horizon Bay Realty LLC ("HB Realty"), which, through its subsidiaries, owns leased interests in 25 seniors housing communities (5,622 suites). In addition, one of

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

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



2009 Outlook ♣

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

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

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

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

- Corporate earnings do not directly affect demand or the financial ability of seniors to live in our communities. Demand for seniors housing is more closely linked to the care needs of seniors than their ability to pay.
- Seniors' sources of income are generally more stable due to the typically lower risk profile and sources of income at this stage of life. At Chartwell, our target market is the over 75 year old senior whose income is typically dependent on inflation indexed pensions and fixed income investments. However, a component of their income may be reduced due to the current low interest rate climate.
- In addition, this current market cycle may affect seniors overall net worth through a potential reduction in the value of their primary residence relative to what might have been realized on disposition over the last few years. Our target market has generally experienced very high capital appreciation in their primary residence from the time of their original purchase. We are finding that the disappointment experienced in realizing lower values on the sale of their primary residence appears to be delaying the decision to live in our supported environment in several markets in the U.S. and certain localized regional markets in Canada, but does not ultimately result in a decision not to join our community.
- Our residents are retired and as a result are generally not affected by lay-offs and other employment security issues; nor do our residents move because of job transfers.
- Our communities are more than just bricks and mortar; they are the home in which our residents often spend the rest of their lives. Their fellow residents are their neighbours and their social network. Our staff provides the care and support that residents need to live with dignity and respect. This community environment makes it much less likely that residents will choose to leave for the competition or 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

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

far below this in the range of 30% to 40% with much of this being attributed to resident's passing or moving to long-term care.

- Demand for our communities is needs driven and Chartwell's strategy is to offer a comprehensive continuum of care in the markets we serve. We are not in the market to provide discretionary hotel style seniors living. We are in the market to provide care and services to our residents in high quality real estate. The majority of our portfolio is less than ten years old and offers state of the art buildings that meet and exceed the needs of today's discriminating senior. We continuously strive to exceed resident expectations for quality of life, addressing frailties and physical needs effectively and respectfully. We believe our reputation as the most trusted name in seniors housing gives our properties a significant competitive edge. Our residents need our staff's helping hands and care, it is not a discretionary choice, and we treat our responsibility to deliver this care with the utmost respect.

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

Property Operations:

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

Canadian Operations:

Our Canadian retirement operations continue to perform strongly. Overall occupancies in Ontario continue to increase, with the waiting list for Ontario Long-Term Care of greater than 20,000 creating a spillover effect to support occupancies in retirement homes. Alberta and British Columbia have significant potential for future growth due to positive demographic trends. Occupancy levels are projected to continue to remain high in Alberta. Due primarily to temporary oversupply conditions in two regional markets in British Columbia combined with reduced occupancies in one long-term care property, we have seen a decrease in occupancy. We do not expect this decline to continue and expect to return to steady growth levels beginning in Q2 2009. Cost reduction initiatives are being implemented to offset this reduced revenue.[*]

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

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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.*

in the balance of our portfolio. We continue to forecast recovery of occupancy to over 90% by the end of 2009 in Quebec. *

U.S. Operations:

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

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

Liquidity and Debt Profile:

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

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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.*

Development Management Activities:

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

Management of General, Administrative and Trust Expenses:

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

Summary:

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

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

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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.*

Significant Events

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

Acquisitions

The following table summarizes acquisitions completed in 2008:

