Consolidated Financial Statements
(In Canadian dollars)

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2009 and 2008

**KPMG LLP**
**Chartered Accountants**
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

# 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, 2009 and 2008 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, 2009 and 2008 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 4, 2010

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

| December 31 | 2009 | 2008 |
|---|---|---|
| | | (As recasted - note 2) |

# Assets

| | | |
|---|---|---|
| Properties (note 4) | $ 2,283,521 | $ 2,354,408 |
| Mezzanine loans receivable (note 5) | 55,323 | 96,822 |
| Limited life intangible assets (note 6) | 32,047 | 67,070 |
| Cash and cash equivalents | 106,943 | 5,069 |
| Other assets (note 7) | 51,366 | 63,271 |
| Capital funding receivable (note 8) | 43,824 | 46,001 |
| Licenses | 25,650 | 25,650 |
| Assets held for sale (note 9) | – | 47,196 |
| | $ 2,598,674 | $ 2,705,487 |

# Liabilities and Unitholders' Equity

| | | |
|---|---|---|
| Liabilities: | | |
| Mortgages payable (note 11(a)) | $ 1,625,281 | $ 1,668,445 |
| Revolving operating credit facility (note 11(b)) | – | 8,000 |
| Convertible debentures (note 12) | 188,996 | 184,634 |
| Accounts payable and other liabilities (note 13) | 81,367 | 92,463 |
| Deferred consideration on business combinations (note 14) | 13,592 | 23,649 |
| Distributions payable | 5,857 | 6,285 |
| Future income tax liabilities (note 23) | 18,167 | 29,695 |
| Liabilities held for sale (note 9) | – | 35,968 |
| | 1,933,260 | 2,049,139 |
| Non-controlling interest (note 15) | 7,813 | 15,990 |
| Unitholders' equity | 657,601 | 640,358 |
| Commitments and contingencies (note 21) | | |
| Guarantees (note 26) | | |
| Subsequent events (notes 3(a), 18 and 27) | | |
| | $ 2,598,674 | $ 2,705,487 |

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 | 2009 | 2008 |
|---|---|---|
| | | (As recasted - note 2) |
| Revenue: | | |
| Resident | $ 653,749 | $ 601,917 |
| Management and other fees (note 18) | 7,347 | 9,092 |
| Mezzanine loan interest (notes 18 and 20) | 8,056 | 11,387 |
| Bank interest and other | 3,236 | 3,698 |
| Equity income from variable interest entities | – | 3,087 |
| Below-market lease amortization | 1,142 | 1,212 |
| | 673,530 | 630,393 |
| Expenses: | | |
| Direct operating | 461,889 | 425,737 |
| General, administrative and trust | 21,008 | 19,902 |
| | 482,897 | 445,639 |
| | 190,633 | 184,754 |
| Interest expense | 109,464 | 103,764 |
| Property lease expense | 2,598 | 2,360 |
| | 112,062 | 106,124 |
| | 78,571 | 78,630 |
| Realized foreign exchange gain and realized gains on derivative financial instruments | (3,113) | (959) |
| Unrealized loss (gain) on derivative financial instruments and unrealized foreign exchange loss (gain) | 10,074 | (17,223) |
| Depreciation of properties | 75,340 | 68,006 |
| Amortization of limited life intangible assets | 38,361 | 51,090 |
| Provision for impairment of goodwill (note 10) | – | 73,323 |
| Provision for impairment of mezzanine loans and accounts receivable (note 5) | 30,684 | 6,406 |
| Gain on sale of assets | – | (95) |
| | 151,346 | 180,548 |
| Loss before income taxes | (72,775) | (101,918) |
| Income taxes (recovery) (note 23): | | |
| Current | 85 | 999 |
| Future | (9,753) | (379) |
| | (9,668) | 620 |
| Loss before non-controlling interest | (63,107) | (102,538) |
| Non-controlling interest (note 15) | 1,245 | 3,886 |
| Loss from continuing operations | (61,862) | (98,652) |
| Loss from discontinued operations (note 9) | (9,383) | (8,776) |
| Loss for the year | (71,245) | (107,428) |
| Other comprehensive income (loss): | | |
| Unrealized foreign currency gain (loss) on the translation of self-sustaining foreign operations | (18,123) | 34,948 |
| Net change in fair value of derivatives designated as cash flow hedges (net of future income taxes of $147; 2008 - $462) (note 24) | 490 | (1,932) |
| Non-controlling interest | 352 | (1,250) |
| | (17,281) | 31,766 |
| Comprehensive loss | $ (88,526) | $ (75,662) |
| Loss per unit (note 17): | | |
| Basic and diluted - continuing operations | $ (0.61) | $ (1.05) |
| Basic and diluted - discontinued operations | (0.09) | (0.09) |

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, 2009 | Trust Units issued, net (note 16) | LTIP Units under subscription (note 16) | LTIP instalment receivable (note 16) | Losses | Accumulated other comprehensive income (loss) | Distributions | Convertible debentures/ other equity components | Total |
|---|---|---|---|---|---|---|---|---|
| Unitholders' equity, January 1, 2009 | $ 1,137,031 | $ 34,099 | $ (26,485) | $ (209,992) | $ 3,415 | $ (312,783) | $ 15,073 | $ 640,358 |
| Loss for the year | – | – | – | (71,245) | – | – | – | (71,245) |
| Other comprehensive loss | – | – | – | – | (17,281) | – | – | (17,281) |
| Distributions to Unitholders | – | – | – | – | | (67,711) | – | (67,711) |
| Issuance of Trust Units pursuant to public offering | 158,746 | – | – | – | – | – | 1,922 | 160,668 |
| Units issued under the deferred unit plan | – | – | – | – | – | – | 644 | 644 |
| Issuance of Trust Units under the Distribution Reinvestment Plan ("DRIP") | 5,074 | – | – | – | – | – | – | 5,074 |
| Trust Units issued on exchange of Class B Units of Chartwell Master Care LP | 4,965 | – | – | – | – | – | – | 4,965 |
| Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury | 1,200 | (2,766) | 2,079 | – | – | – | 670 | 1,183 |
| Interest on instalment loan receivable | – | – | (825) | – | – | – | – | (825) |
| Distributions applied against instalment loan receivable | – | – | 1,771 | – | – | – | – | 1,771 |
| Unitholders' equity, December 31, 2009 | $ 1,307,016 | $ 31,333 | $ (23,460) | $ (281,237) | $ (13,866) | $ (380,494) | $ 18,309 | $ 657,601 |

| Year ended December 31, 2008 (As recasted - note 2) | Trust Units issued, net (note 16) | LTIP Units under subscription (note 16) | LTIP instalment receivable (note 16) | Losses | Accumulated other comprehensive income (loss) | Distributions | Convertible debentures/ other equity components | Total |
|---|---|---|---|---|---|---|---|---|
| Unitholders' equity, January 1, 2008 | $ 1,102,573 | $ 31,894 | $ (25,633) | $ (100,644) | $ (28,351) | $ (237,113) | $ 14,878 | $ 757,604 |
| Correction of an immaterial prior period error | – | – | – | (1,920) | – | – | – | (1,920) |
| Loss for the year | – | – | – | (107,428) | – | – | – | (107,428) |
| Other comprehensive income | – | – | – | – | 31,766 | – | – | 31,766 |
| Distributions to Unitholders | – | – | – | – | – | (75,670) | – | (75,670) |
| Issuance of Trust Units under the 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 LTIP, net of units transferred to Treasury | – | 6,681 | (5,751) | – | – | – | 195 | 1,125 |
| Disposition of LTIP Units surrendered, net of units transferred to Treasury | 932 | (4,476) | 3,846 | – | – | – | – | 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 | $ 34,099 | $ (26,485) | $ (209,992) | $ 3,415 | $ (312,783) | $ 15,073 | $ 640,358 |

