Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2008 and 2007

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AUDITORS' REPORT

To the Unitholders of Chartwell Seniors Housing
Real Estate Investment Trust

We have audited the consolidated balance sheets of Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell") as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Chartwell's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chartwell as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 17, 2009

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee

"Sidney Robinson" Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2008	Trust Units issued, net (note 14)	LTIP Units under subscription (note 14)	LTIP instalment loan receivable (note 14)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components (note 10)	Total
Unitholders' equity, January 1, 2008	$ 1,102,573	$ 31,894	$ (25,633)	$ (100,644)	$ (28,351)	$ (237,113)	$ 14,878	$ 757,604
Loss for the year	–	–	–	(99,472)	–	–	–	(99,472)
Other comprehensive income	–	–	–	–	31,766	–	–	31,766
Distributions to unitholders	–	–	–	–	–	(75,670)	–	(75,670)
Issuance of Trust Units issued under the Distribution Reinvestment Program ("DRIP")	9,230	–	–	–	–	–	–	9,230
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	24,296	–	–	–	–	–	–	24,296
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of Trust Units transferred to Treasury	–	6,681	(5,751)	–	–	–	195	1,125
Disposition of LTIP Units surrendered, net of units transferred to Treasury	932	(5,796)	5,166	–	–	–	–	302
Interest on instalment loan receivable	–	–	(1,091)	–	–	–	–	(1,091)
Distributions applied against instalment loan receivable	–	–	2,144	–	–	–	–	2,144
Unitholders' equity, December 31, 2008	$ 1,137,031	$ 32,779	$ (25,165)	$ (200,116)	$ 3,415	$ (312,783)	$ 15,073	$ 650,234

Year ended December 31, 2007	Trust Units issued, net (note 14)	LTIP Units under subscription (note 14)	LTIP instalment loan receivable (note 14)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components (note 10)	Total
Unitholders' equity, January 1, 2007	$ 874,165	$ 27,667	$ (23,343)	$ (33,319)	$ 587	$ (142,968)	$ 4,714	$ 707,503
Cumulative impact of adopting new accounting standards for financial instruments	–	–	–	14	–	–	–	14
Loss for the year	–	–	–	(67,339)	–	–	–	(67,339)
Other comprehensive loss	–	–	–	–	(28,938)	–	–	(28,938)
Distributions to unitholders	–	–	–	–	–	(94,145)	–	(94,145)
Issuance of Trust Units pursuant to secondary public offering	200,925	–	–	–	–	–	–	200,925
Issuance of Trust Units pursuant to exercise of over-allotment option	30,139	–	–	–	–	–	–	30,139
Issuance of 5.9% convertible debentures	–	–	–	–	–	–	10,563	10,563
Issuance of Trust Units under the DRIP	4,317	–	–	–	–	–	–	4,317
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	3,657	–	–	–	–	–	–	3,657
Trust Units issued under the LTIP, net of Trust Units transferred to Treasury	223	4,313	(4,054)	–	–	–	–	482
Repayment of instalment loan receivable	–	–	220	–	–	–	–	220
Trust Units issued on dispositions of LTIP Units under subscription	93	(86)	70	–	–	–	–	77
Trust Units issued on dispositions of Treasury Units	755	–	–	–	–	–	–	755
Issue costs	(11,773)	–	–	–	–	–	(396)	(12,169)
Interest on instalment loan receivable	–	–	(1,083)	–	–	–	–	(1,083)
Distributions applied against instalment loan receivable	–	–	2,557	–	–	–	–	2,557
Trust Units issued on conversion of convertible debentures	72	–	–	–	–	–	(3)	69
Unitholders' equity, December 31, 2007	$ 1,102,573	$ 31,894	$ (25,633)	$ (100,644)	$ (28,351)	$ (237,113)	$ 14,878	$ 757,604

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows (continued)
(In thousands of Canadian dollars)

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

Supplemental cash flow information (note 21)

See accompanying notes to consolidated financial statements.

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

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

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

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

Chartwell's Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year (note 22).

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint ventures. All intercompany transactions have been eliminated upon consolidation.

1. Significant accounting policies (continued):

(b) Impact of new accounting standards:

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

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

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

(c) Business combinations:

Upon the acquisition of properties, Chartwell allocates the purchase price to the fair value of assets and liabilities, including land, building, furniture, fixtures and equipment and intangibles, such as licenses, the value of the above- and below-market resident contracts, in-place resident contracts and the value of customer relationships.

1. Significant accounting policies (continued):

(d) Properties:

Properties include land, buildings, furniture, fixtures and equipment and are recorded at cost less accumulated depreciation. An impairment loss on an income property is required to be recognized when the carrying amount of any individual property exceeds the sum of the undiscounted cash flows expected from its use and disposal. An impairment loss is measured as the amount by which the carrying amount of a property exceeds its fair value.