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

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

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

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

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

#	Community	Location	Type	Effective Date of Acquisition	Beds/ Suites
1.-25	HB Realty[1]	U.S. (various locations)	Retirement	January 1, 2007	5,631
26.	Bankside Terrace	Kitchener, ON	Retirement	February 1, 2007	91
27.	Queens Square Terrace	Cambridge, ON	Retirement	February 1, 2007	83
28.	Terrace on the Square	Waterloo, ON	Retirement	February 1, 2007	92
29.	Wellington Park Terrace	Guelph, ON	Retirement	February 1, 2007	116
30.	The Bristal at East Meadow [2]	East Meadow, NY	Retirement	February 21, 2007	121
31.	The Bristal at Westbury [2]	Westbury, NY	Retirement	February 21, 2007	140
32.	The Bristal at North Hill [2]	North Hills, NY	Retirement	February 21, 2007	141
33.	The Bristal at North Woodmere [2]	North Woodmere, NY	Retirement	February 21, 2007	118
34.	The Bristal at Massapequa [2]	Massapequa, NY	Retirement	February 21, 2007	120
35.	Trilogy LTC Residence	Scarborough, ON	Long-term care	February 23, 2007	197
36.	Conservatory Pond Retirement Residence [3]	Kingston, ON	Retirement	March 29, 2007	85
37.	Jardins de la Gare	Saint-Hyacinthe, QC	Retirement	April 27, 2007	296
38.	Merrill Gardens at Northport	Northport, AL	Retirement	April 30, 2007	78
39.	Merrill Gardens at Apache Junction	Apache Junction, AZ	Retirement	April 30, 2007	123
40.	Merrill Gardens at Chandler	Chandler, AZ	Retirement	April 30, 2007	88
41.	Merrill Gardens at Altamonte Springs	Altamonte Springs, FL	Retirement	April 30, 2007	95
42.	Merrill Gardens at Lutz	Lutz, FL	Retirement	April 30, 2007	85
43.	Merrill Gardens at Orange City	Orange City, FL	Retirement	April 30, 2007	84
44.	Merrill Gardens at Port St. Lucie	Port St. Lucie, FL	Retirement	April 30, 2007	82
45.	Merrill Gardens at Sarasota	Sarasota, FL	Retirement	April 30, 2007	146
46.	Merrill Gardens at Tamarac	Tamarac, FL	Retirement	April 30, 2007	95
47.	Merrill Gardens at Vero Beach	Vero Beach, FL	Retirement	April 30, 2007	104
48.	Merrill Gardens at Carrollton	Carrollton, GA	Retirement	April 30, 2007	69
49.	Merrill Gardens at Rome	Rome, GA	Retirement	April 30, 2007	69
50.	Merrill Gardens at Bossier City	Bossier City, LA	Retirement	April 30, 2007	84
51.	Merrill Gardens at Ten Oaks	Lawton, OK	Retirement	April 30, 2007	100
52.	Merrill Gardens at The Parkview	Memphis, TN	Retirement	April 30, 2007	128
53.	Merrill Gardens at Graham	Graham, TX	Retirement	April 30, 2007	68
54.	Merrill Gardens at Grand Prairie	Grand Prairie, TX	Retirement	April 30, 2007	85
55.	Merrill Gardens at N. Richland Hills	N. Richland Hills, TX	Retirement	April 30, 2007	105
56.	Merrill Gardens at Round Rock	Austin, TX	Retirement	April 30, 2007	68
57.	Merrill Gardens at San Antonio	San Antonio, TX	Retirement	April 30, 2007	112
58.	Merrill Gardens at San Marcos	San Marcos, TX	Retirement	April 30, 2007	68
59.	Merrill Gardens at Wichita Falls	Wichita Falls, TX	Retirement	April 30, 2007	69
60.	Merrill Gardens at Clearwater [4]	Clearwater, FL	Retirement	May 31, 2007	96
61.	Merrill Gardens at Lake Orienta [4]	Altamonte Springs, FL	Retirement	May 31, 2007	137
62.	Regency Care – The WaterFord [2]	Oakville, ON	Long-term care	June 30, 2007	168
63.	Regency Care – The WenLeigh [2]	Mississauga, ON	Long-term care	June 30, 2007	161
64.	Regency Care – The WestBury [2]	Etobicoke, ON	Long-term care	June 30, 2007	187
65.	Regency Care – The WoodHaven [2]	Markham, ON	Long-term care	June 30, 2007	192
66.	Regency Care – The WynField [2]	Oshawa, ON	Long-term care	June 30, 2007	172
67.	Regency Care – The WestMount [2]	Kitchener, ON	Long-term care	June 30, 2007	160
68.	Regency Care – The WillowGrove [2]	Ancaster, ON	Long-term care	June 30, 2007	169
69.	Regency Care – The Brant Centre [2]	Burlington, ON	Long-term care	June 30, 2007	175
70.	Chateau Vincent D'Indy	Montreal, QC	Retirement	July 23, 2007	96
71.	Rouge Valley Retirement Residence [3]	Markham, ON	Retirement	July 31, 2007	88
72.	Constantia Retirement Residence [2][3]	Thornhill, ON	Retirement	November 15, 2007	121
Total 2007 Acquisitions					**11,158**

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

Internal Growth Initiatives

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

Completed Internal Growth Projects

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

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

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

Internal Growth Projects in Progress

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

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

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

We are currently in the planning stage of construction of 315 suites in three Ontario sites. In addition, we have identified further potential to add over 1,100 suites at our communities in the markets with

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

significant demand for new seniors housing suites. We will continue our evaluation of these internal growth projects in 2009.*

Mezzanine Loans

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

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

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

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

Offerings of Trust Units and Convertible Debentures

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

Taxation Related Matters

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

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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.*

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

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

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

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

Provision for Impairment of Goodwill:

According to GAAP, goodwill should be tested for impairment between the required annual test when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. During Q4 2008, Chartwell's market capitalization remained below our net book value and we concluded that this represented a circumstance that indicated it may be more likely than not that the fair value of our reporting units may be below their carrying amounts, and accordingly we updated our annual goodwill impairment test for each of our identified reporting units. Chartwell estimated fair value of the respective reporting units using a combination of valuation approaches including a market capitalization approach, multiples approach and discounted cash flow analysis. The market capitalization approach uses Chartwell's publicly traded unit price to determine fair value; the multiples approach uses comparable market multiples to arrive at a fair value; and, the discounted cash flow method uses revenue and expense projections and risk-adjusted discount rates.

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

goodwill for these reporting units. On this basis, the impairment test determined that, for all reporting units, the carrying value of goodwill exceeded its estimated fair value as at December 31, 2008 and as a result, Chartwell recorded an impairment charge of $64.5 million.

