09

Management's Discussion and Analysis

For the Years Ended December 31, 2009 & 2008

CHARTWELL
SENIORS HOUSING REIT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Years Ended December 31, 2009 and 2008

Contents

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its current and prospective investors' understanding of the financial results for the year ended December 31, 2009. This MD&A should be read in conjunction with Chartwell's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and the notes thereto (the "Financial Statements"). This material is available on Chartwell's website at www.chartwellreit.ca. Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of March 4, 2010.

All references to "Chartwell", "we", "our", "us" or "Trust", unless the context indicates otherwise, refer to Chartwell Seniors Housing Real Estate Investment Trust and its subsidiaries. For ease of reference "Chartwell" and the "Trust" are used in reference to ownership of seniors housing communities and the operation of the seniors housing communities and the third-party management business. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust.

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; "Q4" refers to the three-month period ended December 31; "2009" refers to the calendar year 2009; "2008" refers to the calendar year 2008 and "YTD" means year to date.

Unless otherwise indicated, all comparisons of results for 2009 are in comparison to results from 2008 and all comparisons of results for Q4 2009 are in comparison to Q4 2008.

In this document we use a number of key performance indicators for monitoring and analyzing our financial results such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI") and others. These key performance measures are not defined by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other income trusts or other companies. Please refer to the "Key Performance Indicators" section of this MD&A for details of each of these performance indicators.

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

Business Overview

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. We indirectly own and manage a portfolio of seniors housing communities across the complete spectrum of care from independent supportive living ("ISL") communities, through assisted living ("AL") communities, to long-term care ("LTC") communities, which are located in Canada and the United States ("U.S.").

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

Our Mission is…

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

Our Values are…

Respect – We honour and celebrate seniors
Empathy – We believe compassion is contagious
Service Excellence – We believe in providing excellence in customer service
Performance – We believe in delivering and rewarding results
Education – We believe in lifelong learning
Commitment – We value commitment to the Chartwell family
Trust – We believe in keeping our promises and doing the right thing

As of December 31, 2009, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 29,244 suites in 229 communities which are operating, under construction or in various stages of development. As of December 31, 2009, our portfolio of owned and leased communities consisted of interests in 23,167 suites in 181 communities.

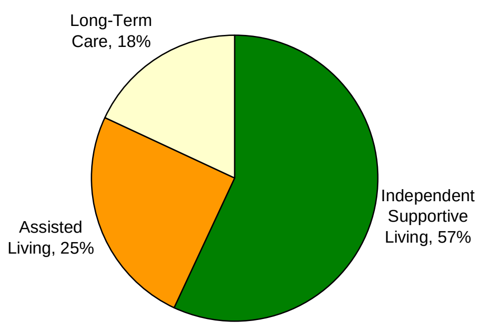
The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our four operating segments at December 31, 2009:

	Canadian Retirement Operations		Canadian Long-Term Care Operations		United States Operations		Canadian Management Operations		Total	
	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds
Owned Properties: (1)										
100% Owned										
Operating	98	11,409	16	1,779	23	2,311	-	-	137	15,499
Internal Growth	-	419	-	-	-	-	-	-	-	419
Total 100% Owned	98	11,828	16	1,779	23	2,311	-	-	137	15,918
50% Owned										
Operating	8	867	8	1,385	26	4,760	-	-	42	7,012
Total 50% Owned	8	867	8	1,385	26	4,760	-	-	42	7,012
Total Owned	106	12,695	24	3,164	49	7,071	-	-	179	22,930
Properties under Operating Lease:										
100% Interest	-	-	-	-	2	237	-	-	2	237
Total Leased	-	-	-	-	2	237	-	-	2	237
Total Owned and Leased	106	12,695	24	3,164	51	7,308	-	-	181	23,167
Other:										
Managed Properties							39(3)	4,577	39	4,577
Mezzanine Loans (2)	-	-	-	-	-	-	9	1,500	9	1,500
Total Other	-	-	-	-	-	-	48	6,077	48	6,077
Total	106	12,695	24	3,164	51	7,308	48	6,077	229	29,244

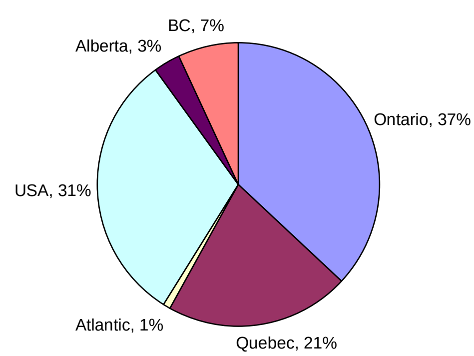
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Includes communities on which we have mezzanine loans outstanding and retain purchase options.
(3) We hold purchase options on 18 of these communities.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Interest, Excluding Discontinued Operations, at December 31, 2009 by:

Level of Care



Geographic Location



Business Strategy and 2010 Outlook ♣

Over the past six years we have achieved an enviable presence in the North American seniors housing market. We have acquired a portfolio of properties with significant competitive advantages: our portfolio is relatively new and well maintained; our portfolio is diversified geographically; and a large portion of our assets are independent supportive living, appealing to the leading edge of baby boomers that require supportive services.

Our growth has also been based on the strong fundamentals present in the North American seniors housing market. Significant demand is driven by strong demographic trends that are resulting in the seniors population growing at approximately three to four times the general population.

During 2008 and 2009, the Canadian and U.S. economies moved into a recession. The recession in Canada and particularly in the U.S. was deeper and lasted longer than expected and has had an impact on our occupancies in 2009. In addition, these conditions and tight credit markets affected our development partners. There are signs of improvements in the North American economic climate but it remains difficult to predict the strength and sustainability of economic recovery. In the second half of 2009 we experienced occupancy improvements in most of the markets in which we operate. We expect that this recovery will continue in 2010 and 2011, driven by the stabilization of the housing markets and continued growth in demand for seniors housing accommodation resulting from growth in the seniors population. In addition, a decrease in new construction starts in 2008 and 2009, due to tight credit markets, will result in less new supply coming to market in the next 2-3 years.

Our business strategy remains principally focused on initiatives to increase the percentage of our AFFO that is derived from the ownership and operation of seniors housing properties. The following summarizes our strategic objectives:

- Grow property AFFO from our existing properties:
  - Achieve rental rate increases for 2010 of 2.0% to 4.5% while maintaining and improving on our high levels of service to and satisfaction of our residents.
  - Implement new initiatives to increase occupancy including new payment options in many Canadian jurisdictions to increase the percentage of seniors living in seniors housing properties ("penetration rate") and leveraging our new Canadian and U.S. websites to drive increased traffic to our properties.
  - Continue our initiatives to capture economies of scale and operational efficiencies.
  - Manage our portfolio of assets, including conducting asset management reviews of each property on a prioritized basis to identify its highest and best use.
- Pursue initiatives to reduce our exposure to third-party developers, including acquiring properties in satisfaction of outstanding mezzanine loans.
- Evaluate opportunities for on balance sheet development where we can achieve significant long-term value.
- Limit the pace of acquisitions with an emphasis on newer properties, primarily in geographic regions where we are already operating, that meet our strict acquisition criteria, including AFFO accretion.
- Evaluate portfolio management opportunities with institutional partners.

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

Property Operations

Our focus on resident contact, quality of service and innovative marketing strategies allows us to maintain higher than industry average occupancies in most of our markets. We also continue our focus on controlling labour and supply costs. The following summarizes our outlook for 2010 for the markets in which we operate:

Canadian Operations

We expect to see a slow recovery in our Canadian Retirement Operations in 2010 and anticipate generating moderate growth with expectations for occupancy trends as follows:

- In Ontario, occupancies softened in the first half of 2009. However, since August 2009 we have been achieving steady occupancy gains. We continue to see improvements in customer traffic (inquiries and property tours) and our current statistics show increases in expected future arrivals. We expect that this increased traffic, combined with a substantial waiting list for Ontario LTC accommodation that is currently in excess of 25,000 people that creates a spillover effect and helps to support occupancies in retirement properties, should result in continued improvements in occupancies. We anticipate average rental rates will increase by 3.25% to 3.5% in 2010.
- In Alberta, occupancy levels are projected to continue to remain high and we anticipate average rental rates will increase by 3.25% to 3.5% in 2010.
- In British Columbia, temporary oversupply conditions in two regional markets, combined with reduced occupancies in one LTC property, have resulted in reduced occupancy in 2009. Our current statistics show slightly positive future arrivals. We anticipate that with the absorption of new supply and improved economic conditions we will begin to see growth in occupancies in mid-2010. We expect to achieve average rental rate increases of 3.25% to 3.5% in 2010. We will continue to closely manage costs to mitigate the impact of reduced occupancies on NOI.
- As a result of obtaining full control of our properties in Quebec, and the initiatives to reposition and renew many of these properties, we realized improved occupancy in our Quebec platform through 2009 and we anticipate this growth will continue in 2010. We expect to achieve an average rental rate increase of 2.0%in 2010.

We continue to closely manage expenses in our Canadian Retirement Operations to ensure that we are mitigating the potential effects of the uncertain economic environment on NOI.

Our Canadian Long-Term Care Operations have achieved same property NOI growth of 3.5% this year. We do not anticipate that this will continue into 2010 as the impact of provincial government deficits is expected to contain revenue growth. In addition, at this time, the government of Ontario has not yet committed to renew the other accommodation funding increase of $1.55 per resident day beyond March 31, 2010.

In Ontario and British Columbia, operations are expected to be affected by the implementation of harmonization of provincial sales taxes with the federal Goods and Services Tax (“GST”) on July 1, 2010. Harmonization with the GST will result in Ontario and British Columbia increasing the tax burden in the seniors housing sector by broadening the scope of their current sales taxes to include items such as utilities and contracted services, including maintenance contracts. We are expecting that in the case of our Long-Term Care Operations, provincial governments will not adversely affect the health services provided to seniors with this additional new tax and are optimistic that we will recover these costs through additional funding from the provincial governments. In respect of our Retirement Operations in Ontario and British Columbia, we anticipate that most markets will bear rental rate increases to absorb the new costs beginning in 2011. The additional cost in 2010 is estimated to be approximately $1.2 million.

U.S. Operations

In mid-2008, in some of our U.S. properties we began to find it more difficult than it had been in the past to replace residents on turnover and this trend continued through to July 2009. In late Q2 2009 we began to see stabilization in occupancies and in Q3 and Q4 2009 have achieved growth. We are cautiously optimistic that continued increases in inquiries and tours across our U.S. portfolio, combined with some improvements in the U.S. housing market and limited new product expected to come to market in the near to mid-term, will begin to improve occupancies later in 2010 and will result in occupancy growth over the longer term. We anticipate that average rental rates will increase by 3.5% to 4.5% in 2010. We are continuing with our expense reduction initiatives to mitigate the effects of lower occupancies on NOI.

Management of General, Administrative and Trust Expenses

In 2009, we strictly managed our general, administrative and trust ("G&A") expenses, delayed or cancelled certain corporate activities and actively reduced costs to the extent possible while ensuring that support to our field operations teams remained strong. We will continue to contain G&A expenses in 2010 to priority initiatives to drive increased property revenues and/or operational and administrative efficiencies.

Canadian Management Operations

We continue to provide operations management services to a number of owners of seniors housing communities in Canada, and asset management services to ING Real Estate Investment Management Australia PTY Limited and its affiliates ("ING"). While we ensure that our existing management service clients receive the highest quality service, we generally do not seek to grow the number of "one off" management contracts. We would, however, consider portfolio management opportunities with institutional partners in the future.

With our reduced emphasis on development management activities and the wind-down of our relationship with Spectrum Seniors Holdings LP ("Spectrum"), we expect development and operations management fee income to continue to decline in 2010.

Mezzanine Loan Interest Income

As discussed under the "Consolidated Results of Operations" section of this MD&A, as of December 31, 2009, we recorded a cumulative provision for mezzanine loan impairment of $30.5 million. We continue working with the borrowers in order to collect amounts due from them. As a result of this work, it is possible that we may acquire or receive in payment, a limited number of their properties with their remaining properties being re-financed or sold to third parties. As a result, we expect mezzanine loan interest income to decline in 2010.

Development

We have one internal growth project (71 suites) in progress which is expected to open for occupancy in Q1 2010. We continue to evaluate other opportunities for on balance sheet greenfield and internal growth development on a limited scale. In 2010 we anticipate commencement of development of two retirement residences adjacent to our existing LTC properties in Kitchener and Oshawa, Ontario. These developments will add 212 retirement suites at a total development cost of approximately $47.8 million. In addition, we anticipate redeveloping, subject to successful negotiations with the funding authority, one LTC community in British Columbia with 142 suites. We also anticipate beginning a staged program to redevelop our 12 Class B and C LTC properties with a total of 1,166 beds. The redevelopment of 35,000 LTC beds in Class B and C homes is required by the government of Ontario over the next 10 years with capital funding provided for this renewal initiative. In 2010 we will continue our analysis and anticipate commencing redevelopment of three of our LTC properties.

Acquisitions

We expect to complete foreclosure of three Le Groupe Melior ("Melior") operating properties and one parcel of vacant land in Q1 2010 and to complete transactions with ING in the spring of 2010 as discussed under the "Significant Events" section of this MD&A. We will continue working with Spectrum, Melior and their joint venture partners to collect the remaining outstanding mezzanine loans or, where appropriate, convert them into equity in the properties. We also remain open to opportunities to acquire newer properties on an accretive basis in geographic regions where we are already operating.

Liquidity and Debt Profile

During Q4 2009, we successfully raised $166.8 million by issuing 27.4 million Trust Units through two public offerings through a syndicate of investment dealers. The net proceeds from the offerings will be used to complete the acquisition of the remaining 50% interest in the Meridian and Regency properties from ING and its affiliates (see "Transactions with ING" section in this MD&A), and to take advantage of certain restructuring opportunities relating to our mezzanine financing investments with Spectrum, Melior and others, with the remaining proceeds expected to be used for general Trust purposes. Initially, we have deployed the net proceeds to repay amounts outstanding under our secured revolving operating facility ("Credit Facility") and have repaid certain mortgages, with the balance invested in short-term interest-bearing deposits. At December 31, 2009 we had cash on hand in the amount of $106.9 million and available borrowing capacity of $61.9 million under our Credit Facility.

Our strategy in managing our mortgage profile is to ensure that maturities are spread over time so that no more than 10% of the total debt comes due in any given year. In 2009, due to the challenging credit market conditions, we did not have sufficient access to competitively-priced, longer-term debt and therefore, completed most of our financings on a 5-year basis. This resulted in a slightly higher weighting in our 2014 maturities.