Properties under development and land held for development, included in properties, are carried at the lower of cost and estimated net realizable value. Cost includes initial acquisition costs, other direct costs, realty taxes, interest related to their financing and other operating costs less the amount of operating revenue during the development period. The development period ends once a property is designated as an operating property, which is the earlier of the attainment of break-even cash flow after debt service or 24 months after substantial completion of construction.

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

Buildings	40 years
Building improvements	10 years
Furniture, fixtures and equipment	3 - 5 years

1. Significant accounting policies (continued):

(e) Goodwill and other intangibles:

Goodwill represents the cost of acquired net assets in excess of their fair values. Goodwill is not amortized, but tested for impairment annually, or more frequently, if events or changes in circumstances indicate the asset might be impaired, by comparing the carrying value of a reporting unit with its fair value.

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

Intangible assets are recorded at cost and consist of third party management contracts, resident contracts, above- and below-market resident contracts, customer relationships, other intangibles and licenses. Intangible assets with finite useful lives are amortized over their useful lives and are tested for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with indefinite lives are not amortized and are tested for impairment annually, or more frequently, if events or circumstances indicate that the assets might be impaired.

(i) Management contracts and customer relationships:

Management contracts and customer relationships are amortized on a straight-line basis over the term of the contract or if no term is specified, over an estimated life not to exceed five years.

1. Significant accounting policies (continued):

(ii) Above- and below-market resident contracts:

The values of the above and below-market resident contracts are amortized and recorded as either an increase (in the case of below-market resident contracts) or a decrease (in the case of above-market resident contracts) to revenue over the expected term of the associated resident occupancy, estimated at an average of three years for retirement homes and two years for long-term care properties.

(iii) Resident contracts:

The value associated with in-place resident contracts, which represents the avoided costs of originating the acquired resident contracts plus the value of lost net resident revenue over the estimated lease-up period of the property, is amortized over the expected term of the resident occupancy.

(iv) Other intangibles:

Other intangibles consist of the allocated cost of acquired operating leases of seniors housing properties. The allocated cost of the operating leases is amortized over the initial lease term of the underlying operating leases.

(v) Licenses:

Licenses for the operation of long-term care properties, when acquired, are recorded at cost.

These licenses are considered to have an indefinite life and are not amortized.

(f) Long-term investments:

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

1. Significant accounting policies (continued):

(g) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase and are stated at cost, which approximates fair value.

(h) Revenue recognition:

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

(i) Retirement home resident revenue:

Revenue in respect of accommodation and care services fees provided to residents of retirement homes is recognized when the services, both rental and care, are provided. In certain jurisdictions, residents of retirement homes are eligible for government subsidies and the rates for these subsidies are regulated. In Canada, in some jurisdictions, rent control regulations affect rates that can be charged for rental accommodation.

(ii) Long-term care home resident revenue:

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian long-term care properties is recognized when the rental or ancillary services are provided.

In Canada, the provinces or regional health authorities (collectively "funding agencies") regulate amounts charged to residents of long-term care homes, a substantial portion of which are funded by provincial or regional programs. Long-term care home resident revenue earned is based exclusively on actual census and is recognized as services are rendered. Certain revenue is earned only when the Trust has achieved actual census and has met additional criteria, which may include achieving certain levels of expenditures or levels of labour hours. Revenue is recognized when these criteria are achieved.

1. Significant accounting policies (continued):

Canadian funding agencies provide additional funding in excess of the amounts due for actual census if certain minimum occupancy levels are achieved over the funding agency's annual cycle. Revenue for funding in excess of amounts due for actual census is recognized when the Trust has achieved the required occupancy criteria, on a proportionate basis, to earn such funding and where management expects to continue to achieve the occupancy criteria through to the completion of the funding agency's annual cycle.

(iii) Allowance for doubtful accounts:

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of residents to meet the contractual obligations under their lease agreements. Such allowances are reviewed periodically based on the recovery experience of the Trust and the creditworthiness of the residents.

(iv) Fee revenue:

(a) The Trust provides property management services for both third party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services and is recognized in the month in which services are performed in accordance with the terms of the management contract.

(b) Fee revenue from development services relates to building design and construction oversight. Development fee revenue is recognized on a project-specific basis using the percentage-of-completion method reflecting the level of effort expended to achieve predetermined project milestones. Prior to submission to the municipality for a building permit, no development fees are recognized. At submission, 65% of the estimated fees are recognized. The remaining portion of fees revenue is recognized on a straight-line basis over the estimated period the services are provided.

(c) Fee revenue from financing and due diligence project management is recognized upon completion of the contracted services.

