



**Management's Discussion  
and Analysis**  
**Second Quarter Report**  
**June 30, 2009**



# MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three and Six Months Ended June 30, 2009

## Contents

<b>BUSINESS OVERVIEW</b> .....	2	<i>Canadian Retirement Operations</i> .....	26
<b>2009 OUTLOOK</b> .....	6	<i>Canadian Long Term Care Operations</i> .....	28
<b>SIGNIFICANT EVENTS</b> .....	10	<i>U.S. Operations</i> .....	30
Acquisitions.....	10	<i>Canadian Management Operations</i> .....	32
Internal Growth Initiatives.....	11	<b>Non-GAAP Measures</b> .....	33
Mezzanine Loans.....	12	<i>FFO</i> .....	33
Taxation Related Matters.....	13	<i>NFFO</i> .....	34
<b>KEY PERFORMANCE INDICATORS</b> .....	14	<i>AFFO</i> .....	34
<b>CONSOLIDATED RESULTS OF OPERATIONS</b> .....	17	<b>Quarterly Financial Information</b> .....	35
Overview of Consolidated Results of Operations .....	17	<b>FINANCIAL POSITION</b> .....	36
Summary of Revenue .....	20	<i>Mortgage Debt</i> .....	37
Summary of Direct Operating Expenses .....	21	<i>Convertible Debentures</i> .....	38
Interest and Property Lease Expense.....	22	<i>Debt Leverage</i> .....	39
Mezzanine Loans, Mezzanine Loan Interest Income and Impairment of Mezzanine Loans .....	23	<i>Outstanding Units Data</i> .....	39
Other Items .....	24	<b>Cash Flow Analysis</b> .....	40
Summary of Results of Operations by Division .....	26	<b>DISTRIBUTIONS</b> .....	40
		<b>LIQUIDITY AND CAPITAL RESOURCES</b> .....	42
		<b>CONTRACTUAL OBLIGATIONS AND GUARANTEES</b> .....	43
		<b>TRANSACTIONS WITH RELATED PARTIES</b> .....	44
		<b>CHANGES TO SIGNIFICANT ACCOUNTING POLICIES</b> .....	46
		<b>CRITICAL ACCOUNTING ESTIMATES</b> .....	48
		<b>FORWARD-LOOKING INFORMATION AND RISKS AND UNCERTAINTIES</b> .....	49

Chartwell Seniors Housing Real Estate Investment Trust (“Chartwell” or the “Trust”) has prepared the following discussion and analysis (the “MD&A”) to provide information to assist its Unitholders’ understanding of the financial results for the three and six months ended June 30, 2009. This MD&A should be read in conjunction with Chartwell’s financial statements for the three and six months ended June 30, 2009 and the notes thereto (the “Financial Statements”), audited financial statements for the year ended December 31, 2008 and the notes thereto (the “2008 Financial Statements”) and annual Management’s Discussion and Analysis for the year ended December 31, 2008 (the “2008 MD&A”). This material is available on Chartwell’s website at [www.chartwellreit.ca](http://www.chartwellreit.ca). Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of August 12, 2009.

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

Unless otherwise indicated, all comparisons of results for Q2 2009 are in comparison to results from Q2 2008 and all comparisons of results for 2009 YTD are in comparison to 2008 YTD.

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

## **Business Overview**

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

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. Chartwell indirectly owns and manages a portfolio of seniors housing communities across the complete spectrum of care from independent supportive living communities (“ISL” communities), through assisted living communities (“AL” communities), to long-term care communities (“LTC” communities), which are located in Canada and the United States. All references to “Chartwell”, “we”, “our” or “Trust”, unless the context indicates otherwise, refer to Chartwell Seniors Housing Real Estate Investment Trust and its subsidiaries. For ease of reference “Chartwell” and the “Trust” are used in reference to ownership of seniors housing communities and the operation of the seniors housing communities and the development management business. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust. As of June 30, 2009, Chartwell’s portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 38,260 suites in 266 communities which are operating, under construction or in various stages of development. As of June 30, 2009, Chartwell’s portfolio of owned and leased communities consisted of interests in 28,604 suites in 204 communities.

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

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

### **Our Mission is...**

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

### **Our Values are...**

**RESPECT** – We honour and celebrate seniors

**EMPATHY** – We believe compassion is contagious

**SERVICE EXCELLENCE** – We believe in providing excellence in customer service

**PERFORMANCE** – We believe in delivering and rewarding results

**EDUCATION** – We believe in life long learning

**COMMITMENT** – We value commitment to the Chartwell family

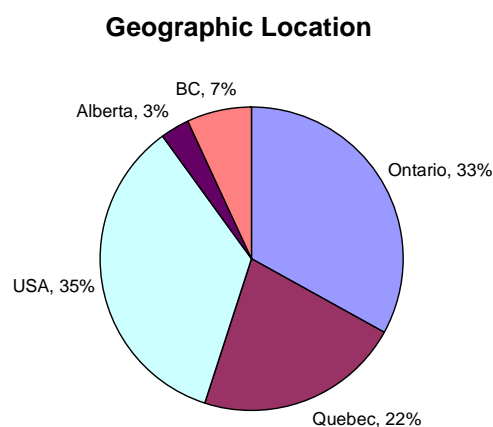
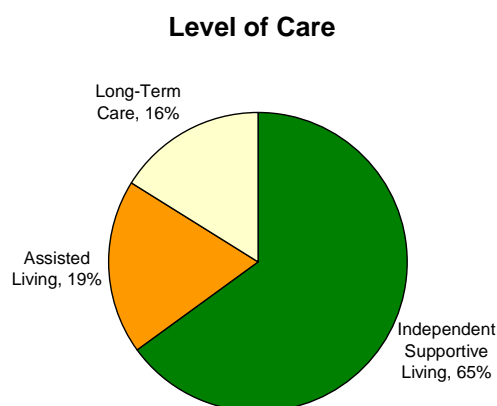
**TRUST** – We believe in keeping our promises and doing the right thing

The following is the composition of Chartwell's owned, leased and managed portfolio of seniors housing communities in its four operating segments at June 30, 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: <sup>(1)</sup>										
100% Owned										
Operating	98	11,413	16	1,779	23	2,294	-	-	137	15,486
Internal Growth	-	419	-	-	-	-	-	-	-	419
Total 100% Owned	98	11,832	16	1,779	23	2,294	-	-	137	15,905
50% Owned										
Operating	6	703	8	1,385	26	4,752	-	-	40	6,840
Total 50% Owned	6	703	8	1,385	26	4,752	-	-	40	6,840
Total Owned	104	12,535	24	3,164	49	7,046	-	-	177	22,745
Properties under Operating Lease:										
100% Interest	-	-	-	-	2	237	-	-	2	237
49% Interest	-	-	-	-	25	5,622	-	-	25	5,622
Total Leased	-	-	-	-	27	5,859	-	-	27	5,859
Total Owned and Leased	104	12,535	24	3,164	76	12,905	-	-	204	28,604
Other:										
Managed Properties	-	-	-	-	8	2,426	43 <sup>(3)</sup>	5,235	51	7,661
Mezzanine Loans <sup>(2)</sup>	-	-	-	-	-	-	11	1,995	11	1,995
Total Other	-	-	-	-	8	2,426	54	7,230	62	9,656
Total	104	12,535	24	3,164	84	15,331	54	7,230	266	38,260

- (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) Chartwell holds purchase options on 18 of these properties.

### Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Interest at June 30, 2009 by:



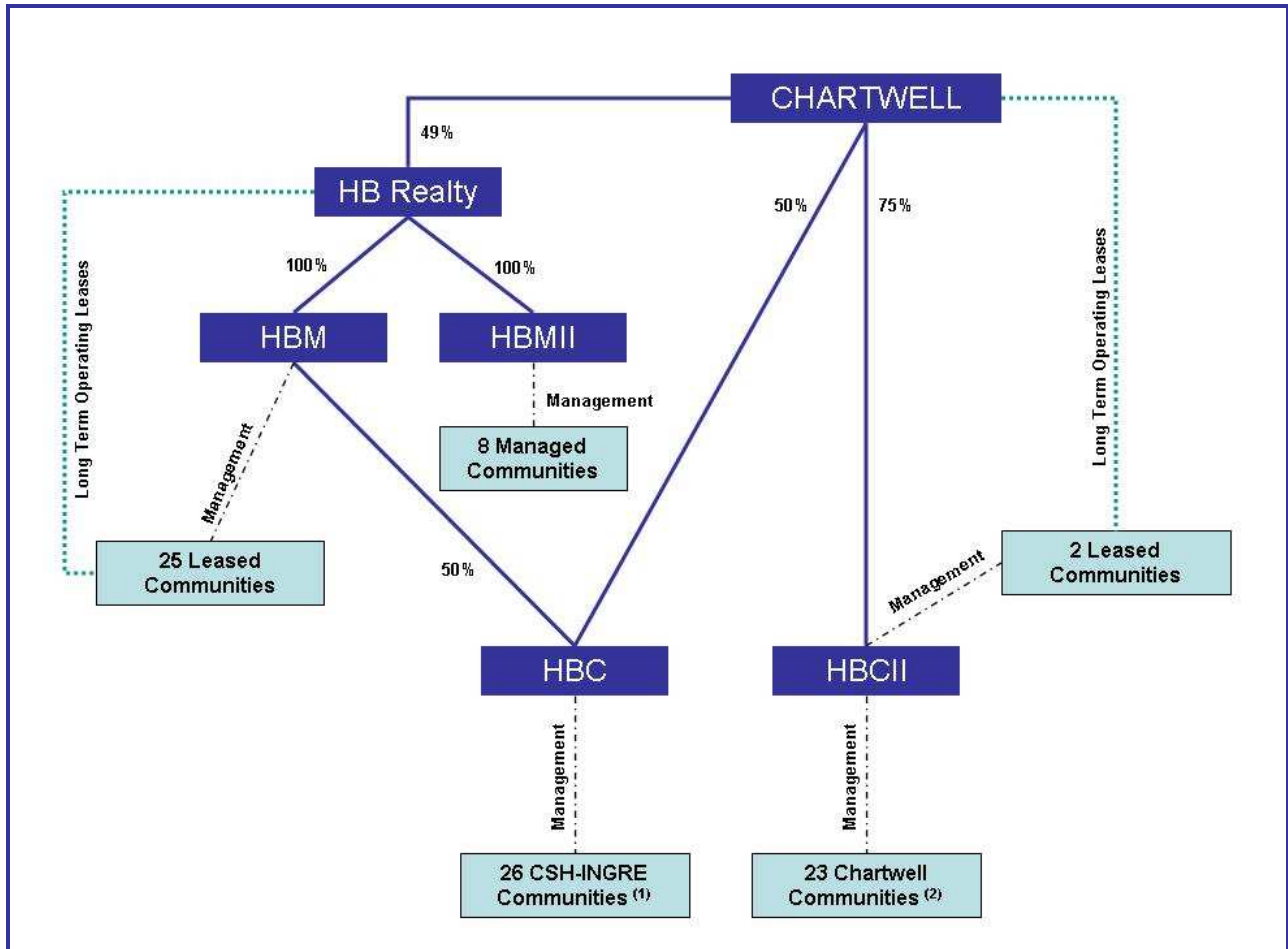
Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development agreement with Spectrum Seniors Holdings LP (“Spectrum”) formerly Spectrum Seniors Housing Development LP, a development entity in which one of the Trust’s senior executives has a minority ownership interest (refer to the “Transactions with Related Parties” section of this MD&A). Chartwell has provided mezzanine financing to Spectrum and to certain of Spectrum’s joint venture partners for the development of seniors housing communities. In return, Chartwell has the ability to purchase Spectrum’s interest in such communities, when stabilized, at a discount to the appraised value. Stabilization occurs when a community has had an average suite occupancy rate of 90% or greater for the three preceding calendar months. In February 2009, Chartwell provided a limited waiver of its option to purchase seniors housing communities from Spectrum.

Chartwell has also provided mezzanine financing to entities affiliated with Le Groupe Melior (“Melior”) and its joint venture partners to develop seniors housing communities. Chartwell has a right to purchase these communities upon stabilization at their fair market value. Melior and its joint venture partners can require Chartwell to acquire their interests in 11 of these projects at their appraised value, subject to the satisfaction of certain conditions. This put option can only be exercised by the borrowers if the project has attained stabilized occupancy and the acquisition of such project is accretive to Chartwell based on a formula defined in the option agreements.

Chartwell also provides due diligence project management and asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited (collectively with its affiliates: “ING”). At June 30, 2009, Chartwell and ING each held a 50% interest in CSH-INGRE LLC (“CSH-INGRE”), which owns 26 seniors housing communities (4,752 suites) in the United States, In addition, Chartwell and ING each owns a 50% interest in eight seniors housing communities (1,385 suites) in Canada.

In 2007, Chartwell acquired a 49% interest in Horizon Bay Realty LLC (“HB Realty”), which, through its subsidiaries, owns leased interests in 25 seniors housing communities (5,622 suites). In addition, through its subsidiaries, HB Realty owns long-term management contracts for these 25 communities and manages eight other communities for third-party owners. CSH-INGRE properties are managed by Horizon Bay Chartwell LLC (“HBC”) and Chartwell’s wholly owned U.S. properties are managed by HBCII Manager LLC (“HBCII”), Chartwell owns an effective 74.5% interest in HBC and a 75% interest in HBCII.

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



- (1) Management of five of these communities is currently performed by Ultimate Care Senior Living with financial management services provided by HBC.
- (2) Management of one of these communities is currently performed by Merrill Gardens due to regulatory requirements.

## 2009 Outlook \*

On May 1, 2009, the Board of Directors appointed Brent Binions President and Chief Executive Officer of Chartwell Seniors Housing REIT. Mr. Binions replaced Stephen Suske who stepped down as CEO and Vice Chair of Chartwell to pursue other personal interests.

Over the past five and a half years Chartwell has achieved an enviable presence in the North American seniors housing market. We have acquired a portfolio of properties with significant competitive advantages: our portfolio is relatively new 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. Chartwell's growth has also been based on the strong fundamentals present in the North American seniors housing market. Significant demand is being driven by strong demographic trends that are resulting in the seniors population growing at approximately three to four times the general population.

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

During 2008 and continuing in 2009, both the Canadian and U.S. capital markets have experienced a high degree of volatility. Canadian and U.S economies are in recession while credit markets continue to remain tight.

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

- Corporate earnings do not directly affect demand or the financial ability of seniors to live in our communities.
- Seniors' sources of income are generally more stable due to the typically lower risk profile and sources of income at this stage of life. At Chartwell, our target market is the over-75-year-old senior, and the average age of our residents is approximately 84 years old. Income for these seniors is typically dependent on inflation indexed pensions and fixed income investments. However, a component of their income may be reduced due to the current low interest rate climate.
- In Canada, many seniors receive government pensions that would cover approximately 40% of retirement home occupancy fees in our properties.
- In addition, this current market cycle may affect seniors' overall net worth through a potential reduction in the value of their primary residence relative to what might have been realized on disposition over the last few years. Our target market has generally experienced very high capital appreciation in their primary residence from the time of their original purchase. We are finding that the disappointment experienced in realizing lower values on the sale of their primary residence appears to be delaying the decision to live in our supportive environment in several markets in the U.S. and certain localized regional markets in Canada, but does not ultimately result in a decision not to join our community.
- Our residents are retired and as a result are generally not directly affected by layoffs and other employment security issues; nor do our residents move because of job transfers.
- Our communities are more than just bricks and mortar; they are the home in which our residents often spend the rest of their lives. Their fellow residents are their neighbours and their social network. Our

---

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



staff provides the care and support that residents need to live with dignity and respect. This community environment makes it much less likely that residents will choose to leave for the competition or return to a non-supported living environment.