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 | 2009 | 2008 |
|---|---|---|
| | | (As recasted - note 2) |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Loss for the year | $ (71,245) | $ (107,428) |
| Items not affecting cash: | | |
| Depreciation and amortization | 116,944 | 122,380 |
| Gain on sale of assets | – | (95) |
| Below-market lease amortization | (1,213) | (1,846) |
| Adjustment to record lease expense on a straight-line basis over the lease term | 5,058 | 6,866 |
| Non-cash compensation expense | 1,087 | 752 |
| Income from long-term investments | – | (65) |
| Unrealized loss (gain) on derivative financial instruments and unrealized foreign exchange loss (gain) | 10,074 | (17,223) |
| Non-controlling interest | (1,447) | (4,231) |
| Amortization of financing expenses | 6,168 | 4,762 |
| Accretion adjustment to convertible debenture liability | 3,021 | 2,772 |
| Amortization of debt discounts | 863 | 1,303 |
| Amortization of mezzanine placement fees | (732) | (229) |
| Amortization of legal costs integral to mezzanine lending activities | 538 | 677 |
| Provision for impairment of goodwill (note 10) | – | 73,323 |
| Provision for impairment of mezzanine loans and accounts receivable (note 5) | 30,684 | 6,406 |
| Future income taxes | (9,753) | (379) |
| Change in non-cash operating items (note 22) | (25,237) | 13,780 |
| | 64,810 | 101,525 |
| Financing activities: | | |
| Proceeds from mortgage financing | 47,774 | 73,568 |
| Proceeds from (repayment of) loans payable and revolving operating credit facility | (8,000) | 8,847 |
| Mortgage principal repayments | (58,172) | (28,290) |
| Financing costs | (5,685) | (4,937) |
| Trust Units issued pursuant to: | | |
| Public offering | 166,819 | – |
| Issue costs | (8,073) | – |
| Redemption of non-voting preferred interests of CSH Master Care LLC | (260) | (971) |
| Disposition of Treasury Units | – | 1,125 |
| Distributions paid | (61,986) | (68,692) |
| Distributions paid to non-controlling interest Unitholders | (1,483) | (3,975) |
| Deposits received under LTIP and repayment of LTIP instalment loan receivable | 700 | 178 |
| | 71,634 | (23,147) |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

| Years ended December 31 | 2009 | 2008 |
|---|---|---|
| | | (As recasted - note 2) |
| Investing activities: | | |
| Acquisition of assets, net of debt assumed (note 3) | (3,195) | (43,722) |
| Payment of deferred consideration on business combinations | (9,721) | (22,314) |
| Additions to properties | (39,870) | (72,564) |
| Payment of contingent purchase consideration | – | (4,300) |
| Amounts received under income guarantees | 554 | 740 |
| Proceeds on sale of assets | – | 1,257 |
| Mezzanine loans advances, net of fees | – | (8,480) |
| Mezzanine loans repayments | 8,060 | 3,843 |
| Restricted cash and deposits in escrow | 3,140 | 82 |
| Proceeds from capital funding receivables | 2,177 | 2,077 |
| | (38,855) | (143,381) |
| Foreign exchange gain (loss) on U.S. dollar-denominated cash | (1,176) | 3,005 |
| Increase (decrease) in cash and cash equivalents | 96,413 | (61,998) |
| Cash and cash equivalents, beginning of year | 10,530 | 72,528 |
| Cash and cash equivalents, end of year | $ 106,943 | $ 10,530 |
| Represented by: | | |
| Continuing operations | | $ 5,069 |
| Discontinued operations | | 5,461 |
| | | $ 10,530 |

Supplemental cash flow information (note 22)

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 communities and long-term care communities 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.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian 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:

(i) Goodwill and intangible assets:

On January 1, 2009, Chartwell adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new accounting standard reinforces the approach under which assets are recorded only if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenue, so as to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset.

The application of this standard did not have a significant impact on Chartwell's consolidated financial statements.

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

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"), which requires the Trust to take into account its own credit risk and the credit risk of the counterparty in determining the fair values of its financial assets and financial liabilities, including derivative instruments. EIC-173 was applicable to the Trust for the first quarter of fiscal 2009 with retrospective application, if any, to the beginning of the current fiscal year. The adoption of EIC-173 did not have a significant impact on Chartwell's consolidated financial statements.

## 1. Significant accounting policies (continued):

(iii) Fair value and liquidity risk disclosures:

In June 2009, the CICA amended Handbook Section 3862 to improve fair value and liquidity risk disclosures. The Section now requires that all financial instruments measured at fair value be categorized into one of the three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - One or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The financial statement disclosures have been amended to comply with the recommendations of Handbook Section 3862 (note 24).

(c) Business combinations:

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

(d) Properties:

Properties include land, buildings and 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.

## 1. Significant accounting policies (continued):

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 |

(e) Goodwill and other intangibles:

Goodwill represented 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 indicated the asset might be impaired, by comparing the carrying value of a reporting unit with its fair value.

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

## 1. Significant accounting policies (continued):

(i) Management contracts and customer relationships:

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

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

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

## 1. Significant accounting policies (continued):

### (g) Revenue recognition:

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

#### (i) Retirement community resident revenue:

Revenue in respect of accommodation and care services fees provided to residents of retirement communities is recognized when the services, both rental and care, are provided. In certain jurisdictions, residents of retirement communities 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 community resident revenue:

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian long-term care communities 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 communities, a substantial portion of which are funded by provincial or regional programs. Long-term care community 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.

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.

## 1. Significant accounting policies (continued):

(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 integral to Chartwell's lending activities is 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.

(d) To the extent that ultimate collection of revenue is not reasonably assured, Chartwell will recognize revenue only as cash is received.

(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.

## 1. Significant accounting policies (continued):

(vi) Multiple deliverables:

Chartwell earns revenue from contracts that include multiple deliverables. 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.

(h) 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.

(i) Deferred Unit Plan:

On May 21, 2009, Unitholders of Chartwell approved a Deferred Unit Plan for its independent trustees. The plan is described in note 16(d). Deferred Trust Units granted to eligible trustees are considered to be in respect of past performance and are recognized in compensation expense when granted. Compensation costs are measured based on the fair market value of the Trust's Units on the date of the grant of the Deferred Trust Units. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. No additional compensation cost is recorded for these additional Deferred Trust Units issued. Upon vesting, Deferred Trust Units will be converted to Trust Units.

## 1. Significant accounting policies (continued):

### (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 specified investment flow-through ("SIFT") 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, this tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and expected to continue distributing all of its taxable income to its Unitholders.

Chartwell is a SIFT trust for Canadian income tax purposes and became subject to SIFT tax commencing in fiscal 2007. Under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income, and the SIFT is 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 are not subject to the SIFT tax.

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 as 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 swap arrangements 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 arrangements 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 swap arrangements.

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 the consolidated statements of operations 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) Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued three new standards:

(a) Section 1582, Business Combinations:

This Section replaces the former Section 1581, Business Combinations, and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3, Business Combinations (January 2008). The new Section expands the definition of a business subject to an acquisition and establishes significant new guidelines on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting and such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity.

(b) Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests:

These two Sections replace Section 1600, Consolidated Financial Statements. These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of Unitholders' equity. Under Section 1602, consolidated net income and other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

## 1. Significant accounting policies (continued):

Section 1582 is applicable to Chartwell prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted, if all three Sections are applied at the same time. At present, Chartwell does not expect to adopt these Sections earlier than the effective date.

(ii) Harmonizing of Canadian and international standards:

In February 2008, the Canadian Accounting Standards Board issued an exposure draft proposing that accounting standards in Canada for publicly accountable profit-oriented enterprises will converge with 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.

The Trust is assessing the implementation impacts of conversion to IFRS, including transitional options, changes to accounting policies and processes, information systems and business management. The full impact of adopting IFRS on the Trust's future financial position and future results has not been determined at this time.