1. Significant accounting policies (continued):

(v) Gains/losses on properties:

Gains/losses on long-lived income properties are recognized when the Trust has transferred to the purchaser the significant risks and rewards of ownership of the property and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

(vi) Multiple deliverables:

Chartwell earns revenue from contracts that include multiple deliverables. Under the Development Agreement with Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell by virtue of common management (note 5(a)), and agreements with Le Groupe Melior ("Melior") and others (note 5(b)), the Trust earns interest from mezzanine loans, as well as mezzanine placement fees, development fees, structuring fees, financing fees and operations management fees. These multiple-element arrangements are assessed on a case-by-case basis to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. The revenue recognition policies described above are then applied to each unit of accounting.

Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell's lending activities and are recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are expensed over the same period using the effective interest rate method.

1. Significant accounting policies (continued):

(i) Long-Term Incentive Plan:

Chartwell accounts for its Long-Term Incentive Plan ("LTIP") using the fair value-based method, under which a compensation expense is recognized, over the vesting period, for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes.

As the units issued under the LTIP are treated as options for accounting purposes, they are included in the diluted per unit calculations to the extent they are dilutive.

(j) Employee future benefits:

Chartwell provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis.

Chartwell accrues its obligations related to accumulated sick pay and post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in direct operating expenses in the current year.

(k) Income taxes:

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

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

1. Significant accounting policies (continued):

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

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

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

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

Chartwell uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the year that includes the date of enactment or substantive enactment.

1. Significant accounting policies (continued):

(l) Foreign currency:

Financial statements of Chartwell's self-sustaining operations in the United States are translated into Canadian currency using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the consolidated balance sheet dates. Revenue and expenses are translated at rates in effect on the dates on which such items are recognized in income during the year.

Exchange gains and losses arising from the translation of the financial statements of Chartwell's self-sustaining foreign operations are deferred and included in other comprehensive income (loss). When there is a reduction in Chartwell's net investment in a self-sustaining foreign operation, a proportionate amount of the accumulated other comprehensive income (loss) related to currency translation is included in the determination of loss for the year.

(m) Derivative financial instruments:

Interest rate derivatives:

Chartwell enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Chartwell may designate its interest rate swap agreements as hedges of the underlying interest. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred on the consolidated balance sheets and recognized in loss for the year in the year in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in loss for the year.

1. Significant accounting policies (continued):

(n) Convertible debentures:

Chartwell accounts for convertible debentures by valuing the holders' option to convert to units and classifying such value as equity. The remaining value of the convertible debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

(o) Employee health benefits:

Chartwell self-insures the cost of certain employee health plans. These plans are administered by an independent third party. Accruals for self-insured liabilities include estimates of the costs of both reported claims and claims incurred but not reported and is based on estimates of loss based on assumptions made by management including consideration of projections provided by the independent third party administrator of the plan.

(p) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. In determining the estimated construction period over which to recognize development fees, the estimated mezzanine loan term over which fee revenue for services considered integral to the Trust's lending activities is to be recognized, the fair value of assets and liabilities of businesses it acquires, the fair values of financial instruments, the expected gains and losses of variable interest entities ("VIEs"), the recoverability of mezzanine loans, the estimated useful lives and net recoverable amounts for properties, the fair value of reporting units and intangible assets not subject to amortization, as well as the reversal pattern of temporary differences related to future income tax, Chartwell relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity, foreign exchange and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

1. Significant accounting policies (continued):

(q) Future accounting changes:

(i) Goodwill and intangible assets:

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

The objectives of this new section are to:

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

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

(ii) Credit risk and the fair value of financial assets and financial liabilities:

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

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

1. Significant accounting policies (continued):

(iii) Harmonizing of Canadian and international standards:

In February 2008, the Canadian Accounting Standard Board issued an exposure draft proposing that accounting standards in Canada for publicly accountable profit-oriented enterprises will converge with International Financial Reporting Standards ("IFRS") for interim and annual reporting periods beginning on or after January 1, 2011. The Trust's first annual IFRS consolidated financial statements will be for the year ended December 31, 2011 and will include the comparative period for the year ended December 31, 2010. Starting with the first quarter of 2011, the Trust will provide unaudited consolidated financial statements in accordance with IFRS, including comparative figures for 2010. The impact of the transition to IFRS on Chartwell's consolidated financial statements has not yet been determined.

2. Acquisitions:

(a) Acquisition during the year ended December 31, 2008:

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

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

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

2. Acquisitions (continued):

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

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

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

2. Acquisitions (continued):

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

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

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

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

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

2. Acquisitions (continued):

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

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

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

The acquisitions were recorded using the purchase method of accounting with the results of operations included in these consolidated financial statements from the date of acquisition.