The impairment related to the following segments:

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

Distributions

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

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

Key Performance Indicators

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

Funds from Operations

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

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

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

Normalized Funds from Operations

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

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

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

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

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

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

Adjusted Funds from Operations

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

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

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

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

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

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

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

Financing cost reserve:

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

Capital maintenance reserve:

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

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

Per Unit Amounts:

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

Net Operating Income

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

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

Same Property Performance

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

Operating Margins

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

Occupancy Percentage

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

General, Administrative and Trust Expenses as a Percentage of Revenue

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

Consolidated Results of Operations

Overview of Consolidated Results of Operations

Same Property Portfolio Highlights: [1]

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

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

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

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

Fourth Quarter:

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

- Our Canadian Retirement Portfolio same property NOI grew by $0.5 million or 2.6%.
- In our U.S. same property portfolio, regular annual rent increases, and tight management of expenses have offset the decrease in occupancy to 92.5% or 1.8 percentage points, mitigating the impact on same property NOI which decreased U.S.$0.7 million or 4.6%.

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[1] *Note: statistics in this section exclude the effects of foreign exchange translation.*

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

- In addition, our same property Canadian Long-Term Care Portfolio NOI was stable Q4 2008 compared to Q4 2007.

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

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

Acquisition Portfolio Highlights:

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

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

General, Administrative and Trust Expenses:

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

Provision for Impairment of Mezzanine Loans:

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

Provision for Impairment of Goodwill:

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

Per Unit Analysis:

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

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

Fee related AFFO decreased as follows:

  - Management fees for due diligence project management and asset management from ING decreased by $2.3 million and development services from Spectrum decreased by $3.1 million or, together, $0.05 per unit diluted.
  - Amortization of placement fees decreased by $2.1 million or $0.02 per unit diluted in 2008 compared to 2007.

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

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

Fourth Quarter:

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

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

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

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

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

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

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

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

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

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

(2) Refer to the “Key Performance Indicators - Normalized Funds from Operations” section of this MD&A for the details of the NFFO calculation.

(3) Refer to the “Key Performance Indicators - Adjusted Funds from Operations” section of this MD&A for the details of the AFFO calculation.

(4) Percentage points.

(5) Refer to the “Non-GAAP Measures - Funds from Operations; Normalized Funds from Operations; and Adjusted Funds from Operations” sections of this MD&A.

Summary of Property Revenue

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

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

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

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

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

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

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

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

Fourth Quarter:

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

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

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

Summary of Direct Operating Expenses

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

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

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

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

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

Fourth Quarter:

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

General, Administrative and Trust Expenses

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

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

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

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

Fourth Quarter:

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

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

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

Interest and Property Lease Expense

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

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

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

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

Fourth Quarter:

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

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

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

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

Mezzanine loan interest decreased $2.0 million for 2008 compared to 2007 and increased by $0.6 million for Q4 2008 compared to Q4 2007. Mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method of accounting for interest expense. Under this method, we update our expectations for targeted stabilization dates of the underlying development projects and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate. Delays in expected stabilization dates of certain of the properties resulted in a reduction in revenue for 2008 compared to 2007.

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

Other Items

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

Bank Interest and Other Income

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

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

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

Depreciation and Amortization

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

Provision for Impairment of Goodwill

According to GAAP, goodwill should be tested for impairment between the required annual test when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. During Q4 2008, Chartwell's market capitalization remained below our net book value and we concluded that this represented a circumstance that indicated it may be more likely than not that the fair value of our reporting units may be below their carrying amounts, and accordingly we updated our annual goodwill impairment test for each of our identified reporting units. Chartwell estimated fair value of the respective reporting units using a combination of valuation approaches including a market capitalization approach, multiples approach and discounted cash flow analysis. The market capitalization approach uses Chartwell's publicly traded unit price to determine fair value; the multiples approach uses comparable market multiples to arrive at a fair value; and, the discounted cash flow method uses revenue and expense projections and risk-adjusted discount rates. Future cash projections were based on 2009 projections, which were then adjusted to reflect the latest information and estimates on trends, such as contractual and non-contractual pricing expectations and anticipated operating efficiencies that would affect estimated cash flows of each reporting unit.

As described in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair value is highly subjective and requires management to exercise a significant amount of judgment in determining future growth, discount and tax rates among other factors. Consequently, given the uncertainty in the current economic environment, Chartwell has relied on the publicly traded market price of Chartwell units as at December 31, 2008 allocated to each reporting unit based on equity as the primary basis for the valuation of its reporting units and the determination of the implied fair value of goodwill for these reporting units. On this basis, the impairment test determined that, for all reporting units, the carrying value of goodwill exceeded its estimated fair value as at December 31, 2008 and as a result, Chartwell recorded an impairment charge of $64.5 million.

Current and Future Income Tax (Expense) Recovery

Under the SIFT Rules, Chartwell became subject to tax on certain income beginning in 2007 as described in the "Significant Events" section of this MD&A. During 2008, we recorded a future income tax expense of $0.2 million and a future income tax recovery of $1.6 million for Q4 2008. The provision for future income tax expense relates to the temporary differences between the carrying amounts and tax bases of assets and liabilities, including those that are expected to reverse on or after December 31, 2008. These temporary differences are tax effected using the estimated substantively enacted SIFT tax rate at the time that these differences are expected to reverse.

As described in the "Significant Events" section of this MD&A, in 2008, the Department of Finance issued draft legislation which described potential changes in the determination of which legal entities are considered SIFTs. Enabling legislation received Royal assent on March 12, 2009. The clarifications set out in the draft legislation likely result in a subsidiary partnership of Chartwell REIT being considered to be a SIFT in 2007 and 2008. Consequently, Chartwell has recorded a provision for current income tax provision of approximately $0.6 million for 2008 related to SIFT income taxes. During Q4 2008, a reduction to the SIFT income tax expense provision of $0.6 million was recorded to reflect the increased tax deductions attributed to capital cost allowance in respect to our acquisition of the remaining 50% interest in seven Quebec properties.