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

## 2. Correction of immaterial prior period error:

During the preparation of the consolidated financial statements for the year ended December 31, 2009, Chartwell discovered a misstatement relating to the recognition of future income tax liabilities. These future income tax liabilities related to the differences between the carrying amount and tax basis of certain of its assets. These amounts related to two items: (a) a future income tax expense and a future income tax liability of $3,039 that should have been recognized in conjunction with the initial adoption of the SIFT rules effective June 22, 2007 and (b) a future income tax liability of $8,817 that should have been recognized in conjunction with purchase price allocation related to the Regency portfolio transaction in 2007, which would have resulted in a corresponding increase in goodwill of the same amount. The latter adjustment to goodwill in 2007 subsequently resulted in an understatement of the provision for impairment of goodwill of $8,817 in 2008 as this goodwill was considered impaired in 2008. As at December 31, 2008, future income tax liabilities, as previously reported, were understated by $10,332.

The following table outlines the impact of the adjustments:

| | Previously reported | Adjustments | As recasted |
|---|---|---|---|
| As at December 31, 2007<br>Consolidated Balance Sheets | | | |
| Goodwill | $ 56,445 | $ 8,817 | $ 65,262 |
| Future income tax liabilities | 18,732 | 10,880 | 29,612 |
| Non-controlling interest | 47,005 | (143) | 46,862 |
| Unitholders' equity | 757,604 | (1,920) | 755,684 |
| As at December 31, 2008<br>Consolidated Balance Sheets | | | |
| Future income tax liabilities | 19,363 | 10,332 | 29,695 |
| Non-controlling interest | 16,446 | (456) | 15,990 |
| Unitholders' equity | 650,234 | (9,876) | 640,358 |

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

## 2. Correction of immaterial prior period error (continued):

| | Previously reported[1] | Adjustments | As recasted |
|---|---|---|---|
| For the year ended December 31, 2007 Consolidated Statement of Operations and Comprehensive Loss | | | |
| Future income taxes | 13,924 | 2,063 | 15,987 |
| Loss before non-controlling interest | (60,517) | (2,063) | (62,580) |
| Non-controlling interest | 4,189 | 143 | 4,332 |
| Loss from continuing operations | (56,328) | (1,920) | (58,248) |
| Loss from discontinued operations | (11,011) | – | (11,011) |
| Loss for the year | (67,339) | (1,920) | (69,259) |
| Comprehensive loss | (96,277) | (1,920) | (98,197) |
| Loss per unit: | | | |
| Basic and diluted: | | | |
| Continuing operations | (0.65) | (0.02) | (0.67) |
| Discontinued operations | (0.13) | – | (0.13) |
| For the year ended December 31, 2008 Consolidated Statement of Operations and Comprehensive Loss: | | | |
| Provision for impairment of goodwill | 64,506 | 8,817 | 73,323 |
| Future income taxes (recovery) | 169 | (548) | (379) |
| Loss before non-controlling interest | (94,268) | (8,270) | (102,538) |
| Non-controlling interest | 3,572 | 314 | 3,886 |
| Loss from continuing operations | (90,696) | (7,956) | (98,652) |
| Loss from discontinued operations | (8,776) | – | (8,776) |
| Loss for the year | (99,472) | (7,956) | (107,428) |
| Comprehensive loss | (67,706) | (7,956) | (75,662) |
| Loss per unit: | | | |
| Basic and diluted: | | | |
| Continuing operations | (0.97) | (0.08) | (1.05) |
| Discontinued operations | (0.09) | – | (0.09) |

[1] 2007 and 2008 previously reported results have been reclassified to report the 2009 disposition of HBR as discontinued operations in those years.

The balances for operating activities, financing activities and investing activities in the consolidated statement of cash flows for the corresponding years were not impacted by the above recast.

## 3. Acquisitions:

### (a) Acquisitions during the year ended December 31, 2009:

During the year ended December 31, 2009, Chartwell completed the following acquisitions:

(i) On February 1, 2009, Chartwell acquired 50% interest in two retirement properties in British Columbia, and on March 1, 2009, two retirement properties in Ontario from Spectrum Seniors Housing Development LP ("Spectrum"). The combined purchase price of these properties, before closing costs, was $50,078 and was settled by the assumption of debt and working capital of $36,433, discharge of outstanding mezzanine loans of $5,676, and settlement of outstanding accounts receivable of $7,493 with the remainder paid in cash.

(ii) On October 1, 2009, Chartwell acquired 100% interest in one retirement property in Thunder Bay, Ontario, from Spectrum. The purchase price before closing costs of $23,197 was satisfied through the assumption of debt and working capital of $17,360, discharge of mezzanine loans receivable of $3,028, with the remaining settled against outstanding accounts receivable from Spectrum. The assumed debt was repaid subsequent to the acquisition.

(iii) On December 1, 2009, Chartwell acquired 100% interest in one retirement property in Mission, British Columbia, from Spectrum and its joint venture partner. The purchase price before closing costs of $8,900 was satisfied by the assumption of debt and working capital of $7,278, discharge of mezzanine loans receivable of $623, settlement against outstanding accounts receivable from Spectrum of $188 with the balance paid in cash.

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

## 3. 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 | | | Total |
|---|---|---|---|---|
| Date of acquisition | February 1, 2009 and March 1, 2009 | October 1, 2009 | December 1, 2009 | |
| Segment | Canadian Retirement Operations | Canadian Retirement Operations | Canadians Retirements Operations | |
| Location | London, Ontario, Pickering, Ontario, Kelowna, British Columbia North Vancouver, British Columbia (Four retirement communities - 455 suites) | Thunder Bay, Ontario (One retirement community - 109 suites) | Mission, British Columbia (One retirement community - 55 suites) | |
| Properties | $ 47,206 | $ 22,281 | $ 8,775 | $ 78,262 |
| Limited life intangible assets | 4,668 | 1,508 | 238 | 6,414 |
| Mortgages assumed | (35,750) | (17,150) | (7,200) | (60,100) |
| Below-market resident contracts | (506) | (87) | – | (593) |
| Other liabilities | (683) | (210) | (78) | (971) |
| Net assets acquired | $ 14,935 | $ 6,342 | $ 1,735 | $ 23,012 |
| Discharge of mezzanine loans receivable | $ 5,676 | $ 3,028 | $ 623 | $ 9,327 |
| Settlement of outstanding receivables from Spectrum | 7,493 | 2,809 | 188 | 10,490 |
| Cash consideration | 476 | – | 811 | 1,287 |
| Acquisition costs | 1,290 | 505 | 113 | 1,908 |
| Total consideration | $ 14,935 | $ 6,342 | $ 1,735 | $ 23,012 |

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.

## 3. Acquisitions (continued):

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.

On December 7, 2009, Chartwell entered into an agreement with ING Real Estate Investment Management Australia PYT Limited and its affiliates ("ING") to acquire the remaining 50% interest in eight long-term care properties in Ontario (the "Regency Care Portfolio") and in six retirement communities in the United States (the "Meridian Portfolio"). Chartwell continues to maintain ownership of the remaining 50% interests in these portfolios in joint venture relationships with ING since their original acquisition. The purchase price of the Regency Care Portfolio, before closing costs, is approximately $79,500 and will be settled, subject to working capital adjustments, by assumption of the outstanding debt of approximately $68,900 with the remaining being paid in cash. The purchase price of the Meridian Portfolio, before closing costs, is approximately U.S. $110,500 and will be settled, subject to working capital adjustments, by assumption of outstanding debt of approximately U.S. $75,200 with the remaining being settled in cash. [Subject to regulatory and lender approvals these transactions are expected to close during the first half of 2010.]