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

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

3. Properties:

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

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

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

During the year ended December 31, 2008, Chartwell sold part of one property, excess land and miscellaneous equipment with a carrying value of $821. A gain of $79 was recognized on these sales.

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

4. Capital funding receivable:

The capital funding receivable of $46,001 (2007 - $48,078) represents the discounted cash flows receivable from the Government of Ontario over a remaining period of approximately 14 years in respect of construction costs of 12 long-term care properties. The funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care homes for the remaining period. The discount rate used is based upon long-term Ontario Government Bond rates.

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

5. Mezzanine loans receivable:

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

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

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

(a) Spectrum:

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

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

5. Mezzanine loans receivable (continued):

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

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

(b) Melior and other joint venture partners:

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

Chartwell has advanced 24 (2007 - 28) mezzanine loans totalling $57,241 (2007 - $61,909) to Melior and six other joint venture partners of Spectrum (the "Borrowers"). These loans are secured by second charges or pledges of the Borrowers' interest over 22 (2007 - 25) seniors housing development projects.

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

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

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

5. Mezzanine loans receivable (continued):

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

The following table represents the loan repayment schedule assuming that all outstanding mezzanine loans were to mature on their fifth anniversary date, excluding provision for impairment:

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

6. Limited life intangible assets:

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

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

6. Limited life intangible assets (continued):

Management contracts and customer relationships represent the acquired value of contractual agreements to provide management and advisory services for the operations of seniors residences and long-term care properties owned by third parties. Resident contracts represent in-place resident contracts valued at acquisition. Other intangibles represent the acquired value of operating leases of senior housing properties.

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

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

7. Other assets:

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

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

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

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

8. Goodwill:

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

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

8. Goodwill (continued):

Provision for impairment:

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

The process of determining fair value is highly subjective and requires management to exercise a significant amount of 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 the market value of equity as the primary basis for the valuation of its reporting units and the determination of the implied fair value of goodwill for these reporting units. On this basis, the impairment test determined that, for all reporting units, the carrying value of goodwill exceeded its estimated fair value as at December 31, 2008 and as a result, Chartwell recorded an impairment charge of $64,506.

Reporting unit	Value of goodwill before impairment provision	Impairment provision	Goodwill as at December 31, 2008
Canadian retirement operations	$ 33,297	$ 33,297	$ –
Canadian long-term care operations	2,720	2,720	–
Canadian management operations	11,558	11,558	–
United States operations	16,931	16,931	–
	$ 64,506	$ 64,506	$ –

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

9. Secured debt:

(a) Mortgages payable:

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

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

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

9. Secured debt (continued):

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

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

(b) Secured revolving operating credit facility:

Chartwell has arranged for a $90,000 secured revolving operating credit facility (the "Credit Facility"). At December 31, 2008, the maximum available borrowing capacity under the Credit Facility was $62,153 (2007 - $64,497) based on the security provided. The Credit Facility matures on June 28, 2009. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1% or at the applicable bankers' acceptance rate plus 2.25%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The Credit Facility is secured by first and second charges on specific properties. As at December 31, 2008, $8,000 (2007 - nil) was outstanding under the Credit Facility.

(c) Non-voting Series A preferred interests of CSH Master Care LLC:

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

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

9. Secured debt (continued):

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

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

10. Convertible debentures:

The Trust has the following series of convertible debentures outstanding:

			2008			2007
	6.0% Convertible Debentures	5.9% Convertible Debentures	Total	6.0% Convertible Debentures	5.9% Convertible Debentures	Total
Principal	$ 124,925	$ 75,000	$ 199,925	$ 124,925	$ 75,000	$ 199,925
Carrying value of liability	$ 119,005	$ 65,629	$ 184,634	$ 117,266	$ 63,390	$ 180,656

10. Convertible debentures (continued):

(a) 5.9% convertible debentures:

On April 20, 2007, Chartwell issued $75,000 of convertible, unsecured, subordinated debentures ("5.9% Convertible Debentures") pursuant to a prospectus dated April 13, 2007 for proceeds of $72,188, net of issue costs. The 5.9% Convertible Debentures bear interest at an annual rate of 5.9% payable semi-annually in arrears on May 1 and November 1 in each year commencing May 1, 2007. Each 5.9% Convertible Debenture is convertible into freely tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of May 1, 2012 and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.9% Convertible Debentures, at a conversion price of $16.25 per Trust Unit. Holders converting their 5.9% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 5.9% Convertible Debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell has suspended regular distributions, then a 5.9% Convertible Debenture holder, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion.

The 5.9% Convertible Debentures will not be redeemable by Chartwell before May 1, 2010 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after May 1, 2010 but prior to May 1, 2011, the 5.9% Convertible Debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the trust indenture relating to the debentures (the "Indenture") is not less than 125% of the conversion price. On or after May 1, 2011, the 5.9% Convertible Debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the face value thereof plus accrued and unpaid interest.