- Demand for our communities is needs driven and Chartwell's strategy is to offer a comprehensive continuum of care in the markets we serve. We are in the market to provide care and services to our residents in high-quality real estate rather than to simply provide discretionary hotel-style seniors living. Our properties are well-maintained and most offer state-of-the-art amenities that meet and exceed the needs of today's discriminating senior. We continuously strive to exceed resident expectations for quality of life while addressing frailties and physical needs effectively and respectfully. Our residents need our staff's helping hands and care, therefore, it is not a discretionary choice. We treat our responsibility to deliver this care with the utmost respect.

The recession in Canada and particularly in the U.S. is deeper and is lasting longer than most expected. As described below, this economic climate is affecting our results.

## **Property Operations**

Our focus on customer contact and quality of service and innovative marketing strategies allow 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 the remainder of 2009 for the markets we operate in:

### **Canadian Operations**

Our Canadian retirement operations are generating stable NOI despite difficult economic conditions:

- Overall occupancies in Ontario in the first half of 2009 are softer than in the first half of 2008. In addition, seasonal growth that we normally experience in the spring was not realized in Q2 2009 and same property occupancy decreased 0.8 percentage points to 92.5% compared to Q1 2009. We are seeing improvements in customer traffic (inquiries and property tours) in our properties and our current statistics show strong increases in expected future arrivals. We expect that this increased traffic, combined with a significant waiting list for Ontario long-term care accommodation of greater than 25,000, which creates a spillover effect and helps to support occupancies in retirement homes, should result in improving occupancies. However, while current trends are positive, given continued economic uncertainty, it is too early to be confident that this represents a sustainable trend. We continue to closely manage expenses to ensure that we are mitigating the potential effects of the uncertain economic environment on NOI.
- Alberta and British Columbia have significant potential for future growth due to positive demographic trends. Occupancy levels are projected to continue to remain high in Alberta. Due primarily to temporary oversupply conditions in two regional markets in British Columbia, combined with reduced occupancies in one long-term care property, we had seen a decrease in occupancy in Q1 2009 that was higher than our original expectations. This decrease continued in Q2 2009 and typical seasonal growth that we normally achieve was not realized. However, beginning in early July, trends have been improving. It is still too early, given continued economic uncertainty, to be confident that these trends will continue. Consequently, we are anticipating only modest growth in occupancy from current levels in the last half of the year. We are continuing cost reduction initiatives which will partially offset reduced revenue.
- We have realized steady growth in occupancy in our Quebec properties through the first half of 2009. Our Quebec platform has achieved the highest net new rentals in our portfolio in the first half of 2009. However, the pace of growth has been slower than our original expectations and although we forecast additional occupancy growth in the second half of 2009, we do not expect to achieve our previous occupancy projections of 90% by the end of 2009.

## **U.S. Operations**

In mid-2008, we began to find it more difficult in some of our U.S. properties than it had been in the past to replace residents on normal turnover. With the exception of an increase in occupancy in the fall of 2008, occupancies continued to soften. However, despite reduced occupancy in Q2 2009 compared to Q2 2008 of 4.8 percentage points, the decrease in same property NOI from the U.S. same property platform was limited to 1.0 percentage point. We are optimistic that recent increases in inquiries and tours across the portfolio, combined with improvements in the U.S. housing market, are positive signs that occupancies may improve over the longer term. We are monitoring these trends closely and it is still too early to be confident in the sustainability of these positive trends, particularly given continued economic uncertainty. We are continuing with our expense reduction initiatives which have significantly mitigated the effects of softer occupancies on NOI to date.

In addition, our U.S. management team has been awarded new operations management contracts due to our U.S. management team's strong track record of success and their innovative approaches to sales and marketing. Our U.S. management team is continuing to pursue further management contracts and other opportunities to augment future earnings in our U.S. management operations.

## **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. While we are ensuring that our existing clients receive the highest possible level of 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 we expect development management fee income to decline in 2009.

## **Mezzanine Loan Interest Income**

As discussed under the "Significant Events" section of this MD&A, in Q2 2009 we recorded an impairment provision of \$30.7 million of which \$23.0 million is allocated to our mezzanine loans advanced to Spectrum, Melior and their joint venture partners. 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 other properties being re-financed or sold to third parties. As a result, we expect mezzanine loan interest income to decline over time.

## **Management of General, Administrative and Trust Expenses**

Through 2008 and continuing into Q2 2009, we have been strictly managing spending on our general, administrative and trust ("G&A") expenses. We continue to delay or cancel certain corporate activities and are actively reducing costs to the extent possible while ensuring that support to our field operations teams remains strong.

## **Liquidity and Debt Profile**

We continue to closely monitor our liquidity and to carefully manage our debt profile. Given current economic uncertainties, we are taking steps to improve our liquidity including deferring discretionary capital and other expenditures and arranging upward financing on mortgage renewals.

Subsequent to June 30, 2009, we received the syndicate lenders' approval to renew our secured revolving operating credit facility ("Credit Facility") until June 27, 2010. At June 30, 2009, the available borrowing capacity was \$55.9 million of which \$28.0 million was drawn.

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. At June 30, 2009 we had \$1.7 billion of mortgages payable with weighted average term to maturity of 8.2 years and weighted average contractual interest rate of 5.49%.

In Canada we have access to low-cost mortgage financing insured by the Canada Mortgage and Housing Corporation ("CMHC") and over 89% of 2009 financings were done on a CMHC-insured basis.

At June 30, 2009 our remaining 2009 maturities amounted to \$74.6 million of which 97% are CMHC-insured mortgages.

Subsequent to June 30, 2009 we refinanced \$50.9 million of 2009 maturing debt and arranged for top-up financings of \$4.1 million. These renewals were done on a five year basis with an average rate of 4.19% compared to 4.77% weighted average rate of maturing debt. In addition, subsequent to June 30, 2009 we renewed one \$12.6 million mortgage maturing in 2010. This new mortgage is for a five year term bearing interest at 4.36%. We expect to renew the remaining 2009 maturing debt in due course.

In the United States, we have no debt maturities until 2013.

## **Distributions**

Effective with the payment to Unitholders for August 2009, due on September 15, 2009, monthly cash distributions will be reduced to \$0.0450, or \$0.54 on an annualized basis, from the previous level of \$0.0617 per month or \$0.74 per annum. While property operations are performing well, given the uncertain economic climate in North America we believe that recovery and growth in certain markets may take longer than previously anticipated. In addition, as we continue working with Spectrum, Melior and their joint venture partners to collect mezzanine loans and accounts receivable and reduce our development management activities, revenues from mezzanine loan interest as well as development and other fees are expected to be lower in the future. As a result, Chartwell believes it is in the best interests of all Unitholders to reduce cash distributions at this time in order to improve its financial position and create a solid base for sustainable future growth.

## **Summary**

Our properties are generating stable operating income and cash flow. Our industry, and in particular, Chartwell's market segment of the seniors housing industry, offers many defensive characteristics. Our debt portfolio is well managed. We will be cautious, however, in these uncertain times, and continue to reduce discretionary capital and other expenditures and evaluate other options to improve our liquidity, including new mortgage financings.

We believe that the outcome of the current economic climate will be positive in the 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, 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 Q2 2009 or may be expected to affect our results in the future.