Net Loss

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

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

Summary of Results of Operations by Division

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

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

Canadian Retirement Operations

The following table summarizes the composition of our Canadian retirement operations segment:

		Composition of Suites			
	Properties	ISL	AL	LTC	Total
Same property[1]	83	6,840	1,797	1,011	9,648
Acquisitions	17	1,825	464	143	2,432
Total	100	8,665	2,261	1,154	12,080

[1] Includes expansion of 105 suites under construction at two communities.

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

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

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

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

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

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

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

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

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

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

Fourth Quarter:

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

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

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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.*

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

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

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

Canadian Long-Term Care Operations

The following table summarizes the composition of our Canadian long-term care operating segment:

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same property	14	-	99	1,419	1,518
Acquisitions[1]	13	379	-	1,582	1,961
Total	27	379	99	3,001	3,479

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

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

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

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

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

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

Fourth Quarter:

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

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

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

U.S. Operations

The following table summarizes the composition of our U.S operations segment:

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same property[(1)]	55	10,687	1,267	341	12,295
Acquisitions	29	1,396	1,640	-	3,036
Total	84	12,083	2,907	341	15,331

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

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

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

[(1)] Calculated based on U.S. Dollars.

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

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

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

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

Same property direct operating expenses have increased by 1.9% for 2008 compared to 2007. Tight management of labour costs and the implementation of new cost management programs that began in the latter half of 2007 have helped to offset increased utility costs and insurance expense. In addition, the 2008 results benefited from a one time insurance premium refund of $0.6 million achieved due to the positive claims experienced during the policy period.

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

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

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

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

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

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

Fourth Quarter:

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

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

Same property direct operating expenses have increased by 3.5% for Q4 2008 compared to Q4 2007. Tight management of labour costs and the implementation of new cost management programs that began in the latter half of 2007 have helped to offset increased utility costs, insurance expense and investments in expanded marketing programs to drive occupancy growth.

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

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

Canadian Management Operations

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

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

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

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

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

Fourth Quarter:

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

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

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

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

Management Operations Direct Operating Expenses:

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

Non-GAAP Measures

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

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

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

Funds from Operations (FFO)

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

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

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

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

- As described more fully in the "Significant Events" section of this MD&A, during Q4 2008 we recorded a provision for impairment of mezzanine loans of $6.4 million.
- For 2008 compared to 2007, changes in realized and unrealized foreign exchange gains and losses increased FFO by $29.1 million or $0.288 per unit diluted. Changes in realized and unrealized foreign exchange gains and losses of approximately $12.7 million or $0.124 per unit diluted increased FFO for Q4 2008 compared to Q4 2007. These realized and unrealized gains and losses primarily relate to cross-border U.S. dollar denominated loans used by Chartwell's Canadian subsidiaries to finance its investments in our U.S. operations in a tax efficient manner. Under GAAP, changes in the underlying value of these loans resulting from the changes in foreign exchange rates are required to be recorded in income.

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

Normalized and Adjusted Funds from Operations (NFFO and AFFO)

The following table provides the calculation of NFFO and AFFO:

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

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

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

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

Selected Annual Financial Information

The following table summarizes selected annual financial information for each of the past three years ended December 31:

($000s, except per unit amounts)	2008	2007	2006
Property revenues	695,970	604,195	318,977
Total revenues	725,309	645,037	350,575
Direct operating expenses	480,866	417,410	226,066
Net loss	(99,472)	(67,339)	(14,698)
Total assets	2,705,487	2,603,199	1,977,750
Total liabilities	2,038,807	1,798,590	1,215,798
Net loss per unit, diluted	(1.06)	(0.78)	(0.25)
Cash distributions declared per unit	0.7930	1.0650	1.0650

Chartwell's annual results for the past three years have been affected by the acquisitions of new seniors housing communities and the corresponding revenue increases from development, management and lending activities.