10. Convertible debentures (continued):

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.9% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the Indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 5.9% Convertible Debentures trustee to satisfy the obligations to pay interest on the 5.9% Convertible Debentures.

As Chartwell's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell requires a variable number of Trust Units to be issued to satisfy the obligation, the 5.9% Convertible Debentures are recorded primarily as a liability. On issuance, Chartwell has recorded a liability of $62,021, net of issue costs of $2,416, and equity, which represents the holders' option to convert the 5.9% Convertible Debentures into Trust Units, of $10,167, net of issue costs of $396.

Interest expense is recorded on the liability component of the 5.9% Convertible Debentures as a charge to income and is calculated at an effective rate of approximately 10.0% with the difference between the coupon interest rate of 5.9% and the effective rate of 10.0% credited to the liability component of the 5.9% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 5.9% Convertible Debentures.

10. Convertible debentures (continued):

(b) 6.0% convertible debentures:

On November 28, 2006, Chartwell issued $125,000 of convertible, unsecured subordinated debentures ("6.0% Convertible Debentures") pursuant to a prospectus dated November 16, 2006 for proceeds of $120,313, net of issue costs. The 6.0% Convertible Debentures bear interest at an annual rate of 6.0% payable semi-annually in arrears on December 1 and June 1 in each year commencing December 1, 2006. Each 6.0% Convertible Debenture is convertible into freely tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of December 1, 2011 and the last business day immediately preceding the date specified by Chartwell for redemption of the 6.0% Convertible Debentures, at a conversion price of $15.60 per Trust Unit. Holders converting their 6.0% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 6.0% Convertible Debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell has suspended regular distributions, then a 6.0% Convertible Debentures holder, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion.

The 6.0% Convertible Debentures will not be redeemable by Chartwell before December 1, 2009 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after December 1, 2009 but prior to December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the Indenture is not less than 125% of the conversion price. On or after December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

10. Convertible debentures (continued):

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 6.0% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the Indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 6.0% Convertible Debentures trustee to satisfy the obligations to pay interest on the 6.0% Convertible Debentures.

As Chartwell's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell requires a variable number of Trust Units to be issued to satisfy the obligation, the 6.0% Convertible Debentures are recorded primarily as a liability. On issuance, Chartwell has recorded a liability of $120,046 and equity, which represents the holders' option to convert the 6.0% Convertible Debentures into Trust Units, of $4,954. Chartwell incurred issue costs of $4,688, of which $240 has been recorded as a reduction of the equity component of the 6.0% Convertible Debentures. The remaining $4,448 of issue costs will be amortized to interest expense over the term of the 6.0% Convertible Debentures.

Interest expense is recorded on the liability component of the 6.0% Convertible Debentures as a charge to income and is calculated at the effective rate of approximately 8.0% with the difference between the coupon interest rate of 6.0% and the effective rate of 8.0% credited to the liability component of the 6.0% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 6.0% Convertible Debentures.

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

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

11. Accounts payable and other liabilities:

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

12. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

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

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

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

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

12. Deferred consideration on business combinations (continued):

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

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

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

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

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

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

13. Non-controlling interest:

Non-controlling interest represents the interest of the holders of the Class B Units of Master LP, which is consolidated in these consolidated financial statements. Class B Units of Master LP are exchangeable, at the option of the holder, into Trust Units. Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Class B Units are transferable to third parties with Chartwell's consent.

The details of non-controlling interest are as follows:

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

14. Unitholders' capital:

Chartwell is authorized to issue unlimited Trust Units.

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

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

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

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

14. Unitholders' capital (continued):

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed $50,000 unless waived at the discretion of the Trust Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the redemption price payable in respect of Trust Units surrendered for redemption exceeds $50,000 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell.

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

	Number of voting units	Amount
Units outstanding, January 1, 2007	74,576,539	$ 874,165
Trust Units issued pursuant to secondary public offering	14,100,000	200,925
Trust Units issued pursuant to exercise of over-allotment option	2,115,000	30,139
Trust Units issued under the DRIP	328,065	4,317
Trust Units issued on exchange of Class B Units of Master LP	425,039	3,657
LTIP Units transferred to Treasury	–	223
Trust Units issued on dispositions of LTIP Units under subscription	5,000	93
Trust Units issued on dispositions of Treasury Units	71,250	755
Issue costs	–	(11,773)
Trust Units issued on conversion of convertible debentures	4,808	72
Units outstanding, December 31, 2007	91,625,701	1,102,573
Trust Units issued under DRIP	1,265,991	9,230
Trust Units issued on exchange of Class B Units of Master LP	3,407,906	24,296
Disposition of LTIP Units surrendered	70,000	932
Units outstanding, December 31, 2008	96,369,598	$ 1,137,031

14. Unitholders' capital (continued):

(b) Long-Term Incentive Plan:

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

Subsequent to 2005, the LTIP was amended to include vesting provisions at the discretion of the Trustees. Since that time, all Units issued to full time employees have the following vesting provisions: one-third in the first year of employment, one-third in the third year of employment and one-third in the fifth year of employment.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,571,990 (2007 - 2,336,323) were issued and 3,328,900 (2007 - 3,564,567) were available to be issued at December 31, 2008.