In Canada we have access to low-cost mortgage financing insured by the Canada Mortgage and Housing Corporation ("CMHC") and most of our 2009 financings were completed on a CMHC-insured basis. At December 31, 2009, approximately 69% of our total Canadian mortgage debt was CMHC-insured.

Subsequent to December 31, 2009 we paid down $31.2 million of debt bearing a weighted average interest rate of 4.46% to partially mitigate a temporary dilution from the equity offerings completed in Q4 2009. We expect to renew 2010 maturing debt in due course.

In the U.S. we have no debt maturities until 2013.

Taxation

We currently qualify as a mutual fund trust for Canadian income tax purposes, and under legislation that became law on June 22, 2007 (the "SIFT Rules"), became a specified investment flow-through trust (a "SIFT").

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. In both 2009 and 2008, 100% of our distributions were characterized as tax-deferred returns of capital. We believe that it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Trust Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

A flow-through subsidiary of Chartwell was considered a SIFT prior to December 31, 2008. This entity has been restructured such that it is not subject to SIFT tax in 2009.

Summary

Our properties are generating stable operating income and cash flows and our emphasis on growth in AFFO from our property portfolio will continue. We believe that the outcome of the current economic climate will be positive in the mid-term for our sector as significant reductions in new seniors housing starts due to tight credit markets will reduce future supply from previously anticipated levels. Demographic trends should result in increasingly strong demand in the coming years which, combined with lower new supply expectations, will result in favourable market dynamics. As a result, for those industry participants that manage prudently through these difficult times, significant opportunities may become available.

Significant Events

The following events have had a significant effect on our financial results in 2009 or may be expected to affect our results in the future.

Acquisitions

In line with our strategy to reduce our exposure to third-party developers, and to acquire newer properties in geographic regions where we are already operating, in 2009 we acquired six properties from Spectrum and its joint venture partners where applicable. As part of these acquisitions, $9.3 million of mezzanine loans receivable and $10.5 million of accounts receivable due from Spectrum were settled.

The following table summarizes acquisitions completed in 2009:

($millions)	First nine months of 2009	Q4 2009	2009
Number of communities	4 (1)	2	6
Number of suites	455	164	619
Purchase price (including closing costs)	50.7	32.4	83.1
Financed as follows:			
Mortgage debt assumed	35.7	24.4	60.1
Discharge of mezzanine loans receivable	5.7	3.6	9.3
Settlement of receivables from Spectrum	7.5	3.0	10.5
Cash	0.5	0.8	1.3
Acquisition costs	1.3	0.6	1.9
Total	50.7	32.4	83.1

(1) We acquired a 50% interest in these communities.

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
2009 Acquisitions:					
1.	Chatsworth Suites and Bungalows (1)	Kelowna, BC	Retirement	February 1, 2009	103
2.	Churchill House Retirement Community (1)	North Vancouver, BC	Retirement	February 1, 2009	97
3.	Riverside Retirement Residence (1)	London, ON	Retirement	March 1, 2009	138
4.	Pickering City Centre (1)	Pickering, ON	Retirement	March 1, 2009	117
5.	Chartwell Select Thunder Bay	Thunder Bay, ON	Retirement	October 1, 2009	109
6.	Carrington Suites	Mission, BC	Retirement	December 1, 2009	55
Total 2009 Acquisitions					619
2008 Acquisitions:					
1.	Cite-Jardin IIIA	Gatineau, QC	Retirement	January 9, 2008	173
2.	Chateau Gardens Elmira	Elmira, ON	Retirement	April 24, 2008	64
3.	Chartwell Kanata (2)	Kanata, ON	Retirement	May 29, 2008	80
4.	Residences St-Pierre (3)	Rouyn-Noranda, QC	Retirement	October 27, 2008	121
5.	Le Monastere d'Aylmer (3)	Aylmer, QC	Retirement	October 27, 2008	273
6.	Residence Principale (3)	Cowansville, QC	Retirement	October 27, 2008	197
7.	Residence Notre-Dame de Hull (3)	Hull, QC	Retirement	October 27, 2008	224
8.	Le Domaine de Chateau de Bordeaux (3)	Sillery, QC	Retirement	October 27, 2008	153
9.	Marquis de Tracy II (3)	Sorel, QC	Retirement	October 27, 2008	137
10.	Marquis de Tracy I (3)	Sorel, QC	Retirement	October 27, 2008	125
Total 2008 Acquisitions					1,547

(1) We acquired a 50% interest in these communities.
(2) We acquired the remaining 50% interest in this community.
(3) We acquired the remaining 50% interest in these communities and CM Management LP, the management entity that provided management services to these communities as well as our other Quebec communities.

Transactions with Spectrum

During Q2 2009, Stephen A. Suske, who held a significant interest in Spectrum, left his position as Chief Executive Officer and Vice-Chair of Chartwell. In addition, during Q2 2009, Brent Binions, President and Chief Executive Officer of Chartwell made arrangements with respect to his holdings in Spectrum such that the Trustees of Chartwell are satisfied that no conflict exists between him and Chartwell. At December 31, 2009, Richard Noonan, Chief Operating Officer of Chartwell owned a minority interest (less than 2%) in Spectrum.

In 2009, we worked closely with Spectrum to collect our mezzanine loans and accounts receivable as well as improve security on the remaining loans.

In addition to settlement of $9.3 million of mezzanine loans and $10.5 million of accounts receivable on acquisition of Spectrum's interest in six seniors housing communities in 2009, we collected a further $5.6 million of mezzanine loans and $1.8 million of accounts receivable in Q4 2009, as Spectrum sold its interests in two operating properties and two properties in construction to third parties.

On December 8, 2009 (the "Spectrum Settlement Effective Date"), Chartwell and Spectrum agreed, among other things, that we would: (a) waive our entitlement to 5% of the purchase price, net of transaction costs, of any properties sold by Spectrum to third parties; and (b) limit our 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 Huntsville, 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 million payment to Chartwell. Until such time, our purchase rights with respect to Spectrum's development properties will remain in effect with compressed notice periods and interest on overdue unsecured accounts receivables 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 our favour and purchase rights on properties for which mezzanine loans remain outstanding. The properties which are subject to the Three Purchase Rights were selected by Chartwell as they fit within our strategic objectives relating to property acquisitions.

During Q2 2009, Spectrum sold its interest in eight development properties and agreed to sell one additional development property upon receipt of the regulatory approvals to limited partnerships controlled by an institutional investor (collectively "Seasons"). As part of this transaction, we agreed to Seasons assuming mezzanine loans on six of the acquired properties totalling $8.2 million. In addition, upon receipt of the regulatory approvals, Spectrum agreed to sell one additional property to Seasons. The mezzanine loan of $2.6 million on that property will also be assumed by Seasons on closing.[*]

At December 31, 2009, our exposure to Spectrum was limited to $3.7 million of accounts receivable, against which an impairment provision of $3.5 million was recorded, and $27.7 million of mezzanine loans on 18 projects (including $7.4 million of mezzanine loans on five projects in Quebec) against which an impairment provision of $4.2 million was recorded. We continue working with Spectrum to collect the remaining amounts due to us.

Further details of 2009 transactions with Spectrum are disclosed in note 17 to the Financial Statements.

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

Agreements with Melior

In August 2009, Chartwell and certain subsidiaries, affiliates and joint venture partners of Le Groupe Melior Inc. (the "Melior Debtors") entered into a settlement agreement (the "Melior Settlement") in order to address certain issues relating to the performance by the Melior Debtors of their obligations under certain mezzanine loans.

In mid-November 2009, further to certain conditions of the Melior Settlement 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 in Gatineau, Sillery and Sherbrooke, Quebec and one parcel of vacant land in Magog, Quebec against the Melior Debtors. In mid-November 2009, we took possession of the aforesaid three operating properties and assumed the administration thereof. On February 2, 2010, we received court judgments approving foreclosures of the three operating properties and one parcel of vacant land. The closing of this acquisition is expected in Q1 2010. The acquisition of these properties and vacant land will result in our assuming approximately $67.7 million of outstanding mortgages payable and approximately $5.7 million of other liabilities and estimated closing costs. Outstanding mezzanine loans in the amount of $21.6 million (net of fees recorded as a reduction of the mezzanine loans balance of $1.0 million), against which an impairment provision of $8.8 million has previously been recorded, will be discharged on closing. *

In December 2009, pursuant to the Melior Settlement, we acquired one parcel of land adjacent to our property in Coaticook, Quebec. As part of this acquisition, one mezzanine loan in the amount of $0.5 million (net of fees recorded as a reduction of the mezzanine loan balance of $0.5 million), against which an impairment provision of $0.4 million had previously been recorded, was discharged.

In January 2010, pursuant to the Melior Settlement, we acquired one parcel of vacant land adjacent to our property in Trois-Rivieres, Quebec for $1.75 million, the proceeds of which were used to discharge the mortgage debt on this property.

Transactions with ING

In Q4 2009, Chartwell agreed to acquire from ING the remaining 50% ownership interests in eight LTC properties situated in Ontario (the "Regency Care Portfolio") and six retirement properties located in the U.S. (the "Meridian Portfolio") that it does not already own. We have managed these portfolios and have owned the other 50% interests in these portfolios in joint venture relationships with ING since their original acquisition.

The Regency Care Portfolio is comprised of eight LTC communities consisting of 1,385 Class A beds situated in southern Ontario originally acquired in a joint venture with ING in July 2007. The purchase price for ING's 50% interest in the Regency Care Portfolio is $79.5 million (before closing costs), less outstanding mortgages in respect of the properties of approximately $68.9 million bearing interest at a weighted average interest rate of 7.41% and a weighted average term to maturity of 17.9 years, resulting subject to working capital adjustments, in a cash payment by Chartwell to ING of approximately $10.6 million.

The Meridian Portfolio consists of six retirement communities totalling 1,057 suites within five properties in the Denver, Colorado area and one property in Temple, Texas. The Meridian Portfolio was acquired in a joint venture with ING in August 2005. Our U.S. joint venture property management company, Horizon Bay Chartwell ("HBC"), will continue managing these properties. The purchase price for ING's 50%

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

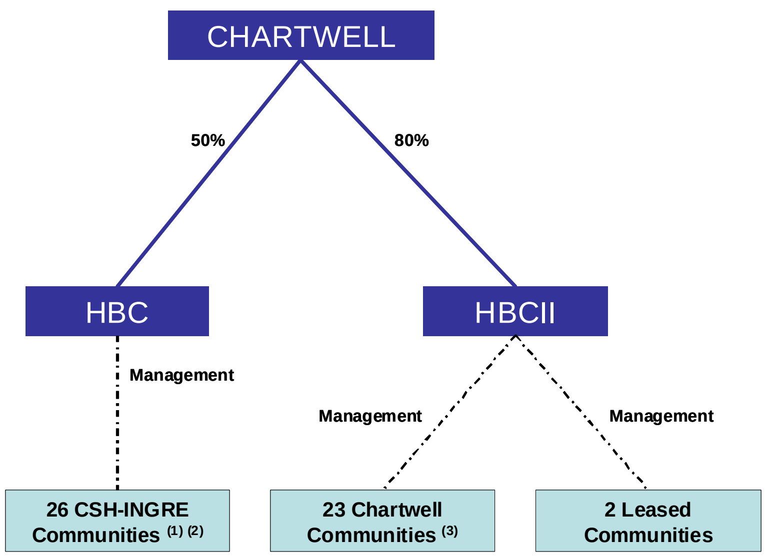
interest in the Meridian Portfolio is U.S.$110.5 million (before closing costs), less outstanding mortgages in respect of the properties of approximately U.S.$75.2 million bearing interest at 5.41% and maturing in September 2015, resulting subject to working capital adjustments, in a cash payment by Chartwell to ING of approximately U.S.$35.3 million.

The closing costs are estimated at $4.0 million and the closing of these transactions is expected to occur in the spring of 2010, subject to receipt of the regulatory and lenders' approval .*

Horizon Bay Restructuring

On October 1, 2009, we reorganized our relationship with Horizon Bay whereby we disposed of our 49% interest in Horizon Bay Realty LLC ("HBR"). Upon completion of the reorganization, we no longer have an ownership interest in the 25 seniors housing communities leased by subsidiaries of HBR, nor the eight third-party management contracts, and retain a 50% interest in HBC, a manager for our U.S. properties co-owned with ING through CSH-INGRE LLC ("CSH-INGRE") and an 80% interest in HBCII Manager LLC ("HBCII."), a manager for our wholly-owned properties in the U.S.

The following chart shows the structure of our U.S. portfolio post reorganization:



(1) Management of five of these communities is currently performed by Ultimate Care Senior Living with financial management services provided by HBC.
*(2) Includes the Meridian Portfolio of six communities that we expect to acquire the remaining interest 50% of in the spring of 2010.**
(3) Management of one of these communities is currently performed by Merrill Gardens due to regulatory requirements.

Development Activities

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

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

We currently have one internal growth project in progress. Once completed in Q1 2010, the project will add 71 suites to the existing 72-suite retirement home in Vernon, British Columbia. The total project costs are estimated at $10.9 million of which $9.2 million is financed with a construction loan.

Completed Internal Growth Projects

The following table summarizes completed internal growth projects in 2008 and 2009:

Project	Location	Suites	Total Cost ($millions)	Debt ($millions)	Construction Completion	Leased Suites at December 31, 2009
2009						
Gayton Terrace[(1)]	Richmond, VA	98	U.S.$21.3	U.S.$17.7	Q2 2009	26
Quail Creek Retirement Centre	Renfrew, ON	34	6.3	5.5	Q3 2009	25
Total 2009		132				51
2008						
Collegiate Heights Retirement Residence	Sault Ste. Marie, ON	30	6.7	4.3	Q3 2008	28
Residence Ste-Marthe	St. Hyacinthe, QC	133	14.8	10.5	Q3 2008	78
Manoir Pierrefonds	Montreal, QC	83	9.8	7.0	Q3 2008	13
Maison Herron	Dorval, QC	72	9.7	5.4	Q4 2008	4
Total 2008		318	41.0	27.2		123
Total		**450**				**174**

(1) *We own a 50% interest in this community.*

Offering of Trust Units

On October 8, 2009, pursuant to a public offering, we issued 14,375,000 Trust Units at a price of $6.00 per unit for gross proceeds of $86.3 million. Net proceeds of this offering of approximately $82.1 million were partly used to repay amounts outstanding under our Credit Facility with the remaining proceeds expected to be utilized to enhance our flexibility in order to take advantage of restructuring opportunities related to certain existing mezzanine loans with Spectrum, Melior and others. *

On December 24, 2009, pursuant to a public offering, we issued 12,995,000 Trust Units at a price of $6.20 per unit for gross proceeds of $80.6 million. Net proceeds of this offering of approximately $76.7 million will be utilized to complete the acquisitions of the Meridian Portfolio and the Regency Care Portfolio from ING and for general Trust purposes.*

Distributions

Effective with the payment to Unitholders for August 2009, paid on September 15, 2009, cash distributions per unit were reduced to $0.0450 per month, or $0.54 on an annualized basis, from the previous level of $0.0617 per month, or $0.74 on an annualized basis. In both 2009 and 2008, 100% of distributions were non-taxable return of capital.