Financial Position

Balance Sheet Analysis

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

	Increase / (Decrease) ($millions)	**Explanation**
Properties	251.9	Properties increased as follows: properties acquired in 2008 added $95.6 million; internal growth developments and building improvements added $44.6 million; acquisition related capital expenditures increased properties by $12.4 million; capital additions increased properties by $15.6 million, contingent deferred purchase consideration of $4.3 million and foreign exchange translation added $157.3 million. These increases were offset by depreciation and amortization of $69.8 million and a purchase price re-allocation to intangible assets of $8.1 million.
Mezzanine loans	(10.8)	Mezzanine loans decreased due to the discharge of $8.6 million of mezzanine loans on the acquisition of the related property, a provision for impairment of mezzanine loans of $6.4 million, repayment of loans of $3.8 million and amortization of placement fees of $0.5 million. The decrease was offset by new advances of $8.5 million.
Goodwill	(56.4)	As described more fully in the "Significant Events" section of this MD&A during Q4 2008, we recorded a provision for impairment of goodwill of $64.5 million, reducing our goodwill balance to nil.
Total assets	102.3	The increase in total assets in 2008 is principally due to the increase in properties which was offset by the provision for impairment of goodwill of noted above and a decrease in management contracts, resident contracts, customer relationships and other intangibles and cash.
Mortgages payable	222.7	Mortgages payable increased as a result of new mortgage financings of $73.6 million, assumed mortgages on acquired properties of $54.4 million and foreign exchange translation of $124.4 million. These increases were offset by regular amortizing principal repayments of $28.3 million and amortization of financing costs, net of additions of $1.4 million.
Total liabilities	240.2	The increase in total liabilities is primarily due to increases in mortgages payable as discussed above.
Non-controlling interest	(30.6)	Non-controlling interest decreased primarily due to exchanges of Class B Units of Master LP for Trust Units of $24.3 million and distributions to the holders of the Class B Units of Master LP of $3.6 million.
Unitholders' equity	(107.4)	The decrease in Unitholders' equity in 2008 is due primarily to cash distributions and the allocation of the net loss to the Trust's Unitholders which were offset by income from foreign exchange translation in other comprehensive income and the exchange of Class B Units of Master LP for Trust Units described above.

Mortgage Debt

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

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

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

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

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

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

Debt maturing in 2009 through to 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. We have no U.S. debt maturities until 2013. In Canada, we have access to low cost CMHC-insured debt and we intend to continue financing our properties through this program. Subsequent to year end, we refinanced $57.1 million of 2009 maturing debt with 3 to 5 year CMHC-insured mortgages bearing interest at the weighted average rate of 3.39% to take advantage of current low rates as well as to improve the balance of our maturity schedule. Of the remaining $90.2 million 2009 maturities, 85% are already CMHC-insured. We anticipate renewing this maturing debt in due course.*

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

Convertible Debentures

At December 31, 2008 Chartwell had $124.9 million of 6% convertible unsecured subordinated debentures and $75 million of 5.9% convertible unsecured subordinated debentures outstanding. The 6% convertible debentures are convertible at the holder's option into Trust Units at a conversion price of $15.60 per unit and mature on December 1, 2011. The 5.9% convertible debentures are convertible at the holder's option into Trust Units at a conversion price of $16.25 per unit and mature on May 1, 2012.

Debt Leverage

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

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

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

[1] Included in Accounts Payable and Accrued Liabilities as described in Note 11 to the Financial Statements.
[2] Includes accumulated depreciation and amortization related to fully amortized intangible assets of $82,804.

Outstanding Units Data

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

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

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

Cash Flow Analysis

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

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

Distributions

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

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

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

The following table summarizes distributions made in Q4 2008 and the years ended December 31, 2008, 2007 and 2006:

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

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

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

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

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

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

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

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

The excess of cash flow from operating activities over cash distributions in Q4 2008, and the years ended December 31, 2008 and 2007, partially relates to the positive changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period and we do not consider this to be a sustainable source of cash inflow. For 2008, non-cash working capital increased cash flows from operating activities by approximately $16.7 million.

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

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

Liquidity and Capital Resources

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

Chartwell's principal source of liquidity is cash flow from operations. In order to provide for its operating and capital requirements, Chartwell raises funds through the capital markets, arranges mortgage debt financing and has arranged for a secured revolving operating facility ("Credit Facility") of up to $90.0 million. As of December 31, 2008, Chartwell had a borrowing capacity under the credit facility of approximately $62.2 million based on available security.
The Credit Facility matures on June 28, 2009. Amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1% or at the applicable banker's acceptances rate plus 2.25%. The terms of the Credit Facility include minimum equity requirements and covenants requiring a limitation of cash distributions that can be paid to Unitholders. At December 31, 2008, there was $8.0 million drawn under the Credit Facility. We have commenced discussions with the syndicate of lenders regarding renewal of the Credit Facility and expect to renew the Credit Facility on maturity.*

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

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

Capital Expenditures

Chartwell classifies its capital expenditures under the following categories:

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

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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.*

The following table summarizes additions to properties for 2008:

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

Contractual Obligations and Guarantees

Contractual Obligations

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

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

Purchase obligations relate to the following:

- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately $23.6 million payable generally on the earlier of the maturity date or the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Purchase obligations with respect to previously closed acquisitions up to the amount of approximately $2.8 million payment which is contingent upon the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Commitments with respect to various construction contracts of approximately $16.9 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately $11.6 million.

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

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

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

Other Contracts

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

(i) For a period of 10 years, expiring February 5, 2016, payment to Melior of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell in the Province of Quebec provided such acquisitions are introduced, presented or referred by Melior. In addition, 2.0% of the purchase price of all acquisitions by Chartwell of properties in Canada, excluding the Province of Quebec, which are introduced, presented or referred by Melior.

(ii) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50,000 and 3% of total budgeted development costs for the related project.

CSH-INGRE's properties in the U.S. are managed by HBC. The property management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenues plus incentive fees based on achieving certain operating targets. Chartwell owns an effective 74.5% interest in HBC.