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

14. Unitholders' capital (continued):

The following table summarizes LTIP Units issued under the LTIP:

	Number of Units under subscription	Amount
Balance, December 31, 2006	2,070,375	$ 27,667
Sale of Trust Units	(76,250)	(86)
Issuance of Trust Units	342,198	3,773
Compensation expense	–	540
Balance, December 31, 2007	2,336,323	31,894
Sale of Trust Units	(15,000)	(150)
Issuance of Trust Units	656,667	5,929
Compensation expense	–	752
Units transferred to Treasury	(406,000)	(5,646)
Balance, December 31, 2008	2,571,990	$ 32,779

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

The compensation expense attributable to the LTIP of $752 for the year ended December 31, 2008 (2007 - $540) is included in general, administrative and trust expenses with a corresponding amount included in unitholders' equity as Units under subscription. The LTIP instalment loans receivable are recognized as a deduction from LTIP Units under subscription. Distributions received under the LTIP are charged to unitholders' equity while interest received under the LTIP is credited to distributions.

(c) Distribution Reinvestment Program ("DRIP"):

Chartwell has established a DRIP for its unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

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

15. Loss per unit calculation:

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

The calculation of per unit information on a diluted basis considers the potential exercise of outstanding unit options to the extent that the exercise of the option is dilutive and the potential conversion of outstanding convertible debentures to the extent that such conversion is dilutive.

Excluded from the calculation of dilutive weighted average units are the following weighted average units:

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

16. Property lease expense:

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

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

16. Property lease expense (continued):

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

A summary of property lease expense is as follows:

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

17. Related party transactions and balances:

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

(a) Spectrum:

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

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

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

17. Related party transactions and balances (continued):

During the year ended December 31, 2008, 0.1 acre of land owned by Chartwell was sold to Spectrum, Melior and their joint venture partners for a purchase consideration of $52.

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

(b) Melior:

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

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

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

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

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

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

17. Related party transactions and balances (continued):

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

18. Segmented information:

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

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

During the year ended December 31, 2008, three properties previously included in the Canadian long-term care operations segment were reclassified to the Canadian retirement operations segment to more accurately reflect how the properties are managed. The comparative results have been restated to reflect this change.

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

18. Segmented information (continued):

2008	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 291,212	$ 138,752	$ 9,092	$ 266,006	$ 705,062
Equity income from variable interest entities	3,087	–	–	–	3,087
Below-market lease amortization	410	–	–	1,436	1,846
Direct operating expense	187,491	121,264	4,100	168,011	480,866
Income before the undernoted	107,218	17,488	4,992	99,431	229,129
Interest expense	36,689	9,534	–	41,666	87,889
Property lease expense	117	204	–	47,638	47,959
Income before the following	70,412	7,750	4,992	10,127	93,281
Depreciation and amortization	58,441	8,847	2,759	52,333	122,380
Loss/(gain) on sale of assets	(89)	–	(16)	10	(95)
	$ 12,060	$ (1,097)	$ 2,249	$ (42,216)	(29,004)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					15,314
General, administrative and trust expenses					(19,902)
Interest on convertible debentures					(15,900)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain/(loss)					18,182
Provision for impairment of goodwill					(64,506)
Provision for impairment of mezzanine loans					(6,406)
Non-controlling interest					3,918
Current income tax expense					(999)
Future income tax expense					(169)
Loss for the year					$ (99,472)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets	$ 106,186	$ –	$ –	$ –	$ 106,186
Capital improvements	54,351	3,458	797	13,958	72,564

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

18. Segmented information (continued):

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

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

18. Segmented information (continued):

2008	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,331,094	$ 298,772	$ 13,937	$ 953,830	$ 107,854	$ 2,705,487
Total liabilities	922,332	190,187	–	717,956	208,332	2,038,807

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

19. Joint venture operations and variable interest entities:

(a) Joint venture operations:

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

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

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

19. Joint venture operations and variable interest entities (continued):

	2008	2007
Revenue	$ 243,167	$ 214,572
Expenses, including depreciation and amortization of $38,760 (2007 - $37,118)	267,610	244,186
Loss for the year	(24,443)	(29,614)

Cash provided by (used in):		
Operating activities	$ 16,083	$ 10,395
Financing activities	(19,421)	259,167
Investing activities	(2,448)	(259,090)

Chartwell's joint venture operations are generally undertaken through entities in which the Trust holds an indirect interest. The joint venture entities have liabilities in excess of Chartwell's proportionate share amounting to $550,951 (2007 - $520,534), which have not been recorded in the Trust's financial statements. The assets of these joint ventures are available and sufficient to satisfy these liabilities.