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

Highlights of Consolidated Results of Operations

Same Property Portfolio Highlights [1]

Same property NOI decreased by $0.9 million or 0.5% for 2009 compared to 2008 as follows:

- In our Canadian retirement portfolio, same property NOI decreased in 2009 compared to 2008 by $1.8 million or 1.8%. Reduced occupancy and increased property tax and commodity tax costs, as well as an increase in our estimated liabilities (for leave, vacation and post-employment benefits that were one-time in nature) were partially offset by regular annual rate increases, which range between 2.5% and 5.0%.
- In our U.S. portfolio, same property NOI increased slightly by U.S.$0.3 million or 0.5% in 2009 compared to 2008. This was achieved through regular annual rent increases, targeted cost reduction initiatives, and tight management of expenses. The impact of these initiatives were offset by reduced occupancy in 2009 compared to 2008
- In our Canadian LTC portfolio, same property NOI increased $0.6 million or 3.5% in 2009 compared to 2008.

Same property occupancy continued to be relatively strong at 91.6% in 2009. However, this represents a 1.7 percentage point decrease from 93.3% in 2008.

Fourth Quarter: Same property NOI decreased by $0.3 million or 0.7% for Q4 2009 compared to Q4 2008 as follows:

- In our Canadian retirement portfolio, same property NOI decreased by $1.0 million or 4.3%, primarily due to our estimates of leave, vacation and post-employment benefit liabilities as described above.
- In our U.S. portfolio, same property NOI increased by U.S.$0.6 million or 4.6%. Regular annual rental rate increases, and tight management of expenses have offset the decrease in occupancy of 3.3 percentage points to 90.0%. In addition, Q4 2009 benefited from an adjustment to reduce health benefits cost based on our experience through 2009.
- In our Canadian LTC portfolio, same property NOI increased by $0.2 million or 3.9%.

Overall, same property occupancy was 91.8% in Q4 2009, a decrease of 1.3 percentage points compared to 93.1% in Q4 2008. Same property occupancy grew 0.5 percentage points from 91.3% in Q3 2009.

Acquisition and Internal Growth Portfolio Highlights

For 2009, acquisitions and internal growth contributed $20.0 million of NOI, or an additional $9.1 million compared to 2008, excluding the impact of foreign exchange.

In Q4 2009, acquisitions and internal growth delivered NOI of $5.7 million, or an additional $2.4 million compared to Q4 2008, excluding foreign exchange.

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(1) *Note: statistics in this section exclude the effects of foreign exchange translation and results from discontinued operations.*

General, Administrative and Trust Expenses

G&A expenses excluding severance and other costs were flat as a percentage of revenue at approximately 2.8% for 2009 and 2008. G&A expenses excluding severance and other costs, decreased as a percentage of revenue to 2.8% of revenues for Q4 2009 compared to 2.9% for Q4 2008 due to continued cost reduction initiatives.

Per Unit Analysis

Excluding impairment provisions of $30.7 million recorded in 2009 and $6.4 million recorded in 2008, AFFO for 2009 was $73.3 million, or $0.69 per unit diluted, a reduction of $0.02 per unit compared to 2008 AFFO of $71.7 million or $0.71 per unit diluted primarily due to the following:

- Lower mezzanine loan interest reduced AFFO by $3.3 million or $0.03 per unit diluted.
- Lower management fee income reduced AFFO by $1.7 million or $0.02 per unit diluted.
- Higher G&A expenses, primarily due to higher severance costs, reduced AFFO by $1.1 million or $0.01 per unit diluted.
- Dilution of AFFO attributed to the issuance of Trust Units of $0.03 per unit diluted.
- Incremental contribution from the property portfolio, primarily due to acquisitions completed subsequent to January 1, 2008, increased AFFO by $4.7 million or $0.05 per unit diluted.
- Increased realized foreign exchange gains of $2.2 million or $0.02 per unit diluted.

Fourth Quarter: AFFO for Q4 2009 was $0.13 per unit diluted, a decrease of $0.04 per unit diluted from Q4 2008 AFFO of $0.17 per unit diluted excluding the impairment provision of $6.4 million recorded in Q4 2008, primarily due to the following:

- Increased realized foreign exchange loss of $2.9 million or $0.03 per unit diluted.
- Lower mezzanine loan interest and management fee income reduced AFFO by $2.3 million or $0.02 per unit diluted.
- Dilution of AFFO attributed primarily to the issuance of Trust Units during the quarter of $0.02 per unit diluted.
- Increased contribution from the property portfolio, primarily due to acquisitions completed subsequent to January 1, 2008 of $1.6 million or $0.02 per unit diluted.

FFO for 2009 was $34.0 million or $0.32 per unit diluted, a decrease of $49.1 million or $0.50 per unit diluted compared to 2008. FFO for Q4 2009 was $0.14 per unit diluted, a decrease of $0.09 per unit diluted from Q4 2008. FFO per unit diluted is described more fully in the “Funds from Operations” section of this MD&A.

Net loss decreased $0.44 per unit diluted to $0.70 per unit diluted for 2009 primarily due to lower impairment provisions, amortization of limited life intangible assets and increased NOI which were partially offset by unrealized foreign exchange losses and higher depreciation of properties. For Q4 2009, net loss decreased to $0.06 per unit diluted, a decrease of $0.75 per unit diluted compared to Q4 2008. Net loss from continuing operations was $61.9 million or $0.61 per unit diluted compared to $98.7 million or $1.05 per unit diluted in 2008.

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

($000s, except per unit amounts, occupancy rates, and operating margins)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Property revenue [1]	163,418	162,627	791	653,749	601,917	51,832
Total revenues [1]	167,788	169,439	(1,651)	673,530	630,393	43,137
Net loss	(7,236)	(77,084)[2]	69,848	(71,245)	(107,428)[2]	36,183
Net loss per unit (basic and diluted)	(0.06)	(0.81)[2]	0.75	(0.70)	(1.14)[2]	0.44
Distributions declared	16,367	18,555	(2,188)	69,106	79,265	(10,159)
Distributions declared per unit	0.14	0.19	(0.05)	0.66	0.79	(0.14)
FFO [3]	16,858	23,249	(6,391)	34,029	83,124	(49,095)
FFO per unit diluted	0.14	0.23	(0.09)	0.32	0.82	(0.50)
AFFO [4]	14,667	11,289	3,378	42,619	65,248	(22,629)
AFFO per unit diluted	0.13	0.11	0.02	0.40	0.64	(0.24)
FFO excluding impairment provisions [3] [5]	16,858	29,655	(12,797)	64,712	89,530	(24,818)
FFO per unit diluted	0.14	0.29	(0.15)	0.61	0.88	(0.27)
AFFO excluding impairment provisions [4] [5]	14,667	17,695	(3,028)	73,303	71,654	(1,649)
AFFO per unit diluted	0.13	0.17	(0.04)	0.69	0.71	(0.02)
Weighted average occupancy rate - same property portfolio	91.8%	93.1%	(1.3pp)	91.6%	93.3%	(1.7pp)[6]
Weighted average number of units including Class B Units of Chartwell Master Care LP:						
Basic	114,522,908	99,041,007	15,481,901	103,550,525	98,543,804	5,006,721
Diluted (includes LTIP)	116,986,471	101,674,442	15,312,029	106,140,729	101,185,111	4,955,618

(1) Excludes the effects of discontinued operations.
(2) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.
(3) Refer to the "Non-GAAP Measures - Funds from Operations" section of this MD&A for the reconciliation of FFO to Net Loss.
(4) Refer to the "Non-GAAP Measures - Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.
(5) Excludes mezzanine loans and accounts receivable impairment provisions of $30.7 million recorded in Q2 2009 and $6.4 million recorded in Q4 2008.
(6) Percentage points.

Correction of Immaterial Prior-Period Error

During the preparation of the Financial Statements for the year ended December 31, 2009, we 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 our assets. These amounts related to two items: a) a future income tax expense and a future income tax liability of $3.0 million 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 $8.8 million that should have been recognized in conjunction with the purchase price allocation related to the Regency Care 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 $8.8 million 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 $10.3 million.

Consolidated Results of Operations

Summary of Property Revenue

($000s, except occupancy rates)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Same property[1]	145,964	144,434	1,530	575,148	566,520	8,628
Acquisitions and other[1]	16,799	12,443	4,356	62,741	41,093	21,648
Eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Equity-accounted variable interest entities ("VIEs") [2]	-	(1,015)	1,015	-	(10,095)	10,095
Foreign exchange on U.S. dollar revenue	2,287	8,417	(6,130)	22,861	10,649	12,212
Total property revenue [3]	163,418	162,627	791	653,749	601,917	51,832
Weighted average occupancy rate - same property portfolio	91.8%	93.1%	(1.3pp)	91.6%	93.3%	(1.7pp)

(1) Excludes the effect of foreign exchange on U.S. dollar revenue.
(2) Refer to "Critical Accounting Estimates – Variable Interest Entities" section of this MD&A for details.
(3) Excludes discontinued operations.

Total property revenue increased by 8.6% in 2009 compared to 2008 due to the contributions from acquisitions, increased foreign exchange translation on U.S. dollar revenues and same property revenue growth.

Same property revenue increased by approximately $8.6 million or 1.5% in 2009 compared to 2008 despite lower occupancies. We continue to drive revenue growth with our proven strategies as follows:

- Yield management programs in the Canadian retirement portfolio to increase market-based rates on suite turnover. However, the positive impact of these programs has been offset by increasing move-in incentives. Move-in incentives typically reduce the average rental rate in the first year to which the incentive applied.
- Regular annual rental rate increases that are competitive to local market conditions.
- The addition of new services for residents at some of our communities.

Weighted average occupancy rates in the same property portfolio were 91.6% in 2009, a decrease of 1.7 percentage points from 93.3% in 2008. The following factors have contributed to the decrease:

- We experienced a softening of occupancies in the U.S. toward the end of 2008 and through the first half of 2009. U.S. same property average occupancy in 2009 was 90.0% or 4.1 percentage points lower than 2008.
- Our British Columbia properties experienced softer occupancies in 2009 than 2008, with average occupancies in our Western Canada platform 3.3 percentage points lower, or 91.9% in 2009 compared to 95.2% in 2008.
- In addition, occupancies softened in the first half of 2009 in our Ontario properties with average occupancy for 2009 92.9% compared to 93.8% in 2008.

These reductions were partially offset by strengthening occupancies in our Quebec platform with occupancy in the same property platform rising to 87.2% or 1.2 percentage points higher than 2008.

Fourth Quarter: Total property revenue increased $0.8 million or 0.5% in Q4 2009 compared to Q4 2008 due to contributions from acquisitions completed subsequent to January 1, 2008 and same property revenue growth. These increases were offset by reduced foreign exchange translation of U.S. dollar revenue for Q4 2009 compared to Q4 2008.

Same property revenue increased by approximately $1.5 million or 1.0% in Q4 2009 compared to Q4 2008.

Weighted average occupancy rates in the same property portfolio excluding internal growth suites were 91.8% in Q4 2009, a decrease of 1.3 percentage points from 93.1% in Q4 2008. Occupancy grew 0.5 percentage points from Q3 2009 occupancy of 91.3%.

Summary of Direct Operating Expenses

($000s)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Same property(1)	105,705	103,910	1,795	407,258	397,738	9,520
Acquisitions and other(1)	11,072	9,127	1,945	42,757	30,169	12,588
Eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Equity-accounted VIEs	-	(786)	786	-	(7,008)	7,008
Foreign exchange on U.S. dollar expenses	1,414	5,525	(4,111)	14,776	6,986	7,790
Total direct operating expenses – properties	116,559	116,124	435	457,790	421,635	36,155
Direct operating expenses – management operations	1,024	1,025	(1)	4,099	4,102	(3)
Total direct operating expenses (2)	117,583	117,149	434	461,889	425,737	36,152

(1) Excludes the effect of foreign exchange on U.S. dollar expenses.
(2) Excludes discontinued operations.

Total direct operating expenses increased by 8.5% in 2009 compared to 2008 primarily due to additional expenses from acquisitions completed subsequent to January 1, 2008, same property direct operating expenses and increased foreign exchange translation of U.S. dollar direct operating expenses.

Same property direct operating expenses increased by approximately $9.5 million or 2.4% for 2009 compared to 2008. Increased costs related to property tax, commodity tax, and an increase in estimates for vacation, sick and post-employment benefit liabilities that were largely one-time in nature, were offset by both lower energy costs and the impact of cost reduction initiatives in labour and discretionary expenditures.

Fourth Quarter: Total direct operating expenses increased by 0.4% in Q4 2009 compared to Q4 2008 due to additional expenses from acquisitions completed subsequent to January 1, 2008 offset by reduced foreign exchange translation of U.S. dollar direct operating expenses. Same property direct operating expenses increased by approximately $1.8 million or 1.7% in Q4 2009 compared to Q4 2008.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
G&A expenses	4,680	4,843	(163)	19,031	17,396	1,635
Severance and other costs	261	459	(198)	1,977	2,506	(529)
Total G&A	4,941	5,302	(361)	21,008	19,902	1,106
As % of revenue:						
Excluding severance and other costs	2.8%	2.9%	(0.1pp)	2.8%	2.8%	-

In 2009, G&A expenses before severance and other costs increased by approximately $1.6 million to $19.0 million or 2.8% of revenue compared to $17.4 million or 2.8% of revenue in 2008. Additional costs incurred to rebrand certain of our U.S. properties of $1.2 million and inflationary increases were offset by savings from our cost reduction initiatives.

Severance and other costs decreased $0.5 million in 2009 as compared to 2008. Included in 2009 amounts are approximately $1.6 million of severance costs which related to executive changes and the wind down of our third-party development management activities.

Fourth Quarter: Continuation of our cost reduction initiatives resulted in a decrease of $0.2 million in G&A excluding severance and other costs, in Q4 2009 compared to Q4 2008. As a result, G&A excluding severance and other costs decreased as a percentage of total revenues to 2.8% for Q4 2009 from 2.9% in Q4 2008.