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

Guarantees

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

Transactions with Related Parties

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

Spectrum

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

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

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

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

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

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

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

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

In Q1 2008, Chartwell acquired one seniors housing community from Spectrum, Melior and Spectrum Joint Venture partners for a total purchase price of approximately $29.5 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 Joint Venture Partners

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

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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.*

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

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

As described more fully in the "Significant Events" section of this MD&A, Chartwell recorded a provision for impairment of mezzanine loans of $6.4 million before future tax recoveries.
During Q4 2008 and 2008, Chartwell recorded contractual mezzanine loan interest from Melior of approximately $0.4 million and $4.0 million respectively.

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

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

Other

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

Subsequent Events

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

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

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

Changes to Significant Accounting Policies

Chartwell prepares its financial statements in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Chartwell's significant accounting policies are summarized in Note 1 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.

Changes Adopted in 2008:
On January 1, 2008, Chartwell adopted the new recommendations of the following CICA Handbook Sections: Section 3862, "Financial Instruments – Disclosures" and 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 24 of the Financial Statements.

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

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

Ontario Long-Term Care Licensing:

- The new legislation governing long-term care communities in Ontario, which, among other things, contemplates the granting of licenses for fixed terms of up to 25 years has not yet been fully proclaimed into effect. If it is proclaimed into effect in the current form, the Trust may be required to start amortizing the value of its long term care licenses over the respective license term.

International Financial Reporting Standards:

- Canada's Accounting Standards Board recently confirmed its strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting

Standards Board ("IFRS-IASB") over a transitional period to be completed by 2011. Chartwell will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011.

- Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: first, as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and secondly, standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The IASB currently has projects underway that are expected to result in new pronouncements that continue to evolve.
- Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP based clauses (including debt covenants), employee compensation plans and performance metrics. Accordingly, Chartwell's implementation plan will include measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst Management, the Board, the Audit Committee and Investors.

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

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

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

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

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

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

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

Status of Convergence Plan:
Currently, impact assessment and training activities are underway and progressing according to plan.

Critical Accounting Estimates

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

Valuation of properties

Properties make up approximately 81.1% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the net carrying amount of properties is recoverable from future undiscounted cash flows. Factors which could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for our overall business. In some cases, these events are clear, however, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events may occur over a period of time leading to an indication that an asset may be impaired. As a result, events occurring in these situations may not be known until a date subsequent to their occurrence.

Our businesses, markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an event has occurred, an estimate is made of the future undiscounted cash flows from the asset. If the total of the undiscounted future cash flows, excluding financing charges, is less than the carrying amount of the asset, an asset impairment charge is recognized in the financial statements. The amount of the impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is best estimated by calculating the net present value of future expected cash flows related to the asset. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgment.

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

Useful life of properties

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

and current and forecasted demand. Major components of properties are depreciated over their own useful lives. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as discussed previously.

Valuation of mezzanine loans receivable

We evaluate our mezzanine loans receivable for impairment. Impairment is recognized when the carrying value of mezzanine loans receivable may not be recovered due to the inability of the underlying assets' performance to support a fair value that would exceed our net investment in these assets (with consideration given to third party guarantees and pledges of security). In making this determination, our estimates of future cash flow and the effects of other factors could vary and result in a significantly different assessment of impairment. Mezzanine loans comprise approximately 4.1% of our total assets.

Variable Interest Entities

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

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

Guarantees

We continually review our contingent liabilities relating to guarantees we have provided on behalf of third parties. Our guarantees remain in place for certain debts assumed by purchasers in connection with property dispositions, and will remain until such debts are extinguished or lenders agree to release Chartwell's covenants. Recourse would be available to us under these guarantees in the event of a default by the borrowers, in which case we would have a claim against the underlying real estate investments. Chartwell would record a provision for a liability when the carrying values of the related real estate investments are not recovered either as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and/or the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the

normal course of business. Our estimates of future cash flow (which amongst others, involve assumptions of estimated occupancy, rental rates and residual value) and fair value could vary and result in a significantly different assessment of such contingent liability.

Income taxes

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

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes along with the expected reversal pattern of these temporary differences. These differences result in future tax assets and liabilities which are included in our balance sheet, calculated based on the estimated tax rate in effect at the time these differences reverse.

Judgment is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets net of valuation allowances are realizable. The impact of different interpretations and applications could potentially be material.

An assessment must also be made to determine the likelihood that the Trust's future tax assets will be recovered from future taxable income. To the extent that recovery is considered less rather than more likely, a valuation allowance must be provided. Judgment is required in determining the provision for income taxes, future income tax assets and liabilities and any related valuation allowance. To the extent a valuation allowance is created or revised, current period earnings would be affected.

Fair value

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties (that is, other than in a forced or liquidation sale) in an arm's length transaction under no compulsion to act. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. We assess fair value based on estimated discounted cash flow projections and available market information. Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates (including the historical operating results and anticipated trends, local markets and economic conditions) and our own assumptions giving consideration to: (i) the potential use for the asset, other than that intended, by other market participants; (ii) our ability to accept levels of risk for a liability and manage it internally, rather than transferring that liability to another enterprise; (iii) our possession of certain capabilities not possessed by others; (iv) our possession of information or processes that allow us to realize (or avoid paying) cash flows that differ from other market participants; and (v) our ability to realize economies of scale not necessarily available to other market participants. As a result, in determining fair value we select amongst several acceptable valuation techniques and make assumptions. Consequently, our determination of fair value could vary under differing circumstances and result in significantly different calculations of fair value.