On August 9, 2009, Chartwell and certain subsidiaries and affiliates of Le Groupe Melior ("Melior") (the "Melior Debtors") entered into a settlement agreement (the "Settlement Agreement") in order to address certain issues relating to the performance by the Melior Debtors of the obligation under certain mezzanine loans. The Settlement Agreement provides that only upon satisfaction of a number of specific terms and conditions, Chartwell: (a) may exercise its rights as security holder and assume the Melior Debtors ownership interests in specified new and currently operating seniors housing properties on a selective basis; (b) will allow the sale of properties to certain third parties and release and discharge its mezzanine loans; and (c) will stand still with respect to certain other mezzanine loans.

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

## 3. Acquisitions (continued):

On November 17, 2009, further to certain conditions of the Settlement Agreement being satisfied or waived, a prior notice of exercise by Chartwell of the equivalent to a foreclosure right was registered in respect of three operating properties and one parcel of vacant land against the Melior Debtors and another co-owner. The acquisition will result in Chartwell assuming approximately $67,700 of outstanding mortgages payable and approximately $5,690 of other liabilities and closing costs. Mezzanine loans in the amount of $21,621, (net of fees recorded as a reduction of mezzanine loan balances of $1,018) against which an impairment provision of $8,817 had previously been recorded, will be discharged on closing. These foreclosures are expected to be completed in early 2010. On November 18, 2009, Chartwell took possession of the three operating properties and assumed administration of the properties. In addition, as part of the Settlement Agreement, in the fourth quarter, Chartwell acquired one parcel of land valued at $80 from Melior. As part of this acquisition, one mezzanine loan in the amount of $520 (net of fees recorded as a reduction of the mezzanine loan balance of $465), against which an impairment provision of $440 had previously been recorded, was discharged.

Subsequent to December 31, 2009, Chartwell acquired another parcel of land from Melior, assuming and immediately repaying to the lender a $1,750 mortgage.

(b) Acquisitions during the year ended December 31, 2008:

During the year ended December 31, 2008, Chartwell acquired varying interests in 10 seniors housing communities (1,547 suites) and one joint venture management entity. The following table summarizes the net assets acquired, at fair value:

| | |
|---|---|
| Properties | $ 95,896 |
| Limited life intangible assets | 10,035 |
| Goodwill | 5,290 |
| Other assets | 255 |
| Mortgages assumed | (54,384) |
| Other liabilities | (3,152) |
| Below-market resident contracts | (1,616) |
| Net assets acquired | $ 52,324 |
| Discharge of mezzanine loans receivable | $ 8,602 |
| Cash consideration | 43,722 |
| Total consideration | $ 52,324 |

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.

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

## 4. Properties:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Land | $ 235,489 | $ – | $ 235,489 | $ 238,123 | $ – | $ 238,123 |
| Buildings | 2,131,107 | 203,951 | 1,927,156 | 2,155,919 | 153,100 | 2,002,819 |
| Furniture, fixtures and equipment | 88,182 | 54,786 | 33,396 | 89,320 | 45,923 | 43,397 |
| | 2,454,778 | 258,737 | 2,196,041 | 2,483,362 | 199,023 | 2,284,339 |
| Properties under development | 67,394 | – | 67,394 | 49,425 | – | 49,425 |
| Land held for development | 20,086 | – | 20,086 | 20,644 | – | 20,644 |
| | $ 2,542,258 | $ 258,737 | $ 2,283,521 | $ 2,553,431 | $ 199,023 | $ 2,354,408 |

Included under properties as at December 31, 2009 are assets under capital leases with a cost of $133,586 (2008 - $154,439) and accumulated depreciation of $10,544 (2008 - $7,892).

Included in properties under development is interest of $3,726 (2008 - $1,854) and incremental operating costs of $760 (2008 - $422), cumulatively capitalized as at December 31, 2009

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.

## 5. Mezzanine loans receivable:

Under the Development Agreement with Spectrum and the Loan Agreement with Melior and other joint venture partners, the Trust provided mezzanine loans to these parties.

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

## 5. Mezzanine loans receivable (continued):

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

| | Contractual interest rate | Principal amount | Lending expenses/ (deferred placement fees), net | 2009 Net balance | 2008 Net balance |
|---|---|---|---|---|---|
| Spectrum | 10% - 14% | $ 27,729 | $ 23 | $ 27,752 | $ 51,094 |
| Melior | 10% - 14% | 39,560 | (3,193) | 36,367 | 36,354 |
| Seasons | 10% - 14% | 8,214 | (575) | 7,639 | – |
| Others | 10% - 12% | 14,295 | (222) | 14,073 | 15,780 |
| | | $ 89,798 | $ (3,967) | 85,831 | 103,228 |
| Provision for impairment | | | | (30,508) | (6,406) |
| | | | | $ 55,323 | $ 96,822 |

(a) Spectrum:

The loans are secured by second charges or pledges of Spectrum's interest over 18 (2008 - 34) seniors housing development properties. In addition, the loans are cross defaulted.

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.

## 5. Mezzanine loans receivable (continued):

On December 8, 2009 (the "Spectrum Settlement Effective Date"), Chartwell and Spectrum agreed, among other things, that Chartwell would: (i) waive its entitlement to 5% of the purchase price, net of transaction costs, of any properties sold by Spectrum to third parties; and (ii) would limit its purchase rights of Spectrum's development properties to properties on which mezzanine loans remain outstanding, as well as three Spectrum properties located in Mississauga, Ontario, Kamloops, British Columbia and Muskoka, Ontario (the "Three Purchase Rights"), so long as the following conditions (the "Settlement Conditions") are satisfied no later than August 16, 2010: (i) all mezzanine loans then due and other amounts owing by Spectrum to Chartwell are repaid in full (including interest thereon); and (ii) Spectrum has made a $5,000 payment to Chartwell. Until such time, Chartwell's purchase rights with respect to Spectrum's development properties will remain in effect with compressed notice periods and interest on overdue, unsecured accounts receivable from Spectrum will be charged at 12% per annum, so long as Spectrum remains current on its obligations from the Spectrum Settlement Effective Date on new accounts receivable and interest on mezzanine loans. Upon the Settlement Conditions being fulfilled, Chartwell and Spectrum will sever all agreements, obligations and rights between one another, except for the Three Purchase Rights in Chartwell's favour and purchase rights on properties for which mezzanine loans outstanding have not yet matured. The properties which are subject to the Three Purchase Rights were selected by Chartwell as they fit within Chartwell's strategic objectives relating to property acquisitions.

On June 1, 2009, Spectrum disposed of its interest in eight of its properties and agreed to dispose of one additional property upon receipt of the required regulatory approval to Seasons, a partnership controlled by an institutional investor. As part of this transaction, Chartwell agreed to Seasons assuming mezzanine loans of six of the acquired properties totalling $8,214 (note 5(c)).

During 2009, Chartwell acquired Spectrum's interest in six operating properties (note 3), converting mezzanine loans into equity in the assets. In the fourth quarter of 2009, Spectrum sold its interest in two operating properties and two properties under development to third parties and repaid mezzanine loans in the amount of $5,580 in cash.

### (b) Melior and other joint venture partners:

Chartwell has advanced 20 (2008 - 24) mezzanine loans 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 19 (2008 - 22) seniors housing development projects.

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

## 5. Mezzanine loans receivable (continued):

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

In the fourth quarter of 2009, one of Chartwell's joint venture partners repaid two mezzanine loans on properties it co-owns with Chartwell totalling $2,401 in cash.

(c) Seasons:

On acquisition of Spectrum's interest in eight development properties, Seasons assumed Spectrum's obligation related to six mezzanine loans in the amount of $8,214.

These loans are secured by second charges over six seniors housing development projects.