Interest and Property Lease Expense

($000s)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Mortgages and loans payable						
Same property	19,419	19,877	(458)	77,668	79,436	(1,768)
Acquisitions	2,087	1,597	490	7,981	5,040	2,941
Foreign exchange on U.S. dollar expenses	498	1,954	(1,456)	4,848	2,476	2,372
	22,004	23,428	(1,424)	90,497	86,952	3,545
Convertible debentures	2,980	2,979	1	11,916	11,918	(2)
Credit Facility and other	90	62	28	475	269	206
Interest capitalized to properties under development	(282)	(797)	515	(1,223)	(1,846)	623
	24,792	25,672	(880)	101,665	97,293	4,372
Accretion adjustment to convertible debenture liability	780	715	65	3,020	2,776	244
Amortization of debt mark-to-market adjustments arising on acquisition	(454)	(230)	(224)	(1,388)	(1,067)	(321)
Amortization of financing costs	1,672	1,151	521	6,167	4,762	1,405
Total Interest Expense	26,790	27,308	(518)	109,464	103,764	5,700
Property Lease Expense						
Contractual lease payments for the period (1)	599	655	(56)	2,598	2,360	238

(1) Excludes discontinued operations.

In 2009, interest expense on mortgages and loans payable increased by $3.5 million due to the growth in our asset portfolio and foreign exchange translation adjustments. This was offset by approximately $1.8 million reduction of interest expense on the same property portfolio due to regular mortgage principal repayments and lower interest rates achieved on mortgage renewals.

During 2009, we capitalized interest of $1.2 million which relates to our net investment in internal growth projects.

Contractual property lease expense increased to $2.6 million for 2009 compared to 2008 primarily due to foreign exchange translation.

Fourth Quarter: During Q4 2009, we capitalized interest of $0.3 million, which relates to our net investment in internal growth projects.

Contractual property lease expense decreased to $0.6 million for Q4 2009 compared to Q4 2008, primarily due to foreign exchange translation.

Mezzanine Loans, Mezzanine Loan Interest Income and Impairment Provision

The following table summarizes the changes in our investments in mezzanine loans for 2009 and 2008:

($millions)	**2009**	2008
Gross mezzanine loans outstanding (beginning of period)	108.1	112.0
Advances in the period to Spectrum, Melior, Seasons and their joint venture partners	-	8.5
Discharge of mezzanine loans on our acquisition of an interest in the related properties	(9.3)[1]	(8.6)[2]
Settlement of mezzanine loan on acquisition of land	(1.0)	-
Other repayments of mezzanine loans in cash	(8.0)	(3.8)
	89.8	108.1
Fees, net of costs recorded as a reduction of mezzanine loan balances	(4.0)	(4.9)
Allowance for impairment of mezzanine loans	(30.5)[3]	(6.4)
Net mezzanine loans outstanding (end of period)	55.3	96.8

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

In 2009, we acquired Spectrum's 50% interest in six seniors housing communities and mezzanine loans of approximately $9.3 million were settled on acquisition.

During Q2 2009, Spectrum sold its interest in eight development properties and agreed to sell one additional development property upon receipt of the regulatory approvals to Seasons. As part of this transaction, we agreed to Seasons assuming mezzanine loans on six of the acquired properties totalling $8.2 million. In addition, upon receipt of the regulatory approvals, Spectrum agreed to sell one additional property to Seasons. The mezzanine loan of $2.6 million on that property will also be assumed by Seasons on closing.

During Q4 2009, Spectrum disposed of its interest in four seniors housing communities to a third party and repaid our mezzanine loan outstanding on these properties in the amount of $5.6 million plus accrued interest. In addition, in Q4 2009, our joint venture partner repaid two mezzanine loans totalling $2.4 million.

As discussed in our Q2 2009 MD&A, due to the uncertain market conditions and the inability of Spectrum and Melior to remain current on their interest payments to Chartwell, in Q2 2009 we recorded an impairment provision of $30.7 million of which $7.7 million was allocated to accounts receivable and $23.0 million was allocated to mezzanine loans. Combined with the $6.4 million impairment provision recorded in Q4 2008, the cumulative impairment provision was $37.1 million.

In Q4 2009, we updated our assessment of the underlying value of the security for each mezzanine loan as well as the value of the corporate guarantee securing mezzanine loans where applicable. As discussed in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair value is subjective and requires us to exercise judgement in making valuation assumptions including revenue and expense projections, capitalization and discount rates. Based on our updated assessment, we believe no changes are required to the cumulative impairment provisions at the present time.

In Q3 and Q4 2009, we collected certain accounts receivable against which an impairment provision was recorded in Q2 2009. Accordingly, we reallocated $1.5 million of the impairment provision from accounts receivable to mezzanine loans. In addition, in Q4 2009, we settled one mezzanine loan against which an impairment provision of $0.4 million had been previously recorded. The following table summarizes changes in the impairment provision in 2009:

($millions)	Mezzanine Loans	Accounts Receivable	Total
Balance December 31, 2008	6.4	-	6.4
Provision recorded during Q2 2009	23.0	7.7	30.7
Reallocation in Q3 2009	1.2	(1.2)	-
Reallocation in Q4 2009	0.3	(0.3)	-
Settlement of mezzanine loan [(1)]	(0.4)	-	(0.4)
Balance December 31, 2009	30.5	6.2	36.7

(1) Settled on acquisition of a parcel of vacant land from Melior in Q4 2009.

The following table provides further details on mezzanine loans outstanding and related impairment provisions:

($millions)	# Projects	Mezzanine Loans Outstanding	Fees, net of costs recorded as a reduction of mezzanine loan balances	Impairment Provision	Net Balance Outstanding
Spectrum and Partners outside Quebec	14	25.3	(0.2)	-	25.1
Melior, Spectrum and Partners	11	50.5	(3.2)	(30.5)	16.8
Seasons and Partners	6	14.0	(0.6)	-	13.4
Total gross mezzanine loans outstanding	31	89.8	(4.0)	(30.5)	55.3

($000s)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Mezzanine loan interest before effective yield adjustments	1,477	2,869	(1,392)	7,861	11,833	(3,972)
Effective yield adjustments for:						
Placement fees integral to lending activities	(78)	485	(563)	733	230	503
Legal costs integral to lending activities	(105)	(186)	81	(538)	(676)	138
Total mezzanine loan interest income	1,294	3,168	(1,874)	8,056	11,387	(3,331)

Mezzanine loan interest decreased by $3.3 million for 2009 compared to 2008 due to lower balances of loans outstanding and due to the fact that interest revenue from Spectrum and Melior is only recognized when payments have been received. For all other projects, mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method. Under this method, we update our expectations for targeted stabilization dates of the underlying development projects and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate.

Fourth Quarter: Mezzanine loan interest decreased by $1.9 million in Q4 2009 compared to Q4 2008 due to the lower loan balances outstanding.

Discontinued Operations

The following table shows the results of discontinued operations:

(U.S.$000s, except as noted otherwise)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenue	-	21,747	(21,747)	66,677	88,229	(21,552)
Interest and other	-	26	(26)	69	215	(146)
Below market lease amortization	-	91	(91)	61	595	(534)
	-	21,864	(21,864)	66,807	89,039	(22,232)
Direct operating expense	-	13,213	(13,213)	39,681	51,715	(12,034)
Total NOI	-	8,651	(8,651)	27,126	37,324	(10,198)
Interest expense	-	-	-	22	24	(2)
Contractual lease expense	-	9,035	(9,035)	28,131	36,334	(8,203)
Adjustment to record lease expense on a straight-line basis over the lease term	-	1,608	(1,608)	4,256	6,441	(2,185)
Total lease expense	-	10,643	(10,643)	32,409	42,799	(10,390)
	-	(1,992)	1,992	(5,283)	(5,475)	192
Depreciation of properties	-	445	(445)	1,573	1,521	52
Amortization of limited life intangible assets	-	355	(355)	1,198	1,560	(362)
Gain on sale of assets	-	1	(1)	-	1	(1)
	-	801	(801)	2,771	3,082	(311)
Loss before income taxes	-	(2,793)	2,793	(8,054)	(8,557)	503
Income taxes – current	-	-	-	140	-	140
Total net loss	-	(2,793)	2,793)	(8,194)	(8,557)	363
Foreign exchange in CDN	-	(459)	459	(1,391)	(565)	(826)
Total net loss in CDN	-	(3,252)	3,252	(9,585)	(9,122)	(463)
Non-controlling interest allocation	-	(5)	5	202	346	(143)
Net loss after non-controlling interest	-	(3,257)	3,257	(9,383)	(8,776)	(607)

Other Items

($000s)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Bank interest and other income	1,058	834	224	3,236	3,698	(462)
Below-market lease amortization revenue	228	404	(176)	1,142	1,212	(70)
Gain/(Loss) on sale of assets	-	63	(63)	-	95	(95)
Realized foreign exchange gains and (losses)	(1,929)	959	(2,888)	3,113	959	2,154
Unrealized gains and (losses) on derivative financial instruments and unrealized foreign exchange gains and (losses)	1,109	11,575	(10,466)	(10,074)	17,223	(27,297)
Depreciation of properties	(18,764)	(18,395)	(369)	(75,340)	(68,006)	(7,334)
Amortization of limited life intangible assets	(8,095)	(12,251)	4,156	(38,361)	(51,090)	12,729
Provision for impairment of goodwill	-	(73,323)	73,323	-	(73,323)	73,323
Provision for impairment of mezzanine loans and accounts receivable	-	(6,406)	6,406	(30,684)	(6,406)	(24,278)
Results from discontinued operations	-	(3,257)	3,257	(9,383)	(8,776)	(607)
Current income tax (expense) recovery	(80)	496	(576)	(85)	(999)	914
Future income tax (expense) recovery	2,578	2,116(1)	462	9,753	379(1)	9,374
Non-controlling interest	70	2,308(1)	(2,238)	1,245	3,886(1)	(2,641)
Net loss	(7,236)	(77,084)(1)	69,848	(71,245)	(107,428)(1)	36,183

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.

Bank Interest and Other Income: Bank interest and other income was lower in 2009 compared to 2008 primarily due to lower cash balances and non-property miscellaneous income. Bank interest and other income was higher in Q4 2009 compared to Q4 2008 due to increased cash balances attributed to the Q4 2009 equity raises.

Realized Gains (Losses): We recorded a net realized foreign exchange gain of $3.1 million in 2009 primarily related to the settlement of a foreign exchange SWAP contract in Q1 2009, which was offset by a realized loss of $1.9 million on the settlement of a U.S. dollar-denominated intercompany cross-border note.

Unrealized Gains (Losses): The unrealized foreign exchange loss primarily related to the intercompany cross-border U.S. dollar-denominated loans receivable and payable that we used to finance our operations in a tax efficient manner. At December 31, 2009, we had net loans outstanding of approximately U.S.$37.5 million from our U.S. subsidiaries. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange gains and losses are required to be recorded in income under GAAP.

Depreciation and Amortization: The increase in depreciation of properties is consistent with the growth in our property portfolio. Amortization of limited life intangible assets decreased in 2009 compared to 2008 and for Q4 2009 compared to Q4 2008 as approximately $56.1 million of intangible assets were fully amortized in 2009.

Provision for Impairment of Goodwill: According to GAAP, goodwill should be tested for impairment between the required annual test when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. During Q4 2008, our market capitalization remained below our net book value and we concluded that this represented a circumstance that indicated it may be more likely than not that the fair value of our reporting units may be below their carrying amounts, and accordingly we updated our annual goodwill impairment test for each of our identified reporting units and the impairment test determined that, for all reporting units, the carrying value of goodwill exceeded its estimated fair value as at December 31, 2008. As a result, we recorded an impairment charge of $64.5 million. Subsequently, as described in the "Correction of Immaterial Prior-Period Error" section of this MD&A, this amount was recasted to $73.3 million.

Current and Future Income Tax (Expense) Recovery: Under the SIFT Rules, we became subject to SIFT tax on certain income beginning in 2007 as described in the "Business Strategy and 2010 Outlook" section of this MD&A. During 2009, we recorded a future income tax recovery of $9.8 million, and a $2.6 million recovery for Q4 2009. The provision for future income tax expense relates to the temporary differences between the carrying amounts and tax bases of assets and liabilities, including those that are expected to reverse on or after December 31, 2009. These temporary differences are tax effected using the estimated substantively enacted SIFT tax rate at the time that these differences are expected to reverse.

In 2008, the Department of Finance issued draft legislation which described potential changes in the determination of which legal entities are considered SIFTs. Enabling legislation received Royal Assent on March 12, 2009. The clarifications set out in the draft legislation likely result in a subsidiary partnership of Chartwell being considered to be a SIFT in 2007 and 2008. Prior to January 1, 2009, we completed a capital reorganization in our subsidiary partnership. As a result, the subsidiary partnership meets the definition of an excluded subsidiary and is no longer subject to SIFT income tax in 2009.

In addition, as described in the "Correction of Immaterial Prior-Period Error" section of this MD&A, the future income tax provision for 2008 was affected by a prior-period error.

Net Loss: Net loss after discontinued operations decreased to $0.70 per unit diluted for 2009, a decrease of $0.44 per unit diluted compared to 2008. Lower impairment provisions and amortization, and increased NOI in 2009 were partially offset by unrealized foreign exchange losses and higher depreciation. For Q4 2009, net loss after discontinued operations decreased to $0.06 per unit diluted, a decrease of $0.75 per unit diluted compared to Q4 2008. In addition, net loss for 2008 and Q4 2008 was affected by the correction of a prior-period immaterial error as described in the "Correction of Immaterial Prior-Period Error" section of this MD&A.

Non-GAAP Measures

FFO and AFFO do not have a standardized meaning under GAAP.