(b) VIEs:

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

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

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

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

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

20. Commitments and contingencies:

(a) Operating leases of seniors housing properties:

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

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

(b) Other leases:

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

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

In addition, Chartwell has operating leases on office space in Canada that expire on various dates up to May 31, 2015. Annual payments in aggregate on these leases vary from $1,195 to $1,380 over the term of the lease. Further, Chartwell has an operating lease in the United States that expires on April 30, 2013. Annual payments on this lease vary from U.S. $801 to U.S. $889 over the term of the lease. Chartwell's share is 49% of the amounts due under the lease.

(c) Purchase obligations:

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

20. Commitments and contingencies (continued):

As at December 31, 2008, Chartwell has entered into fixed-price natural gas contracts with a third party natural gas supplier for $3,712 to provide gas for its own use at its properties. Chartwell has also entered into fixed-price electricity and natural gas contracts with local utilities in the United States for $7,888 (U.S. $6,475) to provide electricity for its own use at its properties.

(d) Contingent consideration on acquisitions:

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

At December 31, 2008, contingent consideration on acquisitions of properties amounted to $2,795 (2007 - $7,095).

(e) Mezzanine loans receivable:

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

(f) Letters of credit:

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

(g) Other contracts:

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

20. Commitments and contingencies (continued):

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

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

(b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50 and 3% of total budgeted development costs for the related project (note 17(b)).

(h) Litigation and claims:

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

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

21. Supplemental cash flow information:

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

	2008	2007
Change in non-cash operating items:		
Accounts receivable	$ 3,190	$ (1,450)
Deposits on acquisitions	111	11,572
Due from Spectrum	(4,299)	(3,163)
Due from ING	4,253	(3,296)
Accounts payable and other liabilities	11,108	11,548
Other	(583)	5,798
	$ 13,780	$ 21,009

The following amounts recognized during the year ended December 31 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

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

21. Supplemental cash flow information (continued):

In accordance with Chartwell's Fourth Amended and Restated Declaration of Trust, the distributions to Trust unitholders will be within the discretion of the Trustees. The Trustee will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year.

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

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

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

22. Income taxes:

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

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

22. Income taxes (continued):

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

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

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

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

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

22. Income taxes (continued):

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

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

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At December 31, 2008, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately $40,054 (U.S. $32,885). Of these losses, approximately $1,152 (U.S. $946) expire in 2025, $2,535 (U.S. $2,081) expire in 2026, $14,420 (U.S. $11,839) expire in 2027 and $21,947 (U.S. $18,019) expire in 2028.

As at December 31, 2008, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of $30,184 (U.S. $24,782) against which a valuation allowance of $30,184 (U.S. $24,782) has been recorded.

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

22. Income taxes (continued):

The provision for income taxes in the consolidated statements of operations and comprehensive loss represents an effective income tax rate different than the Canadian SIFT tax rate of 32.5%. The differences for the years ended December 31 are as follows:

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

23. Financial instruments and financial risk management:

(a) Classification, carrying values and fair values of financial instruments:

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

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

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

Fair value represents management's estimates of the market value at a given point in time. The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated balance sheets for the years ended December 31 are as follows:

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

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

Basis for determining fair values:

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

(i) The fair value of mezzanine loans receivable is estimated based on discounted expected future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

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

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

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

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

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

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

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

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

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

(b) Financial risk management objectives and policies:

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

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

These risks are managed as follows:

(i) Credit risk:

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

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

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

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

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

At December 31, 2008, Spectrum was in breach of certain covenants of the Development Agreement. Chartwell is currently working with Spectrum to have these covenants remedied. Chartwell completed evaluation of the project-specific security underlying each mezzanine loan, as well as evaluation of Spectrum's corporate guarantee based on Spectrum's financial information as at December 31, 2008. The process of determining fair values is subjective and requires management to exercise a significant amount of judgement in making valuation assumptions. Based on this evaluation Chartwell believes that Spectrum has sufficient equity value to allow it to satisfy its obligations to Chartwell in due course.

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

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

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

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible.

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

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

The aging of resident receivables at December 31, 2008 is as follows:

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

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

(ii) Liquidity risk:

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to Chartwell to fund its growth program and refinance or meet its payment obligations as they arise.

The Trust's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to unitholders, and possible property acquisition funding requirements.