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 | Seasons | Other joint venture partners | Total |
|---|---|---|---|---|---|
| 2010 | $ 10,918 | $ 33,539 | $ 4,764 | $ 4,531 | $ 53,752 |
| 2011 | 9,630 | 2,267 | 1,575 | 6,462 | 19,934 |
| 2012 | 7,181 | 3,754 | – | 1,427 | 12,362 |
| 2013 | – | – | 1,875 | 1,875 | 3,750 |
| | $ 27,729 | $ 39,560 | $ 8,214 | $ 14,295 | $ 89,798 |

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

## 6. Limited life intangible assets:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Management contracts | $ 9,308 | $ 5,266 | $ 4,042 | $ 9,503 | $ 4,236 | $ 5,267 |
| Resident contracts | 82,685 | 67,260 | 15,425 | 143,877 | 99,231 | 44,646 |
| Other intangibles | 20,145 | 7,565 | 12,580 | 23,074 | 5,917 | 17,157 |
| | $ 112,138 | $ 80,091 | $ 32,047 | $ 176,454 | $ 109,384 | $ 67,070 |

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, 2009, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and customer relationships that were fully amortized by $56,155 (2008 - $46,931).

## 7. Other assets:

| | 2009 | 2008 |
|---|---|---|
| Accounts receivable | $ 13,955 | $ 15,339 |
| Due from Spectrum, net of provision for impairment of $3,506 (2008 - nil) | 218 | 9,977 |
| Due from ING (a) | 6,610 | 501 |
| Prepaid expenses and deposits | 10,532 | 10,571 |
| Deposits in escrow | 10,473 | 18,419 |
| Other | 9,578 | 8,464 |
| | $ 51,366 | $ 63,271 |

(a) Included in amounts due from ING is $6,354 (U.S. $6,000) related to ING's share of the deferred purchase price related to the Bristal portfolio acquisition which was funded by Chartwell (note 14(b)). The amounts due from ING bear interest at 10% effective March 1, 2010 and are repayable on closing of the Meridian Portfolio (note 3), or from ING's share of distributions from their properties co-owned with Chartwell beginning with March 2010 distributions.

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

## 8. Capital funding receivable:

The capital funding receivable of $43,824 (2008 - $46,001) represents the discounted cash flows receivable from the Government of Ontario over a remaining period of approximately 13 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 communities for the remaining period. The discount rate used is based upon long-term Ontario Government Bond rates.

## 9. Discontinued operations:

On October 1, 2009, the Trust divested its 49% interest in HBR, whose assets and liabilities included: equipment, current assets, trade accounts receivable and certain other assets and liabilities and were included in the Trust's U.S. operating segment (note 19). The following table summarizes the results of operations and financial position of these discontinued operations.

| | 2009 | 2008 |
|---|---|---|
| Revenue | $ 78,171 | $ 94,917 |
| Loss before non-controlling interest | $ (9,585) | $ (9,122) |
| Non-controlling interest | 202 | 346 |
| | $ (9,383) | $ (8,776) |

Assets and liabilities held for sale are as follows:

| | 2008 |
|---|---|
| Properties | $ 8,490 |
| Limited life intangible assets | 20,866 |
| Cash and cash equivalents | 5,461 |
| Other assets | 12,379 |
| | 47,196 |
| Accounts payable and other liabilities | 35,968 |
| | $ 11,228 |

## 9. Discontinued operations (continued):

HBR owns 50% of management company Horizon Bay Chartwell LLC ("HBC") with the remaining 50% owned by the Trust. Upon completion of the HBR transactions, the Trust's 74.5% interest in HBC, 50% direct ownership and 24.5% indirect ownership through HBR, has been reduced to a 50% direct ownership interest. As part of the transaction, Chartwell increased its ownership interest in Horizon Bay Chartwell II LLC by 5.5%.

## 10. Goodwill:

According to GAAP, goodwill should be tested for impairment between the required annual test when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. During 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 used Chartwell's publicly traded unit price to determine fair values, the multiples approach used comparable market multiples to arrive at fair values and the discounted cash flow method used 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 was highly subjective and required 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 economic environment, Chartwell relied on the publicly traded market price of Trust 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 that 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 $73,323 (note 2).

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

## 11. 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 |
|---|---|---|---|
| 2010 | $ 32,426 | $ 98,128 | $ 130,554 |
| 2011 | 31,468 | 56,422 | 87,890 |
| 2012 | 32,307 | 95,046 | 127,353 |
| 2013 | 32,174 | 111,304 | 143,478 |
| 2014 | 27,226 | 143,775 | 171,001 |
| 2015 | 25,170 | 88,482 | 113,652 |
| 2016 | 22,486 | 176,660 | 199,146 |
| 2017 | 18,010 | 259,026 | 277,036 |
| 2018 | 15,862 | 32,625 | 48,487 |
| 2019 | 14,295 | 100,537 | 114,832 |
| 2020 - 2024 | 62,518 | 49,859 | 112,377 |
| Thereafter | 72,077 | 34,318 | 106,395 |
| | $ 386,019 | $ 1,246,182 | 1,632,201 |
| Mark-to-market adjustment arising on acquisition | | | 13,263 |
| Financing costs | | | (20,183) |
| | | | $ 1,625,281 |

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

## 11. Secured debt (continued):

| | 2009 | 2008 |
|---|---|---|
| Mortgages at fixed rates: | | |
| Mortgages | $1,578,454 | $1,644,135 |
| Interest rates | 2.03% - 10.00% | 4.11% - 8.75% |
| Weighted average interest rate | 5.49% | 5.69% |
| Mortgages at variable rates: | | |
| Mortgages | $53,747 | $28,934 |
| Interest rates | Lenders' COF + 2.00% to prime plus 4.75% | Bankers' acceptance + 0.95% to prime plus 3.00% |
| Weighted average interest rate | 3.56% | 3.23% |
| Blended weighted average rate of maturing debt | 5.42% | 5.65% |

During the year ended December 31, 2009, interest expense on mortgages payable amounted to $93,057 (2008 - $88,403).

As at December 31, 2009, Chartwell was in breach of the debt services covenant on one of its mortgages and is working with the lender to remedy the breach.

(b) Secured revolving operating credit facility:

Chartwell has arranged for a $75,000 secured revolving operating credit facility (the "Credit Facility"). At December 31, 2009, the maximum available borrowing capacity under the Credit Facility was $61,931 (2008 - $62,153) based on the security provided. The Credit Facility matures on June 27, 2010. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 2.75% or at the applicable bankers' acceptance rate plus 4.00%. 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, 2009, nil (2008 - $8,000) was outstanding under the Credit Facility. Although Chartwell was not in compliance at December 31, 2009 with the debt service coverage and the distribution payout covenants under the Credit Facility, Chartwell obtained a waiver from the lenders with respect to these covenants. Chartwell also expects not to be in compliance with the debt service coverage covenant in Q1 and Q2 2010 and has received waivers covering these periods.

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

## 12. Convertible debentures:

The Trust has the following series of convertible debentures outstanding:

| | | | 2009 | | | 2008 |
|---|---|---|---|---|---|---|
| | 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 | $ 120,886 | $ 68,110 | $ 188,996 | $ 119,005 | $ 65,629 | $ 184,634 |

(a) 6.0% Convertible Debentures:

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.

## 12. Convertible debentures (continued):

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

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

## 12. Convertible debentures (continued):

(b) 5.9% Convertible Debentures:

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 are not 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 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.

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.

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

## 12. Convertible debentures (continued):

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.

## 13. Accounts payable and other liabilities:

| | 2009 | 2008 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 71,548 | $ 75,893 |
| Income taxes payable | – | 3,003 |
| Below-market resident contracts, net of accumulated amortization of $2,528 (2008 - $2,274) | 1,467 | 2,101 |
| Resident deposits | 4,348 | 5,033 |
| Deferred revenue | 4,004 | 6,433 |
| | $ 81,367 | $ 92,463 |

## 14. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

| Business combinations | 2009 | 2008 |
|---|---|---|
| Castel Royale | $ 520 | $ 520 |
| Elizabeth Towers | 918 | 918 |
| Heritage Glen (a) | 9,075 | 12,025 |
| Bristal portfolio (b) | – | 6,849 |
| Merrill Gardens portfolio | 3,079 | 3,337 |
| | $ 13,592 | $ 23,649 |

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

## 14. Deferred consideration on business combinations (continued):

During the year ended December 31, 2009, Chartwell settled the following deferred consideration in cash:

(a) On November 2, 2009, $3,500 was paid in respect of Heritage Glen acquisition.