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

Funds from Operations

The following table provides a reconciliation of net loss to FFO:

($000s, except per unit amounts)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Net loss	(7,236)	(77,084)[1]	69,848	(71,245)	(107,428)[1]	36,183
Add (Subtract):						
Depreciation of properties [2]	18,770	18,920	(150)	77,186	69,628	7,558
Amortization of limited life intangible assets [2]	8,095	12,687	(4,592)	39,763	52,752	(12,989)
Depreciation of leasehold improvements included in depreciation of properties	(118)	(116)	(2)	(470)	(446)	(24)
Loss/ (Gain) on sale of assets	(5)	(63)	58	(5)	(95)	90
Provision for impairment of goodwill	-	73,323	(73,323)	-	73,323	(73,323)
Future income tax expense/ (recovery)	(2,578)	(2,116)[1]	(462)	(9,753)	(379)[1]	(9,374)
Non-controlling interest	(70)	(2,302)[1]	2,232	(1,447)	(4,231)[1]	2,784
FFO [3]	16,858	23,249	(6,391)	34,029	83,124	(49,095)
Add (Subtract):						
Provision for impairment of mezzanine loans and accounts receivable	-	6,406	(6,406)	30,683	6,406	24,277
FFO excluding impairment provision	16,858	29,655	(12,797)	64,712	89,530	(24,818)
FFO per unit						
Basic	0.15	0.23	(0.08)	0.33	0.84	(0.51)
Diluted	0.14	0.23	(0.09)	0.32	0.82	(0.50)
FFO per unit excluding impairment provision						
Basic	0.15	0.30	(0.15)	0.62	0.91	(0.29)
Diluted	0.14	0.29	(0.15)	0.61	0.88	(0.27)

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.
(2) Includes depreciation and amortization that has been reclassified as discontinued operations.
(3) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

FFO decreased by $49.1 million or $0.50 per unit diluted for 2009 compared to 2008 primarily due to a provision for impairment of mezzanine loans and accounts receivable of $30.7 million ($0.29 per unit diluted) recorded in Q2 2009 and the impact of realized / unrealized foreign exchange gains / losses which reduced FFO by $25.1 million ($0.25 per unit diluted).

FFO decreased by $6.4 million or $0.09 per unit diluted for Q4 2009 compared to Q4 2008 primarily due to the impact of realized/unrealized foreign exchange gains/losses, lower mezzanine loan interest and fee income, offset by mezzanine loans and accounts receivable impairment provision recorded in Q4 2008 and contributions from the property portfolio.

Excluding impairment provisions and foreign exchange gains and losses, FFO for 2009 and Q4 2009 was impacted by lower mezzanine loan interest income, lower management fee income and dilution from the issuance of Trust Units. This was offset by increased contributions from the property portfolio primarily due to acquisitions.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

($000s, except per unit amounts)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
FFO [(1)]	16,858	23,249	(6,391)	34,029	83,124	(49,095)
Add (Subtract):						
Adjustment to record lease expense on a straight-line basis over the lease term	-	1,943	(1,943)	4,979	6,865	(1,886)
Unrealized foreign exchange and derivative (gains)/losses	(1,110)	(11,575)	10,465	10,074	(17,223)	27,297
Amortization of below-market leases	(228)	(525)	297	(1,213)	(1,846)	633
Principal portion of capital subsidy receivable from Health Authorities	555	528	27	2,177	2,077	100
Amounts received under income guarantees	142	99	43	554	740	(186)
Amortization of financing costs	1,672	1,151	521	6,168	4,762	1,406
Accretion adjustment to convertible debenture liability	780	715	65	3,021	2,772	249
Amortization of debt mark-to-market adjustments arising on acquisition	(454)	(229)	(225)	(1,388)	(1,066)	(322)
Deferred financing fee reserve [(2)]	(280)	(288)	8	(1,147)	(1,038)	(109)
AFFO before capex reserve	17,935	15,068	2,867	57,254	79,167	(21,913)
Maintenance capex reserve - 2% of property revenue	(3,268)	(3,779)	511	(14,635)	(13,919)	(716)
AFFO [(3)]	14,667	11,289	3,378	42,619	65,248	(22,629)
Add (Subtract):						
Provision for impairment of mezzanine loans and accounts receivable	-	6,406	(6,406)	30,684	6,406	24,278
AFFO excluding impairment provision	14,667	17,695	(3,028)	73,303	71,654	1,649
AFFO per unit						
Basic	0.13	0.11	0.02	0.41	0.66	(0.25)
Diluted	0.13	0.11	0.02	0.40	0.64	(0.24)
AFFO per unit excluding impairment provision						
Basic	0.13	0.18	(0.05)	0.71	0.73	(0.02)
Diluted	0.13	0.17	(0.04)	0.69	0.71	(0.02)

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

(2) Deferred financing fee reserve is calculated quarterly as 60 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.

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

An analysis of AFFO is described under the "Highlights of Consolidated Results of Operations" section of this MD&A.

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

	2009				2008 As recasted [1]			
($000s, except per unit amounts)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues [2]	167,788	165,837	168,620	171,285	169,440	156,524	152,605	151,824
Direct operating expenses [2]	(117,583)	(112,739)	(114,177)	(117,390)	(117,145)	(103,549)	(102,401)	(102,642)
General, administrative and trust expenses	(4,941)	(4,425)	(5,822)	(5,820)	(5,302)	(4,098)	(5,302)	(5,200)
	45,264	48,673	48,621	48,075	46,993	48,877	44,902	43,982
Interest expense	(26,790)	(27,173)	(27,217)	(28,284)	(27,309)	(25,287)	(25,841)	(25,328)
Property lease expenses [2]	(599)	(588)	(703)	(708)	(655)	(590)	(591)	(524)
Foreign exchange gains/(losses)	(820)	(3,848)	(4,309)	2,016	12,534	3,358	(559)	2,849
Depreciation and amortization	(26,860)	(27,032)	(29,012)	(30,798)	(30,645)	(28,690)	(29,431)	(30,330)
Write down of carrying value of management contracts	-	-	-	-	-	-	-	-
Provision for impairment of goodwill	-	-	-	-	(73,323)	-	-	-
Provision for impairment of mezzanine loans and accounts receivable	-	-	(30,684)	-	(6,406)	-	-	-
(Loss)/Gain on sale of assets	-	-	-	-	64	126	(102)	8
Non-controlling interest	122	140	801	234	2,308	259	660	659
Current income tax (expense) recovery	(80)	(91)	(82)	168	496	(629)	133	(999)
Future income tax (expense) recovery	2,578	4,234	4,693	(1,752)	2,116	(1,500)	-	(237)
(Loss) from discontinued operations [2]	-	(3,265)	(3,223)	(2,895)	(3,257)	(1,875)	(2,043)	(1,601)
Net loss for the period	(7,236)	(8,950)	(41,115)	(13,944)	(77,084)	(5,951)	(12,872)	(11,521)
Net loss per unit diluted	(0.06)	(0.09)	(0.41)	(0.14)	(0.81)	(0.06)	(0.14)	(0.13)
FFO	16,858	14,552	(16,690)	19,309	23,249	24,451	16,524	18,900
FFO per unit diluted	0.14	0.14	(0.16)	0.19	0.23	0.24	0.16	0.19

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.
(2) We disposed of our interest in HBR effective October 1, 2009. The disposition is considered discontinued operations. Accordingly, the results attributed to the discontinued operations are disclosed separately.

Our results for the past eight quarters have been affected by the contribution of the acquired seniors housing communities, changes in foreign exchange rates resulting in realized and unrealized gains and losses and the impact of the slow North American economy on occupancies.

In Q4 2008 we recorded a provision for impairment of goodwill of $64.5 million and subsequently recast this figure to $73.3 million as described in the "Correction of Immaterial Prior-Period Error" section of this MD&A. In Q4 2008 and in Q2 2009, we recorded provisions for impairment of mezzanine loans and accounts receivable of $6.4 million and $30.7 million, respectively.

Selected Annual Financial Information

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

($000s, except per unit amounts)	2009	2008	2007
Property revenues	653,749	601,917	512,433
Total revenues	673,530	630,392	553,275
Direct operating expenses	461,889	425,737	362,571
Net loss	(71,245)	(107,428)(1)	(69,259)(1)
Total assets	2,598,674	2,705,487(1)	2,612,016(1)
Total liabilities	1,933,260	2,049,139(1)	1,809,470(1)
Net loss per unit, diluted	(0.70)	(1.14)(1)	(0.80)(1)
Cash distributions declared per unit	0.6569	0.7930	1.0650

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.

Our annual results for the past three years have been affected by the acquisitions of new seniors housing communities and the corresponding revenue increases from development, management and lending activities and the impact of the slow North American economy on occupancies in 2008 and 2009.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for 2009 compared to 2008 and Q4 2009 compared to Q4 2008.

Canadian Retirement Operations

The following table summarizes the composition of our Canadian Retirement Operations segment:

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property					
100% Owned	84	6,712	2,106	745	9,563
50% Owned	2	248	-	-	248
Total Same Property	86	6,960	2,106	745	9,811
Acquisitions & Internal Growth					
100% Owned:					
Operating	14	1,428	164	254	1,846
Internal growth	-	264	-	155	419
	14	1,692	164	409	2,265
50% Owned	6	582	37	-	619
Total Acquisitions & Internal Growth	20	2,274	201	409	2,884
Total	106	9,234	2,307	1,154	12,695

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

($000s, except occupancy rates and operating margins)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenues						
Same property	69,254	69,180	74	272,245	269,079	3,166
Acquisitions and internal growth	14,151	8,887	5,264	52,070	22,135	29,935
Equity-accounted VIEs	-	1,015	(1,015)	-	10,095	(10,095)
Total Revenue	83,405	79,082	4,323	324,315	301,309	23,006
Direct Operating Expenses						
Same property	46,622	45,532	1,090	176,162	171,240	4,922
Acquisitions and internal growth	9,596	6,605	2,991	35,491	16,250	19,241
Equity-accounted VIEs	-	786	(786)	-	7,008	(7,008)
Total Direct Operating Expenses	56,218	52,923	3,295	211,653	194,498	17,155
Net Operating Income						
Same property	22,632	23,648	(1,016)	96,083	97,839	(1,756)
Acquisitions and internal growth	4,555	2,282	2,273	16,579	5,885	10,694
Equity-accounted VIEs	-	229	(229)	-	3,087	(3,087)
Total Net Operating Income	27,187	26,159	1,028	112,662	106,811	5,851
Same property statistics:						
Weighted average occupancy rate	91.1%	91.5%	(0.4pp)	90.8%	91.5%	(0.7pp)

Same property revenues increased by 1.2% in 2009 as regular rental rate increases, which ranged between 2.5% and 5.0%, have offset a 0.7 percentage point decline in same property occupancy compared to 2008. Same property average occupancy remained strong at 90.8% for 2009.

Same property direct operating expenses increased by 2.9% in 2009 compared to 2008 as follows:

- increased property tax expense as a result of increased market value assessments;
- increased goods and services taxes on contracted-out services in our Western properties previously treated as tax exempt; and
- an increase in vacation and post-employment benefits of $0.7 million due to a one-time charge resulting from a change in our estimation methodology.

Same property NOI decreased $1.8 million or 1.8% in 2009 compared to 2008. Same property NOI in our Eastern Canadian retirement properties (outside Quebec) for 2009 decreased 0.9% primarily due to lower occupancies and the adjustment to vacation estimates described above, partially offset by regular annual rent increases. Our Western Canadian platform same property NOI decreased by 5.1%, due to reduced occupancies in certain local markets, increased goods and services taxes and adjustments to vacation and post-employment benefit estimates as described above, partially offset by regular annual rental increases and cost reduction initiatives. Our Quebec platform same property NOI was stable compared to 2008. In Q4 2008 we acquired full control of our Quebec operating platform and over the past two years have completed significant construction and renovation activity to renew and position many of these properties. As a result, we are continuing to realize improved occupancy in the Quebec portfolio.

Fourth Quarter: Same property NOI decreased by 4.3% in Q4 2009 compared to Q4 2008 primarily due to a one-time charge of $0.7 million related to vacation and post-employment benefits as described above.

Same property revenues were flat in Q4 2009 as compared to Q4 2008. Regular annual rental rate increases of between 2.5% and 5.0% were offset by reduced occupancy.

Weighted average occupancy rates, excluding internal growth suites in lease-up, decreased to 91.1% in Q4 2009 from 91.5% in Q4 2008, or 0.4 percentage points. However, this represents an increase of 0.6 percentage points from Q3 2009 weighted average occupancy rate of 90.5%.

Same property operating expenses increased by 2.4% in Q4 2009 compared to Q4 2008, primarily driven by the adjustments described above to vacation and post-employment benefit estimates.

Canadian Long-Term Care Operations

The following table summarizes the composition of our Canadian Long-Term Care Operations segment:

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property					
100% Owned	15	-	99	1,616	1,715
50% Owned	8	-	-	1,385	1,385
Total Same Property	23	-	99	3,001	3,100
Acquisitions					
100% Owned Acquisition	1	64	-	-	64
Total Acquisitions	1	64	-	-	64
Total	24	64	99	3,001	3,164

The following table presents the results of operations of our Canadian Long-Term Care Operations segment:

($000s, except occupancy rates and operating margins)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenues						
Same property	37,138	35,646	1,492	143,514	137,348	6,166
Acquisitions	532	514	18	2,111	1,405	706
Total Revenues	37,670	36,160	1,510	145,625	138,753	6,872
Direct Operating Expenses						
Same property	33,057	31,717	1,340	125,953	120,384	5,569
Acquisitions	347	336	11	1,333	880	453
Total Direct Operating Expenses	33,404	32,053	1,351	127,286	121,264	6,022
Net operating income						
Same property	4,081	3,929	152	17,561	16,964	597
Acquisitions	185	178	7	778	525	253
Total Net Operating Income	4,266	4,107	159	18,339	17,489	850
Same property statistics:						
Weighted average occupancy rate	98.2%	98.9%	(0.7pp)	98.3%	99.0%	(0.7pp)

Same property revenues increased by 4.5% in 2009 compared to 2008. Direct operating expenses increased by 4.6% in 2009 compared to 2008. The increases are primarily due to higher government funding provided for direct resident care services which are mainly staffing related. This direct resident care funding results in an increase in both revenue and direct operating expenses. In addition, the Ontario government provided additional funding for other accommodation which increased revenues by approximately $0.9 million for 2009 compared to 2008. It is not clear whether the provincial government will continue to provide this new funding after March 31, 2010. Direct operating expenses also increased $0.3 million due to a change in our methodology for estimating vacation and sick time liabilities that is one-time in nature. Same property NOI increased $0.6 million or 3.5% for 2009 compared to 2008 as a result of this new funding, partially offset by the increase in vacation and sick estimates.

Weighted average occupancies in the same property portfolio were at 98.3% for 2009, a decrease of 0.7 percentage points from 2008. Occupancy in all of our Ontario LTC communities exceeded 97% for 2009, and as a result, these communities received government funding as though fully occupied.

Fourth Quarter: Same property NOI increased $0.2 million or 3.9% for Q4 2009 compared to Q4 2008.

Weighted average occupancies in the same property portfolio are at 98.2% for Q4 2009 compared to 98.9% for Q4 2008.