The above liquidity needs are funded from cash flows from operating the property portfolio, with the exception of debt repayment obligations and property acquisition funding requirements. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include additional draws on the bank Credit Facility, raising new equity by issuing Units or convertible debentures or the disposition of properties. At December 31, 2008, the Trust had $54,153 available and undrawn on a secured revolving Credit Facility. The risk with issuing new capital is that the capital markets may not be receptive to an equity issue with financial terms favourable to the Trust.

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

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

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. Management mitigates this risk by staggering debt maturities and through the use of programs such as CMHC insured mortgages.

At December 31, 2008, Chartwell's 2009 debt maturities amounted to approximately $147,300. Subsequent to year end approximately $57,100 of this maturing debt was refinanced at weighted average rates of approximately 3.39%. Of the remaining mortgage maturities in 2009, approximately 85% are CMHC insured.

There is also risk that the secured revolving Credit Facility will not be renewed on terms and conditions acceptable to the Trust or on any terms at all.

Chartwell's major contractual obligations for the next 24 months as at December 31, 2008 were as follows:

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

(iii) Market risk:

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

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

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At December 31, 2008, $38,522 (2007 - $35,779) of Chartwell's mortgages and loans payable, excluding hedged loans, bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell fixes the term of long-term debt within a range from 5 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell entered into an interest rate swap contract with a current notional principal amount of $11,822 that entitles Chartwell to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.9% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on an estimate of the cost to close the contract as at December 31, 2008 is a loss position of $2,087 (2007 - $689), which is included in accrued liabilities on the consolidated balance sheets (note 11). Included in other comprehensive loss for the year ended December 31, 2008 is a loss of $1,932, net of future income taxes of $462 (2007 - gain of $223, net of future income taxes of $96) that relates to the effective portion of the net change in fair value of the interest rate swap designated as a hedge.

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

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

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

	Carrying amount 2008	2007
Fixed rate instruments:		
Financial assets (mezzanine loans)	$ 96,822	$ 107,624
Financial liabilities	1,828,769	1,591,899
Variable rate instruments:		
Financial liabilities	$ 38,522	$ 35,779

A change in interest rates at December 31, 2008 would not affect net income with respect to the fixed rate instruments, including hedged loans. Therefore, no sensitivity analysis is provided for the fixed rate instruments. An increase of 100 basis points in interest rates at December 31, 2008 for the variable rate mortgages would have decreased equity by $385 and increased the loss for the year by $385 (on a pre-tax basis).

(b) Foreign currency exchange risk:

At December 31, 2008, through its self-sustaining United States operations, 35% (2007 - 32%) of Chartwell's assets and 40% (2007 - 37%) of Chartwell's mortgages payable were held in the United States and its 38% (2007 - 37%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in the exchange rate between Chartwell's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. dollar-denominated financial instruments, which are not a component of the self-sustaining U.S. operations or part of the net investment in self-sustaining U.S. operations.

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

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

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency fluctuation risk. For example, cash flow from U.S. operating activities is first used for repayment of loans denominated in U.S. dollars. Chartwell may use derivative financial instruments to hedge its net foreign currency exposures. Chartwell's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the consolidated financial statements. The U.S. operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk. There were no foreign exchange hedge contracts outstanding as at December 31, 2008.

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

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

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

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

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

(iv) Reliance on government funding:

Chartwell holds licenses related to each of is long-term care properties. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2008, the Trust received approximately $95,057 (2007 - $78,754) in funding in respect of these licenses, which has been recorded as resident revenue. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

24. Capital structure financial policies:

The Trust's primary objectives in managing capital are:

- to continue as a going concern and to provide returns to unitholders;
- to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements by ensuring that the Trust complies with externally imposed capital requirements;
- to ensure that the Trust has sufficient capital to meet its targeted capital maintenance expenditures;
- to ensure that the Trust has sufficient capital to meet its internal growth requirements; and
- to ensure that the Trust has access to sufficient capital for strategic acquisitions.

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

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

24. Capital structure financial policies (continued):

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

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

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

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

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

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

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

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

24. Capital structure financial policies (continued):

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

The debt to adjusted gross book value ratio at December 31, 2008 increased primarily due to the provision for impairment of goodwill and mezzanine loans.

25. Guarantees:

At December 31, 2008, Chartwell remains as a guarantor on the debt of one property to a maximum amount of $22,850 (2007 - $23,850). As at December 31, 2008, $18,008 (2007 - $18,197) of the loan was outstanding. The guarantee is in relation to the property that was sold to Spectrum. Spectrum has indemnified Chartwell for the guarantee and pays an annual guarantee fee, subject to rental achievement provisions.

26. Subsequent events:

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

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

27. Comparative figures:

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