(b) On December 21, 2009, Chartwell paid in advance $6,211 (U.S. $5,865 net of discount of U.S. $135) of deferred purchase consideration relating to the Bristal portfolio acquisition. This represents early settlement of Chartwell's share of principal and interest due on the notes on the third anniversary of acquisition.

## 15. 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. As at December 31, 2009, there were 1,976,859 (2008 - 2,865,472) Class B Units outstanding.

The details of non-controlling interest are as follows:

| | 2009 | 2008 (As recasted - note 2) |
|---|---|---|
| Balance, beginning of year | $ 15,990 | $ 46,862 |
| Non-controlling interest's share of loss for the year | (1,447) | (4,232) |
| Distributions on Class B Units of Master LP | (1,395) | (3,595) |
| Exchange of Class B Units of Master LP for Trust Units | (4,983) | (24,295) |
| Other comprehensive income (loss) | (352) | 1,250 |
| Balance, end of year | $ 7,813 | $ 15,990 |

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

## 16. Unitholders' equity:

Chartwell is authorized to issue unlimited Trust Units.

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

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

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

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed $50 unless waived at the discretion of the 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 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 |
|---|---|---|
| Balance, 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 |
| Balance, December 31, 2008 | 96,369,598 | 1,137,031 |
| Trust Units issued under DRIP | 1,013,922 | 5,074 |
| Trust Units issued on exchange of Class B Units of Master LP | 888,613 | 4,965 |
| LTIP Units transferred to Trust Units (note 15(b)) | 120,000 | 1,200 |
| Trust Units issued pursuant to public offering | 27,370,000 | 158,746 |
| Balance, December 31, 2009 | 125,762,133 | $ 1,307,016 |

## 16. Unitholders' equity (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. All distributions on the LTIP Units issued are applied as payments, first of interest and the balance toward the principal of the LTIP instalment receivable. Participants may prepay any principal at their discretion and receive the units. Units issued under the LTIP are held as security for the outstanding LTIP instalment receivable. If a participant elects to withdraw from the plan without paying the LTIP instalment receivable in full, 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 2,436,895 (2008 - 2,571,990) were issued and 3,463,995 (2008 - 3,328,900) were available to be issued at December 31, 2009.

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

## 16. Unitholders' equity (continued):

The following table summarizes LTIP Units issued under the LTIP:

| | Number of units under subscription | Amount |
|---|---|---|
| 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) | (4,326) |
| Balance, December 31, 2008 | 2,571,990 | 34,099 |
| Issuance of Trust Units | 122,500 | 614 |
| Compensation expense | – | 493 |
| Units transferred to Treasury | (137,595) | (2,673) |
| LTIP Units transferred to Trust Units | (120,000) | (1,200) |
| Balance, December 31, 2009 | 2,436,895 | $ 31,333 |

The market value of the Trust Units at December 31, 2009 was $7.03 per unit (2008 - $5.40).

The compensation expense attributable to the LTIP of $463 for the year ended December 31, 2009 (2008 - $752) 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:

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)

## 16. Unitholders' equity (continued):

(d) Deferred unit plan:

During 2008, the Trust implemented a Deferred Unit Plan which was approved by Unitholders at the annual general meeting held on May 21, 2009. The plan entitles independent directors, at their option, to receive all, 75%, 50% or 25% of their trustee fees in the form of Deferred Trust Units. The number awarded is based on the fair market value, as defined by the plan, of the Trust Units on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred Trust Units issued in regard to distributions is based on the fair market value of the Trust's Units, as defined in the plan, on the date distributions are paid.

The following table summarizes the Deferred Trust Unit activity since inception:

| | Units outstanding | Amount |
|---|---|---|
| Granted since inception | 111,102 | $ 592 |
| Reinvested distributions | 9,490 | 52 |
| Balance, December 31, 2009 | 120,592 | $ 644 |

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

## 17. Loss per unit calculation:

| | 2009 | 2008 (As recasted - note 2) |
|---|---|---|
| Numerator: | | |
| Loss for the year - continuing operations | $ (61,862) | $ (98,652) |
| Loss for the year - discontinued operations | (9,383) | (8,776) |
| | $ (71,245) | $ (107,428) |
| Denominator: | | |
| Denominator for basic earnings per unit - weighted average units | 101,361,927 | 93,946,250 |
| Denominator for diluted earnings per unit - weighted average units | 101,361,927 | 93,946,250 |
| Loss per unit: | | |
| Basic and diluted - continuing operations | $ (0.61) | $ (1.05) |
| Basic and diluted - discontinued operations | (0.09) | (0.09) |
| Total loss per unit | $ (0.70) | $ (1.14) |

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:

| | 2009 | 2008 |
|---|---|---|
| LTIP Units under subscription | 2,590,204 | 2,641,306 |
| Class B Units of Master LP | 2,113,511 | 4,597,555 |
| Assumed conversion of convertible debentures | 12,623,397 | 12,623,397 |

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

## 18. Transactions with Spectrum:

During 2008 through to April 30, 2009, Spectrum met the definition of a related party as defined by CICA Handbook Section 3840. Subsequent to April 30, 2009, due to a change in senior management, Spectrum no longer met the definition of a related party.

Except as disclosed elsewhere in these consolidated financial statements, transactions with Spectrum were as follows:

| | 2009 | 2008 |
|---|---|---|
| Contractual mezzanine loan interest income (note 5) | $ 4,128 | $ 5,494 |
| Effective interest rate adjustments | (190) | (220) |
| Development fees | 321 | 1,402 |
| Operations management fees | 1,876 | 2,167 |
| Other fees | 81 | 119 |
| Interest on overdue accounts receivable | 487 | 310 |

Other assets as at December 31, 2009 include $218, net of provision for impairment of $3,506 (2008 - $9,977, net of provision for impairment of nil) due from Spectrum. Subsequent to December 31, 2009, $218 of this balance was collected in cash.

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.

## 19. Segmented information:

Chartwell monitors and operates its Canadian Retirement, Canadian Long-Term Care, Canadian Management and United States Operations separately.

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

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)

## 19. Segmented information (continued):

| 2009 | Canadian Retirement Operations | Canadian Long-Term Care Operations | Canadian Management Operations | United States Operations | Total |
|---|---|---|---|---|---|
| Revenue | $ 324,315 | $ 145,625 | $ 7,347 | $ 183,809 | $ 661,096 |
| Equity income from variable interest entities | – | – | – | – | – |
| Below-market lease amortization | 785 | – | – | 357 | 1,142 |
| Direct operating expense | (211,653) | (127,286) | (4,099) | (118,851) | (461,889) |
| Income before the undernoted | 113,447 | 18,339 | 3,248 | 65,315 | 200,349 |
| Interest expense | (40,168) | (9,196) | – | (43,817) | (93,181) |
| Property lease expense | (134) | (204) | – | (2,260) | (2,598) |
| Income before the following | 73,145 | 8,939 | 3,248 | 19,238 | 104,570 |
| Depreciation and amortization | (60,341) | (7,807) | (1,678) | (43,875) | (113,701) |
| Loss (gain) on sale of assets | – | – | – | – | – |
| | $ 12,804 | $ 1,132 | $ 1,570 | $ (24,637) | (9,131) |
| Items not allocated to operating segments: | | | | | |
| Mezzanine loan interest, bank interest and other income | | | | | 11,292 |
| General, administrative and trust expenses | | | | | (21,008) |
| Interest on convertible debentures | | | | | (16,283) |
| Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss) | | | | | (6,961) |
| Provision for impairment of goodwill | | | | | – |
| Provision for impairment of mezzanine loans and accounts receivable | | | | | (30,684) |
| Non-controlling interest | | | | | 1,245 |
| Current income tax expense | | | | | (85) |
| Future income tax expense | | | | | 9,753 |
| Loss from discontinued operations | | | | | (9,383) |
| Loss for the year | | | | | $ (71,245) |
| Expenditures for assets by segment: | | | | | |
| Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets | $ 84,676 | $ – | $ – | $ – | $ 84,676 |
| Capital improvements | 26,955 | 2,767 | – | 10,148 | 39,870 |