### Acquisitions

The following table summarizes acquisitions completed in the first six months of 2009:

(\$millions)	Q1 2009	Q2 2009	2009 YTD
Number of communities <sup>(1)</sup>	4	-	4
Number of suites	455	-	455
Purchase price (including closing costs)	50.7	-	50.7
Financed as follows:			
Mortgage debt assumed	35.7	-	35.7
Discharge of mezzanine loans receivable	5.7	-	5.7
Settlement of receivables from Spectrum	7.5	-	7.5
Cash	0.5	-	0.5
Acquisition costs	1.3	-	1.3
Total	50.7	-	50.7

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

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
<b>2009 Acquisitions:</b>					
1.	Chatsworth Suites and Bungalows <sup>(1)</sup>	Kelowna, BC	Retirement	February 1, 2009	103
2.	Churchill House Retirement Community <sup>(1)</sup>	North Vancouver, BC	Retirement	February 1, 2009	97
3.	Riverside Retirement Residence <sup>(1)</sup>	London, ON	Retirement	March 1, 2009	138
4.	Pickering City Centre <sup>(1)</sup>	Pickering, ON	Retirement	March 1, 2009	117
<b>Total 2009 Acquisitions</b>					<b>455</b>
<b>2008 Acquisitions:</b>					
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 <sup>(1)</sup>	Kanata, ON	Retirement	May 29, 2008	80
4.	Residences St-Pierre <sup>(2)</sup>	Rouyn-Noranda, QC	Retirement	October 27, 2008	121
5.	Le Monastere d'Aylmer <sup>(2)</sup>	Aylmer, QC	Retirement	October 27, 2008	273
6.	Residence Principale <sup>(2)</sup>	Cowansville, QC	Retirement	October 27, 2008	197
7.	Residence Notre-Dame de Hull <sup>(2)</sup>	Hull, QC	Retirement	October 27, 2008	224
8.	Le Domaine de Chateau de Bordeaux <sup>(2)</sup>	Sillery, QC	Retirement	October 27, 2008	153
9.	Marquis de Tracy II <sup>(2)</sup>	Sorel, QC	Retirement	October 27, 2008	137
10.	Marquis de Tracy I <sup>(2)</sup>	Sorel, QC	Retirement	October 27, 2008	125
<b>Total 2008 Acquisitions</b>					<b>1,547</b>

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

(2) Chartwell 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.

## Internal Growth Initiatives

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

### Completed Internal Growth Projects

Chartwell completed the following internal growth projects in 2008 and 2009:

Project	Location	Suites	Total Cost (\$million)	Debt (\$million)	Construction Completion	Leased Suites at June 30, 2009
<b>2009</b>						
Gayton Terrace <sup>(1)</sup>	Richmond, VA	98	22.1	17.7	Q2 2009	11
<b>Total 2009</b>		98	22.1	17.7		11
<b>2008</b>						
Collegiate Heights Retirement Residence	Sault Ste. Marie, ON	30	6.7	4.3	Q3 2008	23
Residence Ste-Marthe	St. Hyacinthe, QC	133	14.8	10.5	Q3 2008	66
Manoir Pierrefonds	Montreal, QC	83	9.8	7.0	Q3 2008	15
Maison Herron	Dorval, QC	72	9.7	5.4	Q4 2008	-
<b>Total 2008</b>		318	\$41.0	\$27.2		104
<b>Total</b>		416	\$63.1	\$44.9		115

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

### Internal Growth Projects in Progress

There are currently two internal growth projects (105 suites) in various stages of development, as follows:

Project	Location	Suites	Estimated Total Cost (\$million)	Expected Construction Financing (\$million)	Estimated Construction Completion
Quail Creek Retirement Centre	Renfrew, ON	34	6.3	5.5	Q3 2009
Carrington Place	Vernon, BC	71	10.9	9.2	Q1 2010
<b>Total</b>		105	\$17.2	\$14.7	

We have identified further potential to add over 1,100 suites at our communities in markets with significant demand for new seniors housing suites. We will continue our evaluation of these internal growth projects in 2009.\*

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

## Mezzanine Loans

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

(\$millions)	June 30, 2009	December 31, 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	(5.7) <sup>(1)</sup>	(8.6) <sup>(2)</sup>
Other repayments of mezzanine loans	-	(3.8)
	102.4	108.1
Fees, net of costs recorded as a reduction of mezzanine loan balances	(4.3)	(4.9)
Allowance for impairment of mezzanine loans	(29.4)	(6.4)
Net mezzanine loans outstanding (end of period)	68.7	96.8

(1) Relates to four properties.

(2) Relates to eight properties.

In Q1 2009, Chartwell acquired Spectrum's 50% interest in four seniors housing communities. As a result, mezzanine loans of approximately \$5.7 million were discharged.

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, Chartwell 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.

Subsequent to June 30, 2009, we updated our evaluation of the security underlying each mezzanine loan, as well as the value of the corporate guarantees securing mezzanine loans where applicable. As described in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair value is subjective and requires us to exercise a significant amount of judgment in making valuation assumptions including revenue and expense projections, capitalization and discount rates. In developing our valuation assumptions, we consulted with valuation and other professionals. Based on our updated evaluations, we believe that under the current market conditions, we may not collect the full amount of our accounts receivable and mezzanine loans receivable from Spectrum and Melior. Therefore, 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. The following table summarizes Chartwell's mezzanine loans at June 30, 2009:

(\$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	18	34.5	(0.3)	(0.9)	33.3
Melior, Spectrum and Partner	12	51.5	(3.4)	(28.5) <sup>(3)</sup>	19.6
Seasons and Partners	6 <sup>(1)</sup>	14.0	(0.6)	-	13.4
Chartwell's Partner	2 <sup>(2)</sup>	2.4	-	-	2.4
Total gross mezzanine loans outstanding	38	102.4	(4.3)	(29.4)	68.7

(1) Includes one stabilized project and five projects in lease-up.

(2) Chartwell owns a 50% interest in these projects.

(3) Includes \$6.4 million provision recorded in Q4 2008.

Spectrum projects located outside Quebec include five projects that are stabilized, nine projects in lease-up, one project in construction and three projects in pre-construction stage. Mezzanine loans to Spectrum related to these projects amounted to \$29.6 million with \$4.9 million of loans advanced to three of Spectrum's joint venture partners. In Q2 2009 we recorded an impairment provision related to our exposure to Spectrum projects located outside Quebec of \$7.2 million of which \$6.2 million was allocated to accounts receivable and \$1.0 million was allocated to mezzanine loans.

Melior, Spectrum and their joint venture partners' projects in Quebec include one project that is stabilized, eight projects in lease-up and three projects in pre-construction. Mezzanine loans to Spectrum related to these projects amounted to \$7.4 million with \$40.5 million of mezzanine loans advanced to Melior and \$3.6 million advanced to their joint venture partner.

In Q2 2009 we recorded an impairment provision related to these Quebec projects of \$23.5 million of which \$22.0 million was allocated to mezzanine loans and \$1.5 million was allocated to accounts receivable. In addition, in Q4 2008 we recorded an impairment provision of \$6.4 million related to these Quebec projects.

Chartwell is working with the borrowers on settlement arrangements in respect of these loans and accounts receivable, failing which we will exercise our legal rights under the loan agreements and security documents.\*

### **Taxation Related Matters**

Chartwell currently qualifies 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 2008, 100% of Chartwell's distributions were non-taxable returns of capital compared to approximately 97.7% in 2007.

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.

---

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

## Key Performance Indicators

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

### Funds from Operations

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

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

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

### Normalized Funds from Operations

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

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

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



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

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

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

## **Adjusted Funds from Operations**

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

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

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

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

***Principal portion of capital subsidy receivable:*** This item represents a portion of the long-term (maximum 20-year) cash flow stream provided by 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, NFFO and AFFO per unit, we include the Class B Units of Chartwell Master Care LP (“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

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

The Trust evaluates its financial performance by analyzing its 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	9,816
Canadian Long-Term Care Operations	23	3,100
U.S. Operations (owned and leased)	75	12,709
Total Same Property Portfolio	184	25,625

### Operating Margins

Operating margins are calculated as revenue less direct operating expenses divided by revenue. This measure is sometimes used as an indicator of segment performance as management monitors its ability to translate changes in revenue into NOI. However, as operating margins typically vary by the level of care offered, the mix of our portfolio’s various levels of care needs to be considered when conducting performance analysis. In addition, as higher acuity levels of service generally have a lower operating margin, the benefit of the additional NOI generated by these services is not reflected in the operating margin statistic.