U.S. Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property - Owned					
100%	23	711	1,600	-	2,311
50%	25	2,891	1,483	190	4,564
Total Same Property Owned	48	3,602	3,083	190	6,875
Properties under Operating Lease					
100% Interest	2	78	159	-	237
Total Same Property Owned and Leased	50	3,680	3,242	190	7,112
Internal Growth					
50% Owned	1	161	35	-	196
Discontinued Operations (1)					
49% Interest	25	4,714	757	151	5,622
Properties under management	8	2,316	110	-	2,426
Total Discontinued Operations	33	7,030	867	151	8,048
Total	84	10,871	4,144	341	15,356

(1) As described in note 8 of the Financial Statements, effective October 1, 2009 we reorganized our relationship with Horizon Bay resulting in, among other things, the disposition of our 49% leased interest in 25 properties (5,622 suites) and eight management contracts (2,426 suites).

The following table presents the results of operations of our U.S. Operations segment excluding discontinued operations:

(U.S.$000s, except as noted otherwise)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Revenues						
Same property	39,574	39,611	(37)	159,388	160,096	(708)
Internal growth and other (1)	2,117	2,027	90	8,560	7,458	1,102
Intercompany eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Total Revenues	40,059	39,986	73	160,947	161,304	(357)
Direct Operating Expenses						
Same property	26,027	26,663	(636)	105,145	106,112	(967)
Internal growth and other (1)	1,129	1,399	(270)	5,933	6,030	(97)
Intercompany eliminations	(1,632)	(1,652)	20	(7,001)	(6,250)	(751)
Total Direct Operating Expenses	25,524	26,410	(886)	104,077	105,892	(1,815)
Net Operating Income						
Same property	13,547	12,948	599	54,243	53,984	259
Internal growth and other (1)	988	628	360	2,627	1,428	1,199
Total Net Operating Income	14,535	13,576	959	56,870	55,412	1,458
Foreign exchange in CDN	872	2,887	(2,015)	8,088	3,660	4,428
Total Net Operating Income in CDN	15,407	16,463	(1,056)	64,958	59,072	5,886
Same property statistics:						
Weighted average occupancy rate	90.0%	93.3%	(3.3pp)	90.0%	94.1%	(4.1pp)

(1) Includes the results of one property at which we are completing an addition, as well as the results of our U.S. management operations excluding discontinued management operations.

Same property revenue decreased by U.S.$0.7 million or 0.4% for 2009 compared to 2008. Same property revenues have been impacted by declining occupancy with 2009 weighted average occupancy 90.0% or 4.1 percentage points lower than 2008 weighted average occupancy of 94.1%. Declining occupancies were partially offset by rental rate increases which ranged between 5% and 7%.

Same property direct operating expenses decreased $1.0 million or 0.9% for 2009 compared to 2008. To mitigate reduced occupancy, we are continuing to implement strategies to provide more payment flexibility to existing and potential residents, and are selectively investing in marketing and advertising initiatives including launching a new U.S. website to drive increased traffic to our properties. In addition, we reduced staffing levels to align with lower occupancy levels and on staff turnover have been successful in bringing in new hires at lower wage rates. We also reduced any discretionary maintenance and marketing expenditures. These activities, combined with reduced energy costs, decreased direct operating expenses in 2009 compared to 2008.

Same property NOI increased U.S.$0.3 million or 0.5% for 2009 compared to 2008.

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

	Q4 2009	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	1.06	1.21	(0.15)	1.14	1.07	0.07

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

Fourth Quarter: Same property NOI increased U.S.$0.6 million or 4.6% in Q4 2009 compared to Q4 2008.

Same property revenue was flat for Q4 2009 compared to Q4 2008. Regular annual rental rate increases which ranged between 4% and 7% helped to offset the impact of an occupancy decline from 93.3% in Q4 2008 to 90.0% in Q4 2009.

Same property direct operating expenses decreased $0.6 million or 2.4% for Q4 2009 compared to Q4 2008 primarily due to the reductions in our estimates of the cost of employee health benefits based on our experience through 2009. Tight management of labour costs and the implementation of new cost management programs that began in the latter half of 2007 have helped to offset increased utility costs, insurance expense and investments in expanded marketing programs to drive occupancy growth.

U.S. management operations and one property where we have added additional suites added U.S.$0.4 million of NOI in Q4 2009.

Canadian Management Operations

The following table summarizes the composition of our Canadian Management Operations segment:

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Managed properties	39	2,919	396	1,262	4,577
Mezzanine loans	9	1,384	116	-	1,500
Total	48	4,303	512	1,262	6,077

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

($000s)	**Q4 2009**	Q4 2008	Increase / (Decrease)	**2009**	2008	Increase / (Decrease)
Management and Other Fee Revenue						
Spectrum:						
Development management	-	152	(152)	321	1,402	(1,081)
Operations management	418	610	(192)	1,878	2,167	(289)
Other	30	17	13	81	119	(38)
Total Spectrum	448	779	(331)	2,280	3,688	(1,408)
ING	569	665	(96)	2,321	2,453	(132)
Other	774	732	42	2,746	2,948	(202)
Total Management and Other Fee Revenue:	1,791	2,176	(385)	7,347	9,089	(1,742)
Direct operating expenses	1,024	1,025	(1)	4,099	4,102	(3)
Income from Management Operations	767	1,151	(384)	3,248	4,987	(1,739)

In 2009 management operations revenue decreased $1.7 million compared to 2008 primarily due to lower fees from Spectrum as the number of Spectrum properties under management declined as a result of completion of the majority of the development projects and sales of certain operating projects in 2009.

Under our agreement with Spectrum, on the closing of Spectrum's sale of eight properties to Seasons in Q2 2009, we were entitled to a $2.0 million fee as compensation for waiving our purchase option on these projects. We did not record this fee as revenue in 2009 as collectability of these amounts could not be assured at that time.

Fourth Quarter: In Q4 2009, management operations revenue decreased $0.4 million compared to Q4 2008 primarily due to lower fees earned from Spectrum, ING and other third parties.

Fees from ING decreased in Q4 2009 compared to Q4 2008 primarily as a result of lower asset management fees.

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

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity for 2009 compared to 2008:

	Increase / (Decrease) ($millions) As recasted (1)	Explanation
Properties	(70.9)	Properties increased as follows: properties acquired during 2009 added $78.3 million; internal growth developments, building improvements, other capital expenditures added $39.9 million. These increases were offset by depreciation and amortization of $75.3 million and foreign exchange translation adjustment of $113.8 million.
Mezzanine loans	(41.5)	Mezzanine loans outstanding decreased due to a provision for impairment of $24.1 million, the discharge of $9.3 million of mezzanine loans on the acquisition of the related properties and the cash collection of outstanding mezzanine loans of $8.1 million.
Limited life intangible assets	(35.0)	Limited life intangible assets decreased due to amortization of $38.4 million and foreign exchange translation adjustment of $3.0 million. These decreases were offset by an increase of $6.4 million from acquisitions.
Total assets	(106.8)	The decrease in total assets during 2009 is principally due to the decrease in properties, limited life intangible assets, mezzanine loans and the disposition of our 49% interest in HBR. These decreases were offset by increases in cash from the issuance of new Trust Units.
Mortgages payable	(43.2)	Mortgages payable decreased as a result of regular amortizing principal repayments of $58.2 million, foreign exchange translation adjustment of $92.3 million and additional deferred financing costs, net of amortization, of $0.6 million. These decreases were offset by new mortgage financings of $47.8 million, assumed mortgages on acquired properties of $60.1 million.
Total liabilities	(115.9)	The decrease in total liabilities is primarily due to decreases in mortgages payable, Credit Facility and deferred consideration on business contributions and disposition of the 49% interest in HBR.
Non-controlling interest	(8.2)	Non-controlling interest decreased primarily due to exchanges of Class B Units of Chartwell Master Care LP ("Master LP") for Trust Units of $5.0 million, distributions to the holders of the Class B Units of Master LP of $1.4 million and non-controlling interests share of net loss of $1.5 million.
Unitholders' equity	17.2	The increase in Unitholders' equity is due primarily to Trust Units issued during the year of approximately $158.7 million. This was offset by cash distributions, the allocation of the net loss to the Trust's Unitholders and foreign exchange translation in other comprehensive income.

(1) These figures have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of this MD&A and note 2 of the Financial Statements for a discussion of the details of the correction.

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2009.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2010	32,426	98,128	130,554	7.87%	4.62%
2011	31,468	56,422	87,890	4.53%	4.64%
2012	32,307	95,046	127,353	7.63%	5.11%
2013	32,174	111,304	143,478	8.93%	5.22%
2014	27,226	143,775	171,001	11.54%	4.31%
2015	25,170	88,482	113,652	7.10%	5.31%
2016	22,486	176,660	199,146	14.18%	6.02%
2017	18,010	259,026	277,036	20.78%	5.68%
2018	15,862	32,625	48,487	2.62%	5.55%
2019	14,295	100,537	114,832	8.45%	6.11%
2020-2024	62,518	49,859	112,377	3.62%	5.92%
Thereafter	72,077	34,318	106,395	2.75%	4.95%
Total	386,019	1,246,182	1,632,201	100.00%	
Mark-to-market adjustments arising on acquisition			13,263		
Less: Financing costs			(20,183)		
Total Mortgage Debt			1,625,281		

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

	2009	2008
Average term to maturity	7.9 years	8.7 years
Weighted average contractual interest rate	5.42%	5.65%
Variable-rate mortgage debt	$53.7 million	$28.9 million

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

Our variable-rate mortgages relate to two communities acquired from Spectrum of $17.0 million; five of our internal growth projects of $24.7 million; and two property specific bridge loans of $12.0 million. Subsequent to December 31, 2009 we repaid $25.9 million of these variable-rate mortgages. Variable-rate loans are expected to be refinanced with fixed-rate debt upon completion and stabilization of the internal growth projects and properties in lease-up.*

Debt maturing in 2010 through 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. We have no U.S. debt maturities until 2013. In Canada, we have access to low cost CMHC-insured debt and we intend to continue financing our properties through this program. At December 31, 2009, approximately 69% of our total Canadian mortgage debt was CMHC-insured. During 2009, we refinanced $151.0 million of debt, including $12.6 million of 2010 maturing debt at a weighted average interest rate of 3.79%, lower than the 5.06% average interest rate on the maturing debt. In Q4 2009, $16.5 million of maturing debt was refinanced at an average rate of approximately 3.09% compared to 5.06% rate on the maturing debt. Subsequent to December 31, 2009, we repaid $31.2 million of debt in order to mitigate a temporary dilution from the units offerings completed in Q4 2009. We anticipate renewing or replacing 2010 maturing mortgages in due course.*

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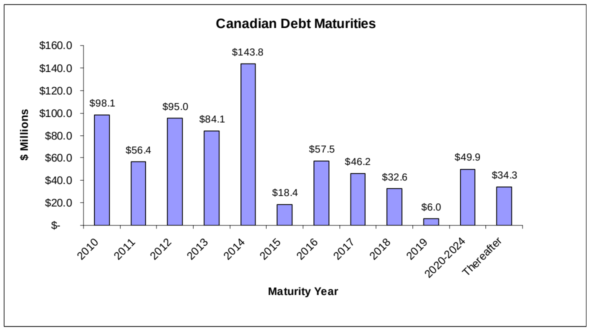
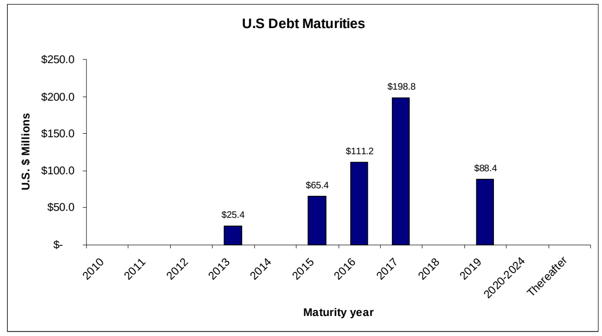
* *This paragraph contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section in this MD&A.*

The following charts provide the breakdown of our debt maturities in Canada and the U.S.:





Convertible Debentures

At December 31, 2009 we had $124.9 million of 6% convertible unsecured subordinated debentures and $75 million of 5.9% convertible unsecured subordinated debentures outstanding. The 6% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of $15.60 per unit and mature on December 1, 2011. The 5.9% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of $16.25 per unit and mature on May 1, 2012.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2009:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Deferred Trust Units	Total
Balance December 31, 2008	96,369,598	2,571,990	2,865,472	34,286	101,841,346
Trust Units issued pursuant to a secondary public offering	27,370,000				27,370,000
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	1,013,922	-	-		1,013,922
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	122,500	-		122,500
LTIP Units under subscription surrendered	-	(137,595)	-		(137,595)
Exchange of LTIP Units	120,000	(120,000)	-	-	-
Deferred Trust Units issued				77,441	77,441
Deferred Trust Unit distributions				8,865	8,865
Units transferred to Treasury	-	-	-		-
Exchange of Class B Units of Master LP	888,613	-	(888,613)		-
Balance December 31, 2009	125,762,133	2,436,895	1,976,859	120,592	130,296,479

Liquidity and Capital Commitments

Liquidity

Our cash commitments include payments related to long-term debt and convertible debentures, deferred purchase obligations, obligations under operating leases as well as cash distributions to Unitholders.

Our principal source of liquidity is cash flow from operations. In order to provide for our operating and capital requirements, we raise funds through the capital markets, arrange mortgage debt financing and have arranged for a secured revolving operating facility ("Credit Facility").

In Q3 2009 we renewed our Credit Facility until June 27, 2010. Under the amended terms, the 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. At our request, the committed amount under the Credit Facility has been reduced to $75 million from $90 million. The Credit Facility is secured by first and second charges on 23 seniors housing communities. At December 31, 2009, the maximum available borrowing capacity under the Credit Facility was $61.9 million, of which nil was drawn. As of December 31, 2009, although we were not in compliance with the debt service coverage covenant and the distribution payout covenant under the Credit Facility, we obtained a waiver from the lenders with respect to these covenants. We also expect not to be in compliance with the debt service coverage covenant in Q1 and Q2 2010 and have received waivers for these two quarters as well.

At December 31, 2009 we had cash on hand in the amount of $106.9 million.

Debt Leverage

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

The following table presents the calculation of the debt leverage ratio as at December 31, 2009, including the indebtedness of third parties guaranteed by Chartwell:

($000s)	**2009**
Mortgages payable	1,632,201
Loans payable	-
Guarantee (1)	6,098
Credit Facility	-
Total indebtedness excluding convertible debentures	1,638,299
Convertible debentures (face value)	199,925
Indebtedness	1,838,224
Total assets	2,598,674
Accumulated depreciation and amortization(2)	484,162
Gross book value ("GBV") of assets	3,082,836
Less: Assets financed by deferred purchase consideration on acquisition properties	13,592
Gross book value of assets (net of deferred consideration)	3,069,244
Debt to GBV before convertible debentures	53.4%
Debt to GBV including convertible debentures	59.9%

(1) Guarantee was reduced to $6,098 upon the property achieving revenue targets as per the loan agreements.
(2) Includes accumulated depreciation and amortization related to fully amortized intangible assets of $145,333.