Our financial statements are affected by fair value measures, the most significant areas affected are as follows:

- Upon acquisition of properties we estimate the fair value of acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (above and below-market leases representing the value of the differential between contractual and market rents, in-place leases, customer relationships, and licenses) and the value of the differential between stated and market interest rates on long term liabilities assumed at acquisition.
- Included in revenue is the adjustment for the differential between contractual and market rents on our resident leases in place at the acquisition of our properties.
- In addition, fair value forms the basis for allocating consideration to each unit of accounting for revenues from contracts with multiple deliverables that meet the criteria for separate unit of accounting revenue recognition.
- As discussed in valuation of properties above, an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of carrying value over fair value.
- Impairment testing of goodwill is required at least annually and requires comparing the fair value of the reporting unit to its carrying value and if carrying value is higher than fair value, potentially recognizing an impairment loss on goodwill.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing fair value to carrying value to determine if an impairment loss is required to be recognized.
- In assessing our potential exposure relating to third party guarantees we evaluate the fair value of the borrower's interests in the underlying real estate investments compared to the liability for which we have provided a guarantee.
- On January 1, 2007, we adopted the new accounting standard Section 3855, Financial Instruments – Recognition and Measurement. This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods may be at fair value depending on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.
- We disclose in our financial statements the fair value of our mortgages and debentures payable, which amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

Revenue

Property Revenue

Revenue is recognized when services are provided to residents. In Canada, the provinces regulate fees charged to residents of long term care homes and provincial or regional programs fund a substantial portion of these fees. We receive reimbursements from these funding authorities for services rendered to residents covered by these programs. Preparation of the financial statements requires an estimate of the amounts recoverable and earned from the various funding authorities in the jurisdictions in which we operate. Judgment is required to assess amounts recoverable under the various funding agreements, and related regulations and legislation, which are continually changing. The impact of different interpretations and applications of these agreements could change revenues.

Fee Revenue

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

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

Controls and Procedures

Chartwell is committed to maintaining effective disclosure control procedures and internal controls over financial reporting (“internal controls”). Over the past two years, we made significant investments in improvements to our information systems and financial processes. We expect to continue these efforts to further strengthen our internal controls in 2009. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management’s assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Evaluation of Disclosure Controls and Procedures

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

Evaluation of and Changes in Internal Controls over Financial Reporting

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

Changes in Internal Controls - Deficiencies with certain information technology ("IT") controls at our management company in Quebec

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

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

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

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

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

Forward–Looking Information and Risks and Uncertainties

Forward-Looking Information

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

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

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;

- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;

- possible benefits from the implementation of new purchasing programs, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods that offset any benefits from our purchasing power and is subject to the assumption that we can negotiate favourable terms with our vendors in the future;

- growth or lack thereof of G&A expenses, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase; and

- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks.

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

Risks and Uncertainties

(a) **Business Risks**: Chartwell is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.

(b) **Taxation**: Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. For a description of the recent tax developments relating to SIFT Rules, please refer to the "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 SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's units. In 2008, 100% of Chartwell's distributions were characterized as return of capital (2007, 97.7%). Management believes it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

(c) **Geographic Concentration**: Chartwell's business and operations are conducted in the United States and Canada, and within Canada in Ontario and Quebec. At December 31, 2008, a geographic concentration of our suites as a percentage of total suites was: U.S. – 34%; Canada – 66%; by province as a percentage of total suites as follows: Ontario – 33%; Quebec – 23%; and other Canadian provinces – 10%. The market value of these properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.

(d) **Maintenance of Productive Capacity**: Chartwell is committed to keep its communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio, the annual capital maintenance requirements are approximately 2% of annual gross property revenues.* In addition to recurring capital maintenance projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the capital maintenance requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in capital maintenance requirements of our communities could adversely impact cash available to Chartwell. The details of our actual capital asset spending for 2008 and 2007 can be found in the "Capital Expenditures" section of this MD&A.

(e) **Acquisition and Development**: Chartwell's external growth prospects depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. Chartwell has significantly reduced its focus on external growth over the past year. If Chartwell is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.

(f) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with Chartwell in seeking residents. The existence of competing owners, managers and developers and competition for Chartwell's residents could have an adverse effect

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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*

on the Trust's ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect Chartwell's revenues and, consequently, cash available to Chartwell. The supply of long-term care suites in the regions in which Chartwell owns retirement communities may have an impact on the demand for retirement community suites.

(g) **Government Regulation**: Healthcare in Canada is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect Chartwell. In addition, new regulatory standards and requirements are being considered in a number of provinces which may affect all types of seniors housing communities.

Currently, the long-term care beds in Ontario are operated pursuant to the Nursing Homes Act, the Charitable Institutions Act or Homes for the Aged and Rest Homes Act. On October 3, 2006, the Government of Ontario introduced Bill140, 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. It is anticipated that the regulations will be completed in the fall of 2009 at which time the LTC Act 2007 could be fully in force.

(h) **Personnel Costs**: Chartwell competes with other healthcare providers with respect to attracting and retaining qualified personnel. Chartwell is also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.

(i) **Labour Relations**: Chartwell, directly and indirectly, employs or supervises approximately over 15,000 persons, of whom approximately 40% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that Chartwell will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on Chartwell's business, operating results and financial condition. Most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply which ensure the continuation of resident care and most services.