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

## 19. Segmented information (continued):

| 2008 | Canadian Retirement Operations | Canadian Long-Term Care Operations | Canadian Management Operations | United States Operations | Total |
|---|---|---|---|---|---|
| | | | | | (As recasted - note 2) |
| Revenue | $ 291,214 | $ 138,753 | $ 9,089 | $ 171,953 | $ 611,009 |
| Equity income from variable interest entities | 3,087 | – | – | – | 3,087 |
| Below-market lease amortization | 410 | – | – | 802 | 1,212 |
| Direct operating expense | (187,490) | (121,264) | (4,102) | (112,881) | (425,737) |
| Income before the undernoted | 107,221 | 17,489 | 4,987 | 59,874 | 189,571 |
| Interest expense | (36,689) | (9,534) | – | (41,641) | (87,864) |
| Property lease expense | (117) | (204) | – | (2,039) | (2,360) |
| Income before the following | 70,415 | 7,751 | 4,987 | 16,194 | 99,347 |
| Depreciation and amortization | (58,441) | (8,847) | (2,759) | (49,049) | (119,096) |
| Loss (gain) on sale of assets | 89 | – | 16 | (10) | 95 |
| | $ 12,063 | $ (1,096) | $ 2,244 | $ (32,865) | (19,654) |
| Items not allocated to operating segments: | | | | | |
| Mezzanine loan interest, bank interest and other income | | | | | 15,085 |
| 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 | | | | | (73,323) |
| Provision for impairment of mezzanine loans | | | | | (6,406) |
| Non-controlling interest | | | | | 3,886 |
| Current income tax expense | | | | | (999) |
| Future income tax expense | | | | | 379 |
| Loss from discontinued operations | | | | | (8,776) |
| Loss for the year | | | | | $ (107,428) |
| 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)

## 19. Segmented information (continued):

| 2009 | Canadian Retirement Operations | Canadian Long-Term Care Operations | Canadian Management Operations | United States Operations | Other | Total |
|---|---|---|---|---|---|---|
| Total assets | $ 1,382,074 | $ 295,161 | $ 3,476 | $ 749,087 | $ 168,876 | $ 2,598,674 |
| Total liabilities | 949,332 | 180,933 | – | 594,879 | 208,116 | 1,933,260 |

| 2008 (As recasted - note 2) | 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 | 218,664 | 2,049,139 |

## 20. 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:

| | 2009 | 2008 |
|---|---|---|
| Assets | $ 607,524 | $ 703,683 |
| Liabilities | 481,583 | 549,482 |

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

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

| | 2009 | 2008 |
|---|---|---|
| Revenue | $ 238,618 | $ 243,167 |
| Expenses, including depreciation and amortization of $31,246 (2008 - $38,760) | 256,704 | 267,610 |
| Loss for the year | (18,086) | (24,443) |
| Cash provided by (used in): | | |
| Operating activities | $ 12,171 | $ 16,083 |
| Financing activities | (23,509) | (19,421) |
| Investing activities | 8,223 | (2,448) |

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 $481,565 (2008 - $550,951), 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) Variable interest entities:

At December 31, 2009, Chartwell holds variable interests in 12 (2008 - 19) VIEs. Chartwell provides development services, mezzanine loans, structuring services and consulting services to these entities.

As of December 31, 2009, Chartwell had mezzanine loans receivable of $21,568 (net of provision for impairment of $18,726) (2008 - $62,769, (net of provision for impairment of $6,406 from these entities)). During the year ended December 31, 2009, Chartwell earned $4,059 (2008 - $6,960) in interest from these entities.

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

## 21. Commitments and contingencies:

(a) Operating leases of seniors housing properties:

Chartwell has a leasehold interest in two properties acquired with the Merrill Gardens Portfolio. The term of these leases expire on December 31, 2017 and the leases have one renewal option for 10 years each. Minimum lease payments under these leases is $1,678 (U.S. $1,597) per annum and a total of $13,426 (U.S. $12,777) for the term of the leases.

(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 Regency Care 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.

(c) Purchase obligations:

Chartwell has entered into various construction contracts related to various internal growth projects. As at December 31, 2009, the remaining commitments under these contracts amounted to approximately $3,914.

As at December 31, 2009, Chartwell has entered into fixed-price natural gas contracts with a third-party natural gas supplier for $1,421 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 $938 (U.S. $892) 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, 2009, contingent consideration on acquisitions of properties amounted to $2,795 (2008 - $2,795).

## 21. Commitments and contingencies (continued):

(e) Letters of credit:

As at December 31, 2009, Chartwell was contingently liable for letters of credit in the amount of $2,182 (2008 - $2,365).

(f) Other contracts:

(i) The 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 to 30 years and call for payment of management fees between 4.0% and 5.5% of gross revenue plus incentive fee based on certain operating targets. Chartwell owns a 50% interest in HBC and an 80% interest in HBC II.

(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.

These contracts will be terminated upon completion of transactions contemplated in the Melior Settlement Agreement (note 3).

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

## 21. Commitments and contingencies (continued):

(g) Litigation and claims:

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

## 22. Supplemental cash flow information:

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

| | 2009 | 2008 |
|---|---|---|
| Change in non-cash operating items: | | |
| Accounts receivable | $ 475 | $ 3,190 |
| Deposits on acquisitions | (2,399) | 111 |
| Due from Spectrum | (4,237) | (4,299) |
| Due from ING | (6,639) | 4,253 |
| Accounts payable and other liabilities | (4,100) | 11,108 |
| Other | (8,337) | (583) |
| | $ (25,237) | $ 13,780 |

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:

| | 2009 | 2008 |
|---|---|---|
| Non-cash consideration on acquisitions: | | |
| Discharge of mezzanine loans receivable | $ 9,327 | $ 8,602 |
| Distributions applied against instalment loans receivable related to LTIP | 1,771 | 2,144 |
| Interest on instalment loans receivable related to LTIP | 825 | 1,091 |
| Trust Units issued pursuant to the DRIP | 5,074 | 9,230 |

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

## 22. Supplemental cash flow information (continued):

In accordance with Chartwell's Sixth 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.

During the year ended December 31, 2009, interest paid amounted to $101,311 (2008 - $98,595).

During the year ended December, 2009, cash distributions on Trust Units amounted to $61,986 (2008 - $68,692).

## 23. Income taxes:

For the year ended December 31, 2009, Chartwell recorded a current income tax expense of $85 (year ended December 31, 2008 - $999) and a future income tax recovery of $9,753 (year ended December 31, 2008 - $379).

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:

| | 2009 | 2008 (As recasted - note 2) |
|---|---|---|
| Future income tax assets: | | |
| Mortgages payable | $ 2,618 | $ 4,001 |
| Issue costs | 4,004 | 4,705 |
| Losses carried forward | 2,201 | 3,725 |
| Other | 2,949 | 2,842 |
| Valuation allowance | (382) | (2,243) |
| | 11,390 | 13,030 |
| Future income tax liabilities: | | |
| Properties | (13,909) | (21,271) |
| Capital funding receivable | (8,689) | (10,332) |
| Limited life intangible assets | (5,157) | (8,054) |
| Other | (1,802) | (3,068) |
| | (29,557) | (42,725) |
| Net future income tax liability | $ (18,167) | $ (29,695) |

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

## 23. Income taxes (continued):

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, 2009, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately $45,859 (U.S. $43,634). Of these losses, approximately $988 (U.S. $940) expire in 2025, $2,187 (U.S. $2,081) expire in 2026, $12,427 (U.S. $11,824) expire in 2027, $14,078 (U.S. $13,395) expire in 2028 and $16,179 (U.S. $15,394) expire in 2029.