Capital Expenditures

We classify our capital expenditures under the following categories:

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

The following table summarizes additions to properties during 2009:

($000s)	2009
Building expansions (internal growth)	18,148
Acquisition-related capital expenditures	2,337
Building improvements	7,291
Long-term replacement items	5,433
Furniture, fixtures and equipment	6,661
Total	39,870

Contractual Obligations and Guarantees

Contractual Obligations

The following table summarizes the major contractual obligations as at December 31, 2009:

($000s)	Total	2010	2011	2012	2013	2014	Thereafter
Mortgages payable	1,632,201	130,554	87,890	127,353	143,478	171,001	971,925
Convertible debentures	199,925	-	124,925	75,000	-	-	-
Credit Facility	-	-	-	-	-	-	-
Purchase obligations	22,659	12,777	5,504	4,378	-	-	-
Property operating leases	13,426	1,678	1,678	1,678	1,678	1,678	5,036
Other operating leases	5,386	1,083	974	974	974	974	407
Land leases	11,073	245	245	245	245	245	9,848
Total contractual obligations	1,884,670	146,337	221,216	209,628	146,375	173,898	987,216

Purchase obligations relate to the following:

- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately $13.6 million payable generally on the earlier of the maturity date or the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Purchase obligations with respect to previously closed acquisitions up to the amount of approximately $2.8 million payment contingent upon the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Commitments with respect to various construction contracts of approximately $3.9 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately $2.4 million.

Property operating leases relate to our 100% leased interests in two seniors housing communities.

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

Land leases relates to an obligation we assumed in respect of the three leases which expire between 2044 and 2061 with annual payments of approximately $0.2 million

Other Contracts

In accordance with contracts between Chartwell and Melior, we are committed to (i) payment to Melior of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell in the Province of Quebec and 2.0% of the purchase price of all acquisitions by Chartwell of properties in Canada, excluding the Province of Quebec, which are introduced, presented or referred by Melior; and (ii) reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50,000 and 3% of total budgeted development costs for the related project. (Collectively, the "Melior Contracts"). The Melior Contracts terminate upon closing of the Melior Settlement.

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

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

During Q2 2009, we restructured our relationships with Horizon Bay such that we now own a 50% interest in HBC and an 80% interest in HBCII.

Guarantees

We provide a guarantee of the debt of one property sold to Spectrum in 2005 for which we receive an annual guarantee fee. The maximum amount of guarantee was reduced to $6.1 million upon the property achieving predetermined revenue targets. Spectrum has indemnified us in respect of this guarantee.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between 2009 and 2008:

Cash Provided by (Used in):	Increase / (Decrease) ($millions)	Explanation
Operating activities	(36.7)	Cash flows from operating activities decreased primarily due to a decrease in non-cash working capital items.
Financing activities	94.8	Cash flows from financing activities increased primarily due to the issuance of new Trust Units through a public offering, net of issue costs of $158.8 million and decrease in distributions of $9.1 million. This increase was offset by higher mortgage repayments net of proceeds from mortgage financing of $55.7 million, and repayments on our Credit Facility of $16.8 million.
Investing activities	104.5	Cash flow from investing activities increased by $104.5 million due primarily to lower capital expenditures and acquisition activity and reduced payment of deferred purchase consideration.

Distributions

As described in the "Significant Events" section of this MD&A, effective with the payment to Unitholders for August 2009, paid on September 15, 2009, cash distributions per unit were reduced to $0.0450 per month, or $0.54 on an annualized basis from $0.0617 per month, or $0.74 on an annualized basis. The declaration and payment of future distributions is subject to the discretion of the Board of Trustees. The Trustees rely upon forward-looking cash flow information including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors deemed relevant by them in setting the distribution rate.

In both 2009 and 2008, 100% of our distributions were characterized as tax-deferred returns of capital.

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

The following table summarizes distributions made in 2009, 2008 and 2007:

($000s)	**Q4 2009**	**2009**	2008	2007
Distributions declared	16,101	67,711	75,670	94,145
Distributions on Class B Units of Master LP	267	1,395	3,595	6,839
Distributions reinvested under DRIP	(706)	(5,074)	(9,230)	(4,317)
Distributions applied against LTIP installment loan receivable	(311)	(1,771)	(2,144)	(2,557)
Distributions paid or payable in cash	15,351	62,261	67,891	94,110

The following table summarizes cash distributions made in 2009, 2008 and 2007 in relation to net loss and cash flows from operating activities:

($000s)	**Q4 2009**	**2009**	2008	2007
Cash flows from operating activities	7,818	64,810	101,525	101,435
Loss before non-controlling interest	(7,306)	(72,692)	(111,660)	(74,410)
Cash distributions declared [(1)]	15,351	62,261	67,891	94,110
Excess (shortfall) of cash flows from operating activities over cash distributions paid	(7,533)	2,549	33,634	7,325
Excess (shortfall) of net loss before non-controlling interest over cash distributions paid	(22,657)	(134,953)	(179,551)	(168,520)

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

The excess of cash flow from operating activities over cash distributions in the years ended December 31, 2008 and 2007, partially relates to the positive changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period and we do not consider this to be a sustainable source of cash inflow. For 2009, changes in non-cash working capital reduced cash flows from operating activities by approximately $25.3 million. In Q4 2009, changes in non-cash working capital reduced cash flows from operating activities $16.4 million which resulted in the shortfall of cash flows from operating activities over distributions paid of $7.5 million.

Our distributions exceeded net loss in 2009, 2008 and 2007. We anticipate that this will continue. We do not use net loss in accordance with GAAP as the basis to establish the level of distributions to Unitholders as net loss includes, among other items, non-cash depreciation and amortization and impairment provisions related to our property portfolio. We do not consider non-cash depreciation and amortization and impairment provisions in establishing our distribution levels as we believe that the value of our real estate investments generally does not diminish over time and as we give consideration to maintenance capital expenditures in establishing the level of annual distributions to Unitholders. We believe our current distribution level is sustainable.

Subsequent Events

Subsequent to December 31, 2009, we acquired from Melior one parcel of vacant land adjacent to our property in Trois-Rivieres, Quebec for $1.75 million, which proceeds were used to discharge the mortgage debt on this property.

Key Performance Indicators

We use a number of key performance indicators for monitoring and analyzing our financial results. These key performance measures are not defined by GAAP and may not be comparable to similar measures presented by other income trusts or other companies. Key financial performance measures are described below.

Funds from Operations

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

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

The tables presented under the "Consolidated Results of Operations – Non-GAAP Measures" section of this MD&A provide a reconciliation of FFO to net income, as reported in our Financial Statements.

Adjusted Funds from Operations

AFFO is not a recognized measure under GAAP, does not have a standardized meaning prescribed by GAAP and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by GAAP. AFFO as presented may not be comparable to similar measures presented by other issuers. Management believes AFFO is useful in the assessment our operating performance and that this measure is also useful for valuation purposes and is also a relevant measure of our ability to earn and distribute cash to Unitholders. Management calculates AFFO by adding or subtracting certain items to or from FFO as defined by REALpac, as follows:

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

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

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

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

Income guarantees: This item represents amounts due from vendors of acquired communities under the applicable purchase and sale agreement. It is generally applicable to communities in lease-up.

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

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

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

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

Per Unit Amounts

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

Net Operating Income

NOI is calculated as revenue, excluding below-market lease amortization, adding equity income from Quebec co-owned properties (prior to acquiring the remaining 50% interest in these properties in 2008), less direct operating expenses and is reported for each operating segment. Management uses this measure to evaluate individual and divisional property performance.

Same Property Performance

We evaluate our financial performance by analyzing our same property portfolio. Generally, our same property portfolio excludes properties that have not been owned or leased continuously since the beginning of the previous fiscal year. In addition, to improve comparability, beginning in 2009 we have designated properties where we have added significant capacity or expect in the current year to open new suites to be excluded from the same property portfolio.

The following table summarizes the same property portfolio for 2009:

	Properties	Suites/Beds
Canadian Retirement Operations	86	9,811
Canadian Long-Term Care Operations	23	3,100
U.S. Operations (owned and leased) (1)	50	7,112
Total Same Property Portfolio	159	20,023

(1) Excludes discontinued operations.

Occupancy Percentage

Occupancy percentages are calculated as the number of days a suite is occupied divided by the maximum number of days available in the period. Occupancy is calculated including both owned and leased properties at our share of ownership or leasehold interest and excluding second occupants (e.g. spouses) and any suites under construction or in lease-up as part of an internal growth project.

General, Administrative and Trust Expenses as a Percentage of Revenue

We monitor G&A expenses on a consolidated basis as a percentage of revenue.

Changes to Significant Accounting Policies

We prepare all of our financial statements in Canadian dollars in accordance with GAAP. Our significant accounting policies are summarized in note 1 of the Financial Statements.

Management monitors the Canadian Institute of Chartered Accountants' ("CICA") recently issued accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on our consolidated financial statements and note disclosures.

Changes Adopted in 2009

On January 1, 2009, we adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets ("Section 3064"). The adoption of this section was applied retrospectively. The adoption of this standard did not have a significant impact on the Financial Statements.

In January 2009, the Emerging Issues Committee of the CICA issued Abstract EIC-173 ("EIC-173"), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which required us to take into account our own credit risk and the credit risk of the counterparty in determining the fair values of our financial assets and financial liabilities including derivative instruments. EIC-173 is 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 the Financial Statements.

Ontario Long-Term Care Licensing

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

Business Combinations, Section 1582; Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602:

On January 1, 2009, the CICA issued three new standards which are applicable to Chartwell on January 1, 2011:

Business Combinations, Section 1582: 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 business combinations are no longer considered part of the acquisition accounting. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities.

Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602: 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, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

Section 1582 is applicable to Chartwell prospectively to business combinations for which the acquisition date is on or January 1, 2011. Section 1601 and Section 1602 apply to interim and annual financial statements relating to the 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, we have no plans to adopt these sections earlier than the effective date.

International Financial Reporting Standards

In February 2008, Canada’s Accounting Standards Board (“AcSB”) confirmed its strategic plan that will result in GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) over a transitional period to be completed by January 1, 2011. We will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011.

We are in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This is an ongoing process as the International Accounting Standards Board (“IASB”) and the AcSB issue new standards and recommendations and as the Canadian accounting profession interprets those standards and recommendations.

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

The IFRS implementation project consists of four phases. Some activities will be in process concurrently as IFRS is applied to specific areas. The following provides a summary of the different phases and their status.

Phase	Description and Status
Initial Assessment Phase	This phase identifies the significant differences between existing GAAP and IFRS at a high level as relevant to Chartwell. Based upon the current state of IFRS, this phase identified a number of topics that will impact our financial results and the necessary effort to make the transition to IFRS. Targeted training and communication activities, leveraging both internal and external resources, occurred during this phase. We have completed our initial assessment phase.
Detailed Assessment Phase	Building upon the assessment performed in the initial assessment phase, this phase included: • Identification, evaluation and selection of accounting policies necessary for us to change over to IFRS; • Identification of the business impacts resulting from the identified accounting differences. Business impacts considered in our project plan are: business units, internal controls over financial reporting processes, information technology, stakeholders, regulatory matters, and others as identified during this phase; • Assessment of IFRS 1 exemptions and elections. This aspect of the project plan has followed the detailed assessment of the financial statement items and was revisited periodically throughout the project; • An initial training analysis and information systems impact analysis were also components of this phase. We have completed the detailed assessment phase.
Design Phase	This phase integrates the solutions from the detailed assessment phase into our underlying financial system and processes that are necessary for us to change over to IFRS. In addition, we will have designed business process changes and developed detailed training programs. The design phase is expected to be completed by the end of Q2 2010.
Testing, Implementation and Review Phase	During 2010, we will be testing our IFRS systems, processes, financial statements, notes to the financial statements, policies and procedures, internal controls, and internal management reporting throughout the period in preparation for our conversion date of January 1, 2011. This phase will also include the formal approval process to the recommended accounting policies (throughout 2010), implementation of training programs for

	finance and operational staff (Q2 2010), implementation of new information technology systems resulting from the need to implement IFRS (Q4 2010) and update of CEO/CFO certification process (Q4 2010).

Key IFRS dates:

- January 1, 2010 (transition date): We will prepare an opening statement of financial position according to IFRS, as at this date, to facilitate the changeover to IFRS in 2011.
- December 31, 2010 (last GAAP reporting date): This is the last date that we will report our financial results under GAAP.
- January 1, 2011 (changeover date): the date after which we will prepare and report interim and annual 2011 financial statements according to IFRS with 2010 comparatives also according to IFRS.

This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned that it may not be appropriate to use such information for any other purpose. This information reflects our most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS standards, regulations, or economic conditions which could change these assumptions or expectations.

Impact of Adoption of IFRS

The IFRS framework is, for the most part, consistent with the framework of GAAP, but there are significant differences in the resulting standards derived from their application. Set out below are the key changes in accounting policies due to the adoption of IFRS that are expected to impact our consolidated financial statements. It is important to note that several IFRS standards are in the process of being amended by the IASB. This is expected to continue up to and beyond the first IFRS reporting period of March 31, 2011. We are monitoring the IASB's schedule of projects, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP. Therefore, at this stage, the impact of the significant differences outlined below cannot be reliably quantified.

First-Time Adoption of IFRS

Our adoption of IFRS will require the application of First-Time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does include certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the significant optional exemptions available under IFRS 1 that we expect to apply or not apply in preparing our first financial statements under IFRS:

Business Combinations: IFRS 1 generally provides for IFRS 3 *Business Combinations* to be applied either retrospectively or prospectively from the date of transition to IFRS (or to restate all business combinations after a selected date). Retrospective application would require an entity to restate all prior transactions that meet the definition of a business under IFRS.

The significant difference in the application of IFRS 3 is that transaction costs (including appraisals, legal fees, land transfer tax, commissions) arising from the acquisition of the business is expensed immediately; under GAAP, these amounts are included in the purchase price of the acquired business. The result of this difference will have a negative impact on NOI, FFO and AFFO in the year of acquisition.

We expect to elect to not restate any business combinations that have occurred prior to January 1, 2010. Business combinations entered into after January 1, 2010 will be restated.