There can be no assurance that the seniors housing communities owned by Chartwell that are not currently unionized will not in the future be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing communities' employees.

(j) **Debt Financing**: Chartwell has and will continue to have substantial outstanding consolidated indebtedness comprised primarily of mortgages on our retirement and long-term care communities.

During 2008, lenders' credit spreads have increased substantially from the levels experienced in the past. However, the continuing decline in Government of Canada's bond yields made "all-in" debt costs lower than previously.

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

Chartwell may not be able to renegotiate the terms of renewal of its debt at favourable rates. To the extent that any financing requiring CMHC consent or approval is not obtained, or such consent or approval is only available on unfavourable terms, the Trust may be required to finance a conventional mortgage which may be less favourable to the Trust than a CMHC-insured mortgage. In addition, the terms of the Trust's indebtedness generally contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the distributions that may be made by the Trust and its subsidiaries. Therefore, upon an event of default under such indebtedness, Chartwell's ability to make distributions will be adversely affected.

A portion of Chartwell's cash flow is devoted to servicing its debt, and there can be no assurance that the Trust will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If Chartwell were unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. Chartwell is also subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such refinancing may not be as favourable as the terms of its existing indebtedness.

(k) **Mezzanine Financing**: The mezzanine financing that has been provided by Chartwell to Spectrum pursuant to the Development Agreement, to Melior, and to Spectrum's joint venture partners, is generally secured by second charges or pledges of the borrowers' interests in development projects and ranks behind construction financing. Consequently, if mezzanine loan borrowers face financial difficulty and are not able to meet their commitments to their lenders, including Chartwell, the Trust could suffer a loss of management fees and of either interest or principal or both on the mezzanine loans it has advanced since lenders under the construction financing will rank ahead of Chartwell in any recovery from the assets of mezzanine loan borrowers. Further, Chartwell may not, at the applicable time, have the financial capacity to acquire all communities that it is entitled to acquire from mezzanine loan borrowers. In the event that Chartwell does not exercise its purchase option, the Trust would expect to have the principal and any unpaid interest relating to its mezzanine financing returned to it at which time Chartwell would cease to receive mezzanine loan interest income, and/or may cease to receive its management fees when mezzanine loan borrowers sell the property to a third-party. There is no

guarantee that the level of development carried on by mezzanine loan borrowers will be maintained at current levels. Mezzanine loan borrowers' level of development activity may be constrained by their capital resources.

(l) **U.S./Canadian Exchange Rate Fluctuations**: Chartwell has interests in seniors housing communities located in the United States. Chartwell will therefore be subject to foreign currency fluctuations which may, from time to time, have an impact upon its financial position and results. Chartwell may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging agreements, if any, would be sufficient to protect against currency rate losses that could adversely affect cash available to Chartwell.

(m) **Environmental Liabilities**: Under various environmental laws and regulations, Chartwell, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations sometimes regardless of whether or not the Trust knew of or was responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, management of Chartwell is not aware of any material non-compliance, liability or other claim in connection with any of our owned properties and properties in respect of which mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that it believes would involve material expenditure by the Trust.

Environmental laws and regulation may change and Chartwell may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on Chartwell's business, financial condition or results of operation and distributions.

(n) **Liability and Insurance**: The businesses, which are carried on, directly or indirectly, by Chartwell, entail an inherent risk of liability. Management expects that from time to time Chartwell may be subject to such lawsuits as a result of the nature of its businesses. The Trust maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

(o) **Joint Venture Interests**: Chartwell has entered into joint venture arrangements in respect of certain of its seniors housing operations. These joint venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing facilities including those risks described above. However, Chartwell relies, in part, on its joint venture partners to successfully manage and operate certain of its seniors housing operations, including those owned by certain of the joint ventures. Such reliance may include, but is not limited to: personnel; local, regional and/or industry expertise and licensing; historical performance; technical resources and information systems; financial strength and access to capital; economies of scale; and operations management. Therefore, Chartwell may be exposed to adverse developments, including a possible change in control, in the business and affairs of its joint venture partners which could have a significant impact on, or termination of, Chartwell's interests in its joint ventures and could affect the value of the joint ventures to Chartwell and/or cause

Chartwell to incur additional costs if it were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint venture arrangements themselves, including: the risk that the other joint venturer may exercise buy-sell, put or other sale or purchase rights which could obligate Chartwell to sell its interest or buy the other joint venturer's interest at a price which may not be favourable to Chartwell or at a time which may not be advantageous to Chartwell, the effect of which could be materially adverse to Chartwell's financial position or resources.

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

Chartwell continuously evaluates the impact of AcG-15 on the accounting for its relationships with and interests in various entities. As described in the "Critical Accounting Estimates" section of this MD&A, in order to complete its evaluation under AcG-15, management is required, among other things, to make estimates of expected losses and/or residual returns, the probabilities of any such losses and/or residual returns relating to Spectrum, Melior, joint ventures, mezzanine financings and other relationships, and the impact of changing economic conditions. These estimates are based on historical and available market information. Imprecision in these estimates can affect the assessment of expected losses and/or residual returns.

At December 31, 2008, Chartwell holds, directly or indirectly, variable interests in 19 variable interest entities. Although these entities were identified as VIEs, it was determined that Chartwell is not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

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