As at December 31, 2009, 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 $45,636 (U.S. $43,421) against which a valuation allowance of $45,636 (U.S. $43,421) has been recorded.

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 33.0% (2008 - 32.5%). The differences for the years ended December 31 are as follows:

| | 2009 | 2008 (As recasted - note 2) |
|---|---|---|
| Loss before income taxes | $ (72,775) | $ (101,918) |
| Computed income tax recovery at Canadian SIFT tax rate | $ (24,016) | $ (33,123) |
| Increase (decrease) resulting from: | | |
| Effect of permanent differences | 3,529 | 23,324 |
| Change in valuation allowance | 10,514 | 15,966 |
| International income tax rate differences | (1,380) | (3,347) |
| Enacted changes in tax rates | 1,772 | – |
| Other | (87) | (2,200) |
| Income tax expense (recovery) | $ (9,668) | $ 620 |

## 24. 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)

## 24. 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:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets: | | | | |
| Loans and receivables, recorded at amortized cost: | | | | |
| Mezzanine loans receivable (i) | $ 55,323 | $ 53,997 | $ 96,822 | $ 93,561 |
| Capital funding receivable (ii) | 43,824 | 47,719 | 46,001 | 47,254 |
| Financial liabilities: | | | | |
| Financial liabilities, recorded at amortized cost: | | | | |
| Mortgages payable (iii) | 1,625,281 | 1,629,609 | 1,668,445 | 1,678,693 |
| Convertible debentures (iv) | 203,874 | 203,674 | 199,707 | 161,180 |

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 and 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.

## 24. 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:

| | 2009 | 2008 |
|---|---|---|
| Liability | $ 188,996 | $ 184,634 |
| Equity | 14,878 | 15,073 |
| | $ 203,874 | $ 199,707 |

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.

## 24. 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 Board of Trustees 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 Board of Trustees 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.

## 24. 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 properties. 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.

On December 9, 2009, Chartwell entered into a Settlement Agreement with Spectrum (note 5(a)) and is working with Spectrum to complete transactions contemplated by the Settlement Agreement. Chartwell completed an evaluation of the project-specific security underlying each mezzanine loan, as well as an evaluation of Spectrum's corporate guarantee based on Spectrum's financial information as at December 31, 2009. 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.

On August 19, 2009, Chartwell entered into a Settlement Agreement with Melior to resolve certain issues relating to Melior's performance of its obligations under mezzanine loan agreements. Chartwell recorded a cumulative impairment provision against its mezzanine loans to Melior and its joint ventures partners in Quebec in the amount of $30,508.

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)

## 24. Financial instruments and financial risk management (continued):

The aging of resident receivables at December 31, 2009 is as follows:

| | |
|---|---|
| Current | $ 3,021 |
| 31 - 60 days | 673 |
| 61 - 90 days | 314 |
| Over 90 days | 1,148 |
| | 5,156 |
| Allowance for doubtful accounts | 1,130 |
| Net resident receivables | $ 4,026 |

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

(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, 2009, the Trust had $61,931 available and undrawn on the 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)

## 24. 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, 2009, Chartwell's 2010 debt maturities amounted to approximately $98,128. Subsequent to December 31, 2009, approximately $31,230 of the outstanding debt was repaid, of which $25,917 related to 2010 maturities with the remaining relating to maturities beyond 2010.

There is also risk that the 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, 2009 were as follows:

| | 2010 | 2011 | Total |
|---|---|---|---|
| Mortgage principal repayments | $ 130,554 | $ 87,890 | $ 218,444 |
| Purchase obligations | 12,777 | 5,504 | 18,281 |
| Property operating leases | 1,678 | 1,678 | 3,356 |
| Other operating leases | 1,083 | 974 | 2,057 |
| Land leases | 245 | 245 | 490 |
| Maturity of 6.0% Convertible Debentures | – | 124,925 | 124,925 |
| | $ 146,337 | $ 221,216 | $ 367,553 |

(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.

## 24. 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, 2009, $53,747 (2008 - $38,522) 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 arrangement with a current notional principal amount of $11,328 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 5.6% 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 arrangement based on an estimate of the cost to close the contract as at December 31, 2009 is a loss position of $1,322 (2008 - $2,087), which is included in accrued liabilities on the consolidated balance sheets (note 13). Included in other comprehensive loss for the year ended December 31, 2009 is a gain of $490, net of future income taxes of $147 (2008 - loss of $1,932, net of future income taxes of $462) that relates to the effective portion of the net change in fair value of the interest rate swap arrangement that has been designated as a hedge.

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

## 24. Financial instruments and financial risk management (continued):

At December 31, 2009, the Trust's interest-bearing financial instruments were:

| | Carrying amount 2009 | 2008 |
|---|---|---|
| Fixed-rate instruments: | | |
| Financial assets (mezzanine loans) | $ 55,323 | $ 96,822 |
| Financial liabilities | 1,767,450 | 1,828,769 |
| Variable-rate instruments: | | |
| Financial liabilities | $ 53,747 | $ 38,522 |

A change in interest rates at December 31, 2009 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, 2009 for the variable-rate mortgages would have decreased equity by $537 and increased the loss for the year by $537 (on a pre-tax basis).

(b) Foreign currency exchange risk:

At December 31, 2009, through its self-sustaining United States operations, 29% (2008 - 35%) of Chartwell's assets and 35% (2008 - 40%) of Chartwell's mortgages payable were held in the United States and 35% (2008 - 38%) 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 United States operations or part of the net investment in self-sustaining United States operations.

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

## 24. 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 United States 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 United States 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, 2009.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining United States operations at December 31, 2009:

| | U.S. dollar |
|---|---|
| Cash | $ 488 |
| Loans receivable from self-sustaining United States operations | 37,500 |
| Net investment in self-sustaining United States operations | 95,787 |
| Net exposure | $ 133,775 |

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 | $ 380 |
| Decrease in other comprehensive loss for the year | 958 |

(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, 2009, the Trust received approximately $98,759 (2008 - $95,057) 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. Financial instruments and financial risk management (continued):

(c) Fair value hierarchy:

The following table presents, for each of the fair value hierarchy levels as defined in note 1(b)(iii), the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009:

| | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Liabilities: | | | | |
| Derivatives | $ 1,441 | $ – | $ 1,441 | $ – |

## 25. 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)

## 25. 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, 2009 and 2008:

| | 2009 | 2008 | Increase (decrease) |
|---|---|---|---|
| Debt to adjusted gross book value ratio (excluding convertible debentures) | 53.4% | 55.2% | (1.8)% |
| Debt to adjusted gross book value ratio (including convertible debentures) | 59.9% | 61.7% | (1.8)% |

## 25. Capital structure financial policies (continued):

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

Adjusted gross book value means, at any time, the consolidated book value of the assets of the Trust, as shown on the Trust's most recent consolidated balance 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, 2009 decreased primarily due to the issuance of additional equity pursuant to public offerings.

## 26. Guarantees:

At December 31, 2009, Chartwell remains as a guarantor on the debt of one property to a maximum amount of $6,098 (2008 - $18,008). 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.

## 27. Subsequent events:

Subsequent to December 31, 2009, Chartwell purchased a parcel of land adjacent to one of its existing retirement properties from Melior for cash consideration of $1,750 which proceeds were used to discharge the mortgage debt on this property.

## 28. Comparative figures:

Certain 2008 figures have been reclassified to conform with the financial statement presentation adopted in 2009.