Fair Value or Revaluation as Deemed Cost: Under IFRS 1, an item of property, plant and equipment can be initially measured upon transition to IFRS at fair value as deemed cost (or a previous GAAP revaluation) as opposed to the historical cost model. If fair value as deemed cost is used, this will become the new cost amount for qualifying assets at transition. This election is available on an asset by asset basis.

We expect to continue with the application of the cost model post transition date; however, the full impact of this policy choice is still under evaluation.

***Borrowing Costs*:** IAS 23, Borrowing Costs requires the capitalization of borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. Under GAAP, we made an accounting policy choice to capitalize these costs as incurred. However, the application of these rules under GAAP may not be consistent with IFRS.

We expect to elect to apply the requirements of IAS 23 retroactively and will restate borrowing costs to the date of inception of the Trust to comply with IFRS. The impact of this change is not expected to be material.

Employee Benefits: Under IFRS 1, we may elect to recognize all cumulative unrecognized actuarial gains and losses at the transition date through retained earnings. Although this is not expected to be material, we are still in the process of assessing the application of this option.

Cumulative Translation Differences*:* At the date of transition, we can elect to deem the cumulative translation differences for all U.S. operations to be zero and recognize these differences in retained earnings. This would result in any gains and losses on subsequent disposals of U.S. operations to exclude translation differences that arose before the date of transition to IFRS. We are currently assessing the impact of this election.

***Compound Financial Instruments*:** Under GAAP, our convertible debentures are carried as components of debt and equity. The debt is measured under the effective interest rate method using amortized cost. Under IFRS, since the convertible debentures contain options to convert to Trust Units and Trust Units are puttable instruments; the convertible debentures will be carried as debt without a component of equity. IFRS also provides the option to designate these convertible debentures at fair value through profit or loss (at date of transition). It is expected that we will elect this option, which is not expected to have a significant impact on our financial statements.

Other IFRS Impacts

Joint Ventures: The IASB is currently considering Exposure Draft 9, *Joint Arrangements* (“ED 9”), that is intended to modify the current IAS 31 - *Interest in Joint Ventures*. The IASB has indicated that it expects to issue a new standard to replace IAS 31 in the near future. Currently under GAAP, we use the proportionate consolidation method to account for interests in joint ventures. ED 9 proposes to eliminate the option to proportionately consolidate such interests that exist in IAS 31, and requires an entity to recognize its interests in a joint venture, using the equity method. We will continue to account for interests in joint ventures under the proportionate consolidation method until the standard becomes effective.

***Impairment of Assets*:** GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IFRS uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). IFRS also allows the reversals of any impairment losses when the recoverable amount of the asset is higher than the carrying amount. Reversals of impairment losses are disallowed under GAAP. The difference in methodologies may potentially result in asset impairments upon transition to IFRS. At this time we are continuing with our analysis of potential impairments under IFRS.

***Share-based Payments**:* IFRS 2 Share-based Payments requires that cash-settled share-based payments to employees be measured, both initially and at each reporting period, based on fair values of the awards. GAAP on the other hand requires that such payments be measured based on intrinsic values of the award. This difference may impact the accounting measurement of some of our cash-settled employee incentive plans such as our long term incentive plans. We are currently in the process of assessing the application of IFRS 2.

***Provisions*:** IAS 37 Provisions, Contingent Liabilities, and Contingent Assets requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under GAAP, the criterion for recognition in the financial statements is "likely," which is a higher threshold than "probable." Therefore, it is possible that some contingent liabilities would meet the recognition criteria under IFRS that were not recognized under GAAP. This is not expected to have a material effect on our financial statements.

Presentation of Financial Statements: IFRS differs from GAAP with respect to presentation and disclosure within the financial statements including the notes thereto. We are currently assessing these presentation and disclosure differences.

Trust Units – Liability vs. Equity: IAS 32 defines a financial instrument as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Equity instruments are exempt from liability classification even if they contain an obligation for the entity to deliver cash or another financial asset, once they meet certain criteria under IAS 32.16A and 32.16B.

Our Trust Units are considered as equity instruments as they have satisfied these criteria, however, another factor in determining whether the instrument is a liability or equity is the issuer's discretion over proposing the payment of distributions. If the issuer does not have this discretion to pay distributions, the instrument is a liability.

We have changed our Declaration of Trust, whereby distributions are at the discretion of our Trustees and therefore, our Trust Units will continue be classified as equity under IFRS.

Non-Controlling Interest: In our financial statements under GAAP, our Class B Units of Master LP are presented as non-controlling interest outside of equity. Under IFRS, this is considered as a financial instrument that must be classified as either equity or liability. Class B Units of Master LP are exchangeable into Trust Units at the option of the holder and therefore, may be considered puttable instruments. Such puttable instruments may be classified as financial liabilities in the financial statements.

At the present time we continue our analysis of this issue.

Critical Accounting Estimates

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

Valuation of properties

Properties make up approximately 87.9% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the net carrying amount of properties is recoverable from future undiscounted cash flows. Factors which could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for our overall business. In some cases, these events are clear, however, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events may occur over a period of time leading to an indication that an asset may be impaired. As a result, events occurring in these situations may not be known until a date subsequent to their occurrence.

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

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

Useful life of properties

Properties are depreciated over their estimated useful lives. Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. Major components of properties are depreciated over their own useful lives. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as discussed previously.

Valuation of mezzanine loans receivable

We evaluate our mezzanine loans receivable for impairment. Impairment is recognized when the carrying value of mezzanine loans receivable may not be recovered due to the inability of the underlying assets' performance to support a fair value that would exceed our net investment in these assets (with consideration given to third party guarantees and pledges of security). In making this determination, our estimates of future cash flow and the effects of other factors could vary and result in a significantly different assessment of impairment. Mezzanine loans, net of impairment provisions, comprise approximately 2.1% of our total assets.

Variable Interest Entities

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

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

Guarantees

We continually review our contingent liabilities relating to guarantees we have provided on behalf of third parties. Our guarantees remain in place for certain debts assumed by purchasers in connection with property dispositions, and will remain until such debts are extinguished or lenders agree to release our covenants. Recourse would be available to us under these guarantees in the event of a default by the borrowers, in which case we would have a claim against the underlying real estate investments. We would record a provision for a liability when the carrying values of the related real estate investments are not recovered either as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and/or the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the normal course of business. Our estimates of future cash flow (which amongst others, involve assumptions of estimated occupancy, rental rates and residual value) and fair value could vary and result in a significantly different assessment of such contingent liability.

Income taxes

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

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

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

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

Fair value

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

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

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

- Upon acquisition of properties we estimate the fair value of acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (above and below-market leases representing the value of the differential between contractual and market rents, in-place leases, customer relationships, and licenses) and the value of the differential between stated and market interest rates on long term liabilities assumed at acquisition.

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

Revenue

Property Revenue

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

Fee Revenue

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

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

Controls and Procedures

We are committed to maintaining effective disclosure control procedures and internal controls over financial reporting ("internal controls"). Over the past two years, we made significant investments in improvements to our information systems and financial processes. We expect to continue these efforts to further strengthen our internal controls in 2010. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Evaluation of Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The President and Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision, of the design of the Trust's disclosure controls and procedures and internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2009. Based on this evaluation, we have concluded that we have a) designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to Chartwell is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared and (ii) information required to be disclosed by Chartwell in its various reports filed or submitted under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation; and b) designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There were no changes in the Trust's internal controls over financial reporting that occurred during the interim period ended December 31, 2009 that have significantly affected, or are reasonably likely to significantly affect the Trust's internal controls over financial reporting.

Forward–Looking Information and Risks and Uncertainties

Forward-Looking Information

This MD&A contains forward-looking information that reflects the current expectations, estimates and projections of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. The words "plans", "expects", "does not expect", "is expected", "budget", "scheduled", "estimates", "intends", "anticipates", "does not anticipate", "projects", "believes" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "might", "occur", "be achieved" or "continue" and similar expressions identify forward-looking statements. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond our control, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

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

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- possible benefits from the implementation of new purchasing programs, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods that offset any benefits from our purchasing power and is subject to the assumption that we can negotiate favourable terms with our vendors in the future;
- growth or lack thereof of G&A expenses, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase;
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks;
- our ability to predict seasonal increases in occupancy rates due to uncertain economic conditions;
- the decline in anticipated development and operations management fees due to Spectrum's reduced development activities;
- our ability to renew maturing debt in due course;
- timing of closing of acquisitions which are subject to legal, regulatory and lenders' approvals which may not be received as currently expected; and
- the expected impact of IFRS implementation as well as timing of completion of certain phases of the IFRS convergence project.

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

Risks and Uncertainties ♦

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

(b) **Taxation**: We currently qualify as a mutual fund trust for Canadian income tax purposes. For a description of the recent tax developments relating to the SIFT Rules, please refer to the "Business Strategy and 2010 Outlook" section of this MD&A.

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

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's units. In both 2009 and 2008, 100% of our distributions were characterized as return of capital. Management believes it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

(c) **Geographic Concentration**: Our business and operations are conducted in the United States and Canada, and within Canada primarily in Ontario and Quebec. At December 31, 2009, a geographic concentration of our owned and leased suites, at our percentage share of ownership or leasehold interest, as a percentage of total suites was: U.S. – 31%; Canada – 69%; by province as a percentage of total suites as follows: Ontario – 37%; Quebec – 21%; and other Canadian provinces – 11%. The market value of these properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.

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

♦ *For a complete description of the Risks and Uncertainties, please refer to Chartwell's Annual Information Form ("AIF").*

actual capital asset spending for 2009 can be found in the “Capital Expenditures” section of this MD&A.

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

(f) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with us in seeking residents. The existence of competing owners, managers and developers and competition for our residents could have an adverse effect on the Trust’s ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect our revenues and, consequently, cash available to us. The supply of long-term care suites in the regions in which we own seniors housing may have an impact on the demand for retirement community suites.

(g) **Government Regulation**: Healthcare in Canada and in the U.S. is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect us. In addition, new regulatory standards and requirements are being considered in a number of jurisdictions which may affect all types of seniors housing communities. Further, new legislation that is expected to be in force in early 2010 will have a significant effect on our LTC communities including new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of replacement licenses to be based on a home’s structural classification that will be issued for a maximum of 25 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of community staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes.

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

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

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

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

(j) **Debt Financing**: We have and will continue to have substantial outstanding consolidated indebtedness comprised primarily of mortgages on our retirement and LTC communities.

Over the past 24 months, lenders' credit spreads have increased substantially from the levels experienced in the past. However, the continuing decline in Government of Canada's bond yields made "all-in" debt costs comparable to or in some cases lower than previously.

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

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

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

(k) **Mezzanine Financing**: The mezzanine financing that we have provided to Spectrum pursuant to the Development Agreement between Chartwell and Spectrum, and to Melior, Seasons and their joint venture partners, is generally secured by second charges or pledges of the borrowers' interests in development projects and ranks behind construction financing. Consequently, if mezzanine loan borrowers face financial difficulty and are not able to meet their commitments to their lenders, as is currently the case in the case of Melior (and to a lesser extent, Spectrum), the Trust could suffer a loss of management fees and of either interest or principal or both on the mezzanine loans it has advanced since lenders under the construction financing will rank ahead of us in any recovery from the assets of mezzanine loan borrowers. Further, we may not, at the applicable time, have the financial capacity to acquire all communities that we are entitled to acquire from mezzanine loan borrowers. In the event that we do not exercise our purchase options, we would expect to have the principal and any unpaid interest relating to our mezzanine financing returned to us at which time we would cease to receive mezzanine loan interest income, and/or may cease to receive our management fees when mezzanine loan borrowers sell the property to a third-party. There is no guarantee that the level of development carried on by mezzanine loan borrowers will be maintained at current levels. Mezzanine loan borrowers' level of development activity may be constrained by their capital resources.

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

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

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

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

(o) **Joint Venture Interests**: We have entered into joint venture arrangements in respect of certain of our seniors housing operations. These joint venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing facilities including those risks described above. However, we rely, in part, on our joint venture partners to successfully manage and operate certain of our seniors housing operations, including those owned by certain of the joint ventures. Such reliance may include, but is not limited to: personnel; local, regional and/or industry expertise and licensing; historical performance; technical resources and information systems; financial strength and access to capital; economies of scale; and operations management. Therefore, we may be exposed to adverse developments, including a possible change in control, in the business and affairs of our joint venture partners which could have a significant impact on, or termination of, our interests in our joint ventures and could affect the value of the joint ventures to us and/or cause us to incur additional costs if we were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint venture arrangements themselves, including: the risk that the other joint venture partner may exercise buy-sell, put or other sale or purchase rights which could obligate us to sell our interest or buy the other joint venture partner's interest at a price which may not be favourable to us or at a time which may not be advantageous to us, the effect of which could be materially adverse to our financial position or resources.

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

We continuously evaluate the impact of AcG-15 on the accounting for our relationships with and interests in various entities. In order to complete our evaluation under AcG-15, management is required, among other things, to make estimates of expected losses and/or residual returns, the probabilities of any such losses and/or residual returns relating to Spectrum, Melior, joint ventures, mezzanine financings and other relationships, and the impact of changing economic conditions. These estimates are based on historical and available market information. Imprecision in these estimates can affect the assessment of expected losses and/or residual returns.

At December 31, 2009, we hold, directly or indirectly, variable interests in 12 VIEs. Although these entities were identified as VIEs, it was determined that we are not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

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

(q) **Current North American Financial Conditions**: Current North American financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. The extent and speed of recovery from the global recession is yet unclear, especially in the U.S., as property values have declined in some regions, particularly in the U.S. These factors may impact our ability to obtain future financing on favourable terms. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, our operations could be adversely impacted and the trading price of our units may be adversely affected.

(r) **Growth:** The ability to grow may require the issuance of additional units and the ability to do so may not always be a viable capital-raising option. Furthermore, timing differences may occur between the issuance of additional units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive. Additionally, growth may be limited by the properties being owned in a different structure (i.e., a real estate investment trust compared with a corporation) and possibly a different economic environment. We expect that we will have opportunities to acquire properties which will be accretive and enable us to increase cash flow through improved management, but there can be no assurance that will be the case.

(s) **Distributions:** Currently, our distributions are determined in relation to AFFO. While we intend for such distributions to be at least equal to 70% of our AFFO for a specified year, items such as principal repayments, capital expenditures, variances in operating results and redemption of units, if any, or the failure of CSH Trust or Master LP to make distributions may affect AFFO and, therefore, distributions. We may be required to decrease our distributions in order to accommodate such items. Under our Amended and Restated Credit Facility, distributions by Chartwell to Unitholders are limited to 100% of our AFFO. We have had to seek waivers from our lenders in the past, including in 2009 to maintain our distributions as they have exceeded AFFO.