### 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 Chartwell’s 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

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

## **Consolidated Results of Operations**

### **Overview of Consolidated Results of Operations**

#### **Same Property Portfolio <sup>(1)</sup>**

Same property NOI decreased by \$0.2 million or 0.4% for Q2 2009 compared to Q2 2008 and \$0.6 million or 0.6% for 2009 YTD compared to 2008 YTD as follows:

- Our Canadian retirement portfolio same property NOI was relatively flat in Q2 2009 compared to Q2 2008 and decreased by \$0.3 million or 0.6% for 2009 YTD compared to 2008 YTD. Reduced occupancy and increased utility, property tax and commodity tax costs, combined with costs associated with advancing the timing of marketing initiatives were partially offset by strong average rate increases, which range between 2.5% and 5.0%, and our yield management program that continues to generate rent increases on turnover in excess of inflationary rate increases for existing residents.
- In our U.S. same property portfolio, reduced occupancy was largely offset by regular annual rent increases, targeted cost reduction initiatives, and tight management of expenses. As a result, same property NOI contraction was limited to a decrease of U.S.\$0.2 million or 1.0% in Q2 2009 compared to Q2 2008 and a decrease of U.S.\$0.4 million or 0.9% for 2009 YTD compared to 2008 YTD.
- Our same property Canadian long-term care portfolio had relatively flat same property NOI in Q2 2009 compared to Q2 2008 and an increase of \$0.1 million or 1.3% for 2009 YTD compared to 2008 YTD.

Same property occupancy continued to be relatively high at 91.1% in Q2 2009. However, this represents a 2.3 percentage point decrease from 93.4% in Q2 2008.

#### **Acquisition and Internal Growth Portfolio Highlights**

For Q2 2009, acquisitions and internal growth contributed \$4.8 million of NOI and \$9.6 million for 2009 YTD, or an additional \$2.4 million compared to Q2 2008 and \$4.7 million for 2009 YTD compared to 2008 YTD, excluding the impact of foreign exchange.

#### **General, Administrative and Trust Expenses**

Excluding severance and other costs, G&A expenses increased as a percentage of revenues to 2.8% of revenues for Q2 2009 compared to 2.7% for Q2 2008 primarily due to costs incurred to rebrand certain of our U.S. assets as required by certain acquisition agreements. G&A expenses decreased as a percentage of revenue to 2.5% for 2009 YTD compared to 2.7% for 2008 YTD.

---

<sup>(1)</sup> Note: statistics in this section exclude the effects of foreign exchange translation.

## Provision for Impairment of Mezzanine Loans

As described more fully in the “Significant Events” section of this MD&A, in Q2 2009, we recorded impairment provisions of \$30.7 million related to accounts receivable and mezzanine loans from Melior, Spectrum and their joint venture partners.

## Per Unit Analysis

Excluding the impairment provisions of \$30.7 million, AFFO for Q2 2009 was \$18.0 million, or \$0.18 per unit diluted a slight increase compared to Q2 2008 AFFO of \$17.1 million or \$0.17 per unit diluted. The following items impacted AFFO during the quarter:

- Improved contribution from the property portfolio primarily due to acquisitions completed subsequent to January 1, 2008 and positive impact of foreign exchange rates added approximately \$1.9 million or \$0.02 per unit diluted helped to offset the impact of the items noted below.
- Lower management fee income reduced AFFO by \$0.7 million or \$0.01 per unit diluted.
- G&A expenses increased by \$0.5 million or \$0.01 per unit diluted primarily due to severance and re-branding costs incurred in Q2 2009.

Excluding the impairment provisions of \$30.7 million, AFFO for 2009 YTD was \$0.39 per unit diluted an increase of \$0.06 per unit diluted for 2008 YTD primarily due to the following:

- Realized foreign exchange gain of \$4.8 million or \$0.05 per unit diluted.
- Increased contribution from the property portfolio, primarily due to acquisitions completed subsequent to January 1, 2008 of \$1.1 million or \$0.01 per unit diluted.
- Reduction to current income tax expense of \$0.8 million or \$0.01 per unit diluted.
- G&A expenses increased by \$1.1 million or \$0.01 per unit diluted primarily due to severance and rebranding costs.

Excluding the impairment provisions of \$30.7 million, for Q2 2009, FFO diluted per unit was \$14.0 million or \$0.14 per unit diluted, a decrease of \$2.5 million or \$0.03 per unit diluted compared to Q2 2008. For 2009 YTD, FFO diluted per unit was \$33.3 million or \$0.33 per unit diluted, a decrease of \$2.1 million or \$0.02 per unit diluted compared to 2008 YTD. FFO diluted per unit is described more fully in the “Funds from Operations” section of this MD&A.

Excluding the impairment provisions of \$30.7 million, for Q2 2009, NFFO, which excludes the effect of unrealized foreign exchange gains and losses, straight-line lease expense adjustments and current SIFT income tax expense, diluted per unit was \$0.19 or \$0.01 per unit diluted, higher than Q2 2008. For 2009 YTD, NFFO diluted per unit was \$0.43 or \$0.06 per unit diluted higher than 2008 YTD.

Net loss increased to \$0.42 per unit diluted for Q2 2009, an increase of \$0.28 per unit diluted compared to Q2 2008. Increased depreciation, impairment provisions, interest and lease expenses were partially offset by increased net operating income, recovery of future taxes and lower amortization compared to prior periods, changes in unrealized and realized foreign exchange gains and losses, and lower SIFT tax-related provisions for current income tax expense. For 2009 YTD, net loss increased to \$0.57 per unit diluted, an increase of \$0.30 per unit diluted compared to 2008 YTD.

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

(\$000s, except per unit amounts, occupancy rates, and operating margins)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Property revenue	189,163	167,920	21,243	382,360	334,307	48,053
Total revenues	194,490	174,698	19,792	393,620	349,047	44,573
Net loss	(41,114)	(12,872)	(28,242)	(55,059)	(24,393)	(30,666)
Net loss per unit (basic and diluted)	(0.42)	(0.14)	(0.28)	(0.57)	(0.27)	(0.30)
Distributions declared	18,693	18,436	257	37,314	42,220	(4,906)
Distributions declared per unit	0.19	0.19	-	0.37	0.42	(0.05)
FFO <sup>(1)</sup>	(16,690)	16,524	(33,214)	2,619	35,424	(32,805)
Diluted FFO per unit	(0.16)	0.16	(0.32)	0.03	0.35	(0.32)
NFFO <sup>(2)</sup>	(10,907)	18,543	(29,450)	13,049	37,245	(24,196)
Diluted NFFO per unit	(0.11)	0.18	(0.29)	0.13	0.37	(0.24)
AFFO <sup>(3)</sup>	(12,655)	17,071	(29,726)	9,253	33,084	(23,831)
Diluted AFFO per unit	(0.12)	0.17	(0.29)	0.09	0.33	(0.24)
Weighted average occupancy rate - same property portfolio	91.1%	93.4%	(2.3pp)	91.6%	93.5%	(1.9pp) <sup>(4)</sup>
Operating margin – same property portfolio	31.7%	32.1%	(0.4pp)	31.1%	31.7%	(0.6pp)
Weighted average number of units including Class B Units of Chartwell Master Care LP <sup>(5)</sup> :						
Basic	99,820,656	98,402,259	1,418,397	99,629,538	98,224,995	1,404,543
Diluted (includes LTIP)	102,414,129	101,219,260	1,194,869	102,234,704	100,794,363	1,440,341

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

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

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

(4) Percentage points.

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

## Summary of Property Revenue

(\$000s, except occupancy rates)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Same property <sup>(1)</sup>	163,980	162,116	1,864	328,191	323,617	4,574
Acquisitions <sup>(1)</sup>	14,872	8,240	6,632	28,347	15,852	12,495
Equity-accounted VIEs	-	(3,067)	3,067	-	(6,056)	6,056
Foreign exchange on U.S. dollar revenue	10,311	630	9,681	25,822	892	24,930
<b>Total property revenue</b>	<b>189,163</b>	<b>167,919</b>	<b>21,244</b>	<b>382,360</b>	<b>334,305</b>	<b>48,055</b>
Weighted average occupancy rate - same property portfolio	91.1%	93.4%	(2.3pp)	91.6%	93.5%	(1.9pp)

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

Total property revenue increased by 12.7% in Q2 2009 compared to Q2 2008 and 14.4% for 2009 YTD compared to 2008 YTD due to the increase in the value of the U.S. dollar compared to the Canadian dollar, contributions from acquisitions completed subsequent to January 1, 2008, and same property revenue growth.

Same property revenue increased by approximately \$1.9 million or 1.1% in Q2 2009 compared to Q2 2008 and \$4.6 million or 1.4% for 2009 YTD compared to 2008 YTD despite softer occupancies. We continue to drive revenue growth with our proven strategies as follows:

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

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

Weighted average occupancy rates in the same property portfolio were 91.1% in Q2 2009, a decrease of 2.3 percentage points from 93.4% in Q2 2008. For 2009 YTD, the weighted average occupancy rate for the same property portfolio was 91.6%, a decrease of 1.9 percentage points from 93.5% for 2008 YTD. The following factors have contributed to the decrease:

- We experienced a softening of occupancies, primarily in the U.S. toward the end of 2008. This trend has continued in the first half of 2009 with U.S. same property average occupancy in Q2 2009 at 89.5% or 4.8 percentage points lower than Q2 2008.
- In addition, occupancies are 92.5% in our Western Canadian platform, 2.7 percentage points lower than Q2 2008 due to over-supply in certain regional markets and one long-term care home.
- Compared to Q2 2008, we also experienced a softening in occupancy in our Ontario retirement portfolio, with average occupancy down 0.8 percentage points to 92.5%.

These reductions were partially offset by strengthening occupancies in our Quebec platform with occupancy in the same property platform rising to 86.7% or 0.7 percentage points higher than Q2 2008.

Subsequent to June 30, 2009, customer traffic and expected future arrivals have been improving and combined with improvements in the housing markets in both Canada and the U.S., we are cautiously optimistic that this improvement will translate into increasing occupancies through the remainder of the year.\* We are mitigating reduced occupancy where possible by reducing costs without adversely affecting our high quality of care and service. Trends in occupancies are described further in the “2009 Outlook” section of this MD&A.

## Summary of Direct Operating Expenses

(\$000s)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Same property <sup>(1)</sup>	112,070	110,016	2,054	226,222	221,059	5,163
Acquisitions <sup>(1)</sup>	10,072	5,792	4,280	18,739	10,915	7,824
Equity-accounted VIEs	-	(2,076)	2,076	-	(4,209)	4,209
Foreign exchange on U.S. dollar expenses	6,490	396	6,094	16,073	560	15,513
Total direct operating expenses – properties	128,632	114,128	14,504	261,034	228,325	32,709
Direct operating expenses – management operations	1,025	1,027	(2)	2,050	2,051	(1)
Total direct operating expenses	129,657	115,155	14,502	263,084	230,376	32,708

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

Total direct operating expenses increased by 12.6% in Q2 2009 compared to Q2 2008 and 14.2% for 2009 YTD compared to 2008 YTD primarily due to the increase in the value of the U.S. dollar compared to the Canadian dollar, and additional expenses from acquisitions completed subsequent to January 1, 2008.

Same property direct operating expenses increased by approximately \$2.1 million or 1.9% for Q2 2009 compared to Q2 2008 and \$5.2 million or 2.3% for 2009 YTD compared to 2008 YTD. Increased costs related to property tax and commodity tax were offset by lower energy costs and the impact of cost reduction initiatives in labour and discretionary costs.

## General, Administrative and Trust Expenses

(\$000s, except percentage of revenue)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
General, administrative and trust expenses (“G&A”)	5,463	4,666	797	9,953	9,385	568
Severance and other costs	359	636	(277)	1,689	1,117	572
Total G&A per financial statements	5,822	5,302	520	11,642	10,502	1,140
As % of revenue:						
Excluding severance and other costs	2.8%	2.7%	0.1pp	2.5%	2.7%	(0.2pp)

In Q2 2009, G&A expenses before severance and other costs increased by approximately \$0.8 million to \$5.5 million or 2.8% of revenue compared to \$4.7 million or 2.7% of revenue Q2 2008 primarily due to

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

rebranding costs of \$0.7 million for our U.S. properties. For 2009 YTD, G&A expenses before severance and other costs increased by \$0.6 million to \$9.9 million or 2.5% of revenue compared to \$9.4 million or 2.7% of revenue for 2008 YTD.

Severance and other costs decreased by \$0.3 million in Q2 2009 as compared to Q2 2008 and increased by \$0.6 million for 2009 YTD compared to 2008 YTD primarily due to \$1.1 million of severance costs recorded in Q1 2009.

## Interest and Property Lease Expense

(\$000s)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
<b>Interest Expense</b>						
Mortgages and loans payable	22,532	21,254	1,278	46,295	41,963	4,332
Convertible debentures	2,979	2,981	(2)	5,958	5,960	(2)
Operating credit facility and other	69	21	48	151	84	67
Interest capitalized to properties under development	(308)	-	(308)	(631)	-	(631)
	25,272	24,256	1,016	51,773	48,007	3,766
Accretion adjustment to convertible debenture liability	747	685	62	1,478	1,356	122
Amortization of debt mark-to-market adjustments arising on acquisition	(402)	(305)	(97)	(649)	(582)	(67)
Amortization of financing costs	1,599	1,205	394	2,926	2,412	514
<b>Total Interest Expense</b>	<b>27,216</b>	<b>25,841</b>	<b>1,375</b>	<b>55,528</b>	<b>51,193</b>	<b>4,335</b>
<b>Property Lease Expense</b>						
Contractual lease payments for the period	11,640	9,746	1,894	24,028	19,515	4,513
Adjustment to record lease expense on a straight-line basis over the lease term	1,659	1,593	66	3,426	3,245	181
<b>Total Property Lease Expense</b>	<b>13,299</b>	<b>11,339</b>	<b>1,960</b>	<b>27,454</b>	<b>22,760</b>	<b>4,694</b>

The increase in interest expense is consistent with the growth in our debt portfolio. In addition, interest expense related to our U.S. debt portfolio increased in both Q2 2009 compared to Q2 2008 and 2009 YTD compared to 2008 YTD due to the increase in foreign exchange rates.

During Q2 2009 and 2009 YTD, we capitalized interest of \$0.3 million and \$0.6 million respectively, which relates to our net investment in internal growth projects.

Contractual property lease expense increased by \$1.9 million for Q2 2009 compared to Q2 2008 and \$4.5 million for 2009 YTD compared to 2008 YTD due to regular annual lease rate increases of 3.35%, financing payments related to landlord's capital expenditures and an increase in foreign exchange rates.



## Mezzanine Loans, Mezzanine Loan Interest Income and Impairment Provision

(\$000s)	June 30, 2009	June 30, 2008	Increase / (Decrease)
Gross mezzanine loan balances outstanding (end of the period)	102,414	111,780	(9,366)
Fees net of costs recorded as a reduction of mezzanine loan balances	(4,313)	(4,936)	623
Allowance for impairment of mezzanine loans	(29,375)	-	(29,375)
Net mezzanine loan receivable	68,726	106,844	(38,118)

(\$000s)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Mezzanine loan interest based on gross loan balances	2,370	2,980	(610)	4,807	5,873	(1,066)
Effective yield adjustments for:						
Placement fees integral to lending activities	529	(300)	829	834	(15)	849
Legal costs integral to lending activities	(139)	(262)	123	(310)	(412)	102
Total Mezzanine Loan Interest Income	2,760	2,418	342	5,331	5,446	(115)
Provision for impairment of mezzanine loans and accounts receivable	30,684	-	30,684	30,684	-	30,684

Mezzanine loan interest decreased by \$0.6 million for Q2 2009 compared to Q2 2008 and by \$1.1 million for 2009 YTD compared to 2008 YTD due to lower balances of mezzanine loans outstanding. 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.

As described more fully in the “Significant Events” section of this MD&A, in Q2 2009 we recorded an impairment provision related to our exposure to Spectrum, Melior and their joint venture partners of \$30.7 million of which \$7.7 million was allocated to accounts receivable and \$23.0 million was allocated to mezzanine loans receivable.

## Other Items

(\$000s)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Bank interest and other income	705	677	28	1,542	1,939	(397)
Below-market lease amortization revenue	305	434	(129)	742	912	(170)
Gain/(Loss) on sale of assets	-	(102)	102	-	(94)	94
Realized foreign exchange gains and (losses)	(185)	-	(185)	4,802	-	4,802
Unrealized gains and (losses) on derivative financial instruments and unrealized foreign exchange gains and (losses)	(4,124)	(559)	(3,565)	(7,095)	2,290	(9,385)
Depreciation of properties	(19,427)	(17,042)	(2,385)	(39,147)	(33,510)	(5,637)
Amortization of limited life intangible assets	(10,671)	(13,149)	2,478	(22,865)	(27,743)	4,878
Provision for impairment of mezzanine loans and accounts receivable	(30,684)	-	(30,684)	(30,684)	-	(30,684)
Current income tax (expense) recovery	(76)	133	(209)	(82)	(866)	784
Future income tax (expense) recovery	4,693	-	4,693	2,941	(237)	3,178
Non-controlling interest	864	786	78	1,159	1,551	(392)
Net loss	(41,114)	(12,872)	(28,242)	(55,059)	(24,393)	(30,066)

### *Bank Interest and Other Income*

Bank interest and other income was relatively flat in Q2 2009 compared to Q2 2008 and decreased in 2009 YTD compared to 2008 YTD primarily due to lower invested cash balances and non-property miscellaneous income.

### *Realized Gains (Losses)*

Chartwell recorded a realized foreign exchange loss of \$0.2 million in Q2 2009 which primarily relates to the payment of accrued interest on intercompany loans.

Chartwell recorded a realized foreign exchange gain for 2009 YTD of \$4.8 million, primarily related to the settlement of a foreign exchange SWAP contract in Q1 2009.

### *Unrealized Gains (Losses)*

The unrealized foreign exchange loss primarily related to the intercompany cross-border U.S. dollar-denominated loans receivable and payable used by Chartwell to finance its operations in a tax efficient manner. At June 30, 2009, we had net loans outstanding of approximately U.S.\$66.4 million from our U.S. subsidiaries and loans payable of \$27.0 million to our U.S. subsidiaries. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange gains and losses are required to be recorded in income under GAAP.

### *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 Q2 2009 as compared to Q2 2008 and for 2009 YTD compared to 2008 YTD as approximately \$51.6 million of intangible assets were fully amortized in 2009.

### *Current and Future Income Tax (Expense) Recovery*

Under the SIFT Rules, Chartwell became subject to SIFT tax on certain income beginning in 2007 as described in the “Significant Events” section of this MD&A. During Q2 2009, we recorded a future income tax recovery of \$4.7 million, and a \$2.9 million recovery for 2009 YTD. 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 June 30, 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.

As described in the “Significant Events” section of this MD&A, in 2008, the Department of Finance issued draft legislation which described potential changes in the determination of which legal entities are considered SIFTs. Enabling legislation received Royal Assent on March 12, 2009. The clarifications set out in the draft legislation likely result in a subsidiary partnership of Chartwell REIT being considered to be a SIFT in 2007 and 2008. Prior to January 1, 2009, Chartwell completed a capital reorganization in its 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.

### *Net Loss*

Net loss for Q2 2009 increased in comparison to Q2 2008 by \$28.2 million and by \$30.1 million for 2009 YTD compared to 2008 YTD primarily due to a provision for impairment, increased depreciation, interest and lease expenses. This was partially offset by improvements in net operating income and lower current SIFT tax provisions, a future income tax recovery and lower amortization.

## Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for Q2 2009 compared Q2 2008.

### *Canadian Retirement Operations*

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
<b>Same Property</b>					
100% Owned	84	6,725	2,098	745	9,568
50% Owned	2	248	-	-	248
Total Same Property	86	6,973	2,098	745	9,816
<b>Acquisitions &amp; Internal Growth</b>					
100% Owned:					
Operating	14	1,428	163	254	1,845
Internal growth	-	264	-	155	419
	14	1,692	163	409	2,264
50% Owned	4	418	37	-	455
Total Acquisitions & Internal Growth	18	2,110	200	409	2,719
<b>Total</b>	104	9,083	2,298	1,154	12,535

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

(\$000s, except occupancy rates and operating margins)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
<b>Revenues</b>						
Same property	67,468	66,415	1,053	135,186	132,580	2,606
Acquisitions, Internal Growth and Other:						
Acquisitions and internal growth	12,910	4,438	8,472	24,676	8,763	15,913
Equity-accounted VIEs	-	3,067	(3,067)	-	6,056	(6,056)
Total Acquisitions, Internal Growth and Other	12,910	7,505	5,405	24,676	14,819	9,857
Total Revenue	80,378	73,920	6,458	159,862	147,399	12,463
<b>Direct Operating Expenses</b>						
Same property	42,725	41,709	1,016	87,072	84,156	2,916
Acquisitions, Internal Growth and Other:						
Acquisitions and internal growth	8,778	3,204	5,574	17,306	6,406	10,900
Equity-accounted VIEs	-	2,076	(2,076)	-	4,209	(4,209)
Total Acquisitions, Internal Growth and Other	8,778	5,280	3,498	17,306	10,615	6,691
Total Direct Operating Expenses	51,503	46,989	4,514	104,378	94,771	9,607
<b>Net Operating Income</b>						
Same property	24,743	24,706	37	48,114	48,424	(310)
Acquisitions, Internal Growth and Other:						
Acquisitions and internal growth	4,132	1,234	2,898	7,370	2,357	5,013
Equity-accounted VIEs	-	991	(991)	-	1,847	(1,847)
Total Acquisitions, Internal Growth and Other	4,132	2,225	1,907	7,370	4,204	3,166
Total Net Operating Income	28,875	26,931	1,944	55,484	52,628	2,856
Overall operating margins	35.9%	36.4%	(0.5pp)	34.7%	35.7%	(1.0pp)
<b>Same property statistics:</b>						
Operating margins	36.7%	37.2%	(0.5pp)	35.6%	36.5%	(0.9pp)
Weighted average occupancy rate	90.5%	91.3%	(0.8pp)	90.8%	91.6%	(0.8pp)

Same property revenues increased by 1.6% in Q2 2009 as regular rental increases, which ranged between 2.5% and 5.0%, have offset a 0.8 percentage point decline in same property occupancy compared to Q2 2008. Same property average occupancy remains relatively high at 90.5%.

Same property direct operating expenses increased by 2.4% in Q2 2009 compared to Q2 2008 as follows:

- increased property tax expense as a result of increased market value assessments, and
- increased goods and services taxes on contracted out services in our Western properties previously treated as exempt.

Same property NOI was flat in Q2 2009 compared to Q2 2008. Our same property Quebec platform NOI increased by 6.9%, which represents a significant improvement in NOI in this platform compared to previous trends as described below. Our Western Canadian platform same property NOI decreased by 1.9%, which is the net effect of reduced occupancies in certain local markets offset by regular annual rental increases and implementing cost control initiatives. Same property NOI in our Eastern Canadian retirement properties (outside Quebec) for Q2 2009 decreased 0.7%, as growth in this platform was reduced from previous levels primarily due to lower occupancies and increased property taxes as described above.

In 2008, our Quebec platform experienced significant renovation and construction activity. Typically, where we add new capacity to a property, the construction activity temporarily depresses occupancy in

the existing building. In addition, in some cases, existing suites needed to be removed from inventory and were temporarily unavailable for rental during the construction program. Similar conditions exist in properties we reposition. For example, where we are upgrading key service amenities, such as dining and kitchen facilities, temporarily services will not be of the same quality and until the newly renovated amenities are available, the building is temporarily less marketable.

As a result of these initiatives to renew and reposition many of our Quebec properties, occupancy decreased primarily from Q2 2008 through to the end of 2008. The majority of construction activity was completed in the second half of 2008 and we are now beginning to realize the benefits as evidenced in improved NOI. Occupancy has grown steadily in 2009 and, with respect to net new rentals, Quebec is our best performing platform to date in 2009.

### *Canadian Long-Term Care Operations*

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
<b>Same Property</b>					
100% Owned	15	-	99	1,616	1,715
50% Owned	8	-	-	1,385	1,385
Total Same Property	23	-	99	3,001	3,100
<b>Acquisitions</b>					
100% Owned Acquisition	1	64	-	-	64
Total Acquisitions	1	64	-	-	64
<b>Total</b>	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)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
<b>Revenues</b>						
Same property	35,872	33,699	2,173	70,404	67,170	3,234
Acquisitions	528	375	153	1,049	375	674
Total Revenues	36,400	34,074	2,326	71,453	67,545	3,908
<b>Direct Operating Expenses</b>						
Same property	31,328	29,166	2,162	61,928	58,806	3,122
Acquisitions	325	226	99	652	226	426
Total Direct Operating Expenses	31,653	29,392	2,261	62,580	59,032	3,548
<b>Net operating income</b>						
Same property	4,544	4,533	11	8,476	8,364	112
Acquisitions	203	149	54	397	149	248
Total Net Operating Income	4,747	4,682	65	8,873	8,513	360
Overall operating margins	13.0%	13.7%	(0.7pp)	12.4%	12.6%	(0.2pp)
<b>Same property statistics:</b>						
Operating margins	12.7%	13.5%	(0.8pp)	12.0%	12.5%	(0.5pp)
Weighted average occupancy rate	98.5%	98.7%	(0.2pp)	98.2%	98.8%	(0.6pp)

Same property revenues increased by 6.4% in Q2 2009 compared to Q2 2008. Direct operating expenses increased by 7.4% in Q2 2009 compared to Q2 2008. The increases are primarily due to higher government funding provided for direct resident care services which are mainly staffing related. Direct resident care funding results in an increase in both revenue and direct operating expenses. In addition, the Ontario government provided for additional funding for other accommodation which increased revenues by approximately \$0.3 million for Q2 2009 compared to Q2 2008. We will continue to receive this new funding up to March 31, 2010. This was partially offset by higher cost for food. As this cost is funded to a maximum amount per resident day on an annual basis, we expect we will recover this overspending in the balance of the year.\* Same property NOI was flat for Q2 2009 compared to Q2 2008.

Weighted average occupancies in the same property portfolio were at 98.5% for Q2 2009, a decrease of 0.2 percentage points from Q2 2008. Occupancy in our Ontario long-term care communities exceeded 97% for 2008 in all properties and, as a result, these communities receive government funding as though fully occupied.

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

## U.S. Operations

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
<b>Same Property - Owned</b>					
100%	23	1,527	767	-	2,294
50%	25	3,126	1,240	190	4,556
Total Same Property Owned	48	4,653	2,007	190	6,850
<b>Properties under Operating Lease</b>					
100% Interest	2	129	108	-	237
49% Interest	25	4,714	757	151	5,622
Total Same Property Leased	27	4,843	865	151	5,859
Total Same Property Owned and Leased	75	9,496	2,872	341	12,709
<b>Internal Growth</b>					
50% Owned:					
Operating	1	161	35	-	196
	1	161	35	-	196
<b>Other</b>					
Properties under management	8	2,316	110	-	2,426
Total Internal Growth and Other	9	2,477	145	-	2,622
<b>Total</b>	<b>84</b>	<b>11,973</b>	<b>3,017</b>	<b>341</b>	<b>15,331</b>



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

(U.S.\$000s, except as noted otherwise)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
<b>Revenues</b>						
Same property	60,641	62,002	(1,361)	122,602	123,867	(1,265)
Internal growth and other	1,434	360	1,074	2,622	658	1,964
Total Revenues	62,075	62,362	(287)	125,224	124,525	699
<b>Direct Operating Expenses</b>						
Same property	38,018	39,141	(1,123)	77,223	78,098	(875)
Internal growth and other	969	286	683	780	74	706
Total Direct Operating Expenses	38,987	39,427	(440)	78,003	78,172	(169)
<b>Net Operating Income</b>						
Same property	22,623	22,861	(238)	45,379	45,769	(390)
Internal growth and other	465	74	391	1,842	584	1,258
Total Net Operating Income	23,088	22,935	153	47,221	46,353	868
Foreign exchange in CDN	3,821	236	3,585	9,748	334	9,414
Total Net Operating Income in CDN	26,909	23,171	3,738	56,969	46,687	10,282
Overall operating margins <sup>(1)</sup>	37.2%	36.8%	0.4pp	37.7%	37.2%	0.5pp
<b>Same property statistics:</b>						
Operating margins <sup>(1)</sup>	37.3%	36.9%	0.4pp	37.0%	37.0%	-
Weighted average occupancy rate	89.5%	94.3%	(4.8pp)	90.4%	94.1%	(3.7pp)

(1) Calculated based on U.S. dollars.

Same property revenue decreased by U.S.\$1.4 million or 2.2% for Q2 2009 compared to Q2 2008. Same property revenues have been impacted by declining occupancy with Q2 2009 weighted average occupancy 89.5% or 4.8 percentage points lower compared to 94.3% in Q2 2008. Declining occupancies were partially offset by rent increases which range between 5% and 7%.

To mitigate reduced occupancy, we are continuing the implementation of strategies to provide more payment flexibility to existing and potential residents, and continue to invest in marketing and advertising initiatives. In addition we are continuing our focus on both cost reduction initiatives and cost control initiatives including procurement and labour cost management strategies. As a result, same property direct operating expenses have decreased by \$1.1 million or 2.9%, for Q2 2009 compared to Q2 2008; limiting the decline in same property NOI to U.S.\$0.2 million or 1.0% in Q2 2009 compared to Q2 2008.

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

	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	1.17	1.01	0.16	1.21	1.07	0.14

A \$0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar changes AFFO by approximately \$0.10 million on an annualized basis.

## Canadian Management Operations

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Managed properties	43	3,577	396	1,262	5,235
Mezzanine loans	11	1,879	116	-	1,995
Total	54	5,456	512	1,262	7,230

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

(\$000s)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Management and Other Fee Revenue						
Spectrum:						
Development management	(213)	403	(616)	164	814	(650)
Operations management	466	478	(12)	1,021	982	39
Other	17	67	(50)	34	84	(50)
Total Spectrum	270	948	(678)	1,219	1,880	(661)
ING	575	585	(10)	1,170	1,203	(33)
Other	712	724	(12)	1,256	1,513	(257)
Total Management and Other Fee Revenue:	1,557	2,257	(700)	3,645	4,596	(951)
Direct operating expenses	1,025	1,027	(2)	2,050	2,050	-
Income from Management Operations	532	1,230	(698)	1,595	2,546	(951)

In Q2 2009 management operations revenue decreased by \$0.7 million as compared to Q2 2008.

In Q2 2009, we recorded an adjustment to development fees on certain of Spectrum's projects of \$0.4 million related to changes in project budgets. Operations management fees from Spectrum were relatively flat in Q2 2009 compared to Q2 2008. We anticipate development management fees from Spectrum will continue to decline in 2009 as Spectrum reduces its development activities.\*

Under our agreement with Spectrum, on closing of Spectrum's sale of eight properties to Seasons, we are entitled to a \$2.0 million fee as compensation for waiving our purchase option on these projects. This fee has not been recorded as revenue in Q2 2009 as collectability of these amounts could not be assured at this time. We continue working with Spectrum on collecting our accounts receivable and mezzanine loans.

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

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

## Non-GAAP Measures

FFO, NFFO and AFFO do not have a standardized meaning under Canadian generally accepted accounting principles (“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, NFFO and AFFO, along with Management’s discussion of the usefulness of these measures in evaluating our performance.

### *Funds from Operations (FFO)*

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

(\$000s, except per unit amounts)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Net loss per financial statements	(41,114)	(12,872)	(28,242)	(55,059)	(24,393)	(30,666)
<b>Add (Subtract):</b>						
Depreciation of properties	19,427	17,042	2,385	39,147	33,510	5,637
Amortization of limited life intangible assets	10,671	13,149	(2,478)	22,865	27,743	(4,878)
Depreciation of leasehold improvements included in depreciation of properties	(117)	(111)	(6)	(234)	(216)	(18)
Loss/ (Gain) on sale of assets	-	102	(102)	-	94	(94)
Future income tax expense/ (recovery)	(4,693)	-	(4,693)	(2,941)	237	(3,178)
Non-controlling interest	(864)	(786)	(78)	(1,159)	(1,551)	392
<b>FFO <sup>(1)</sup></b>	<b>(16,690)</b>	<b>16,524</b>	<b>(33,214)</b>	<b>2,619</b>	<b>35,424</b>	<b>(32,805)</b>
FFO per unit:						
Basic	(0.17)	0.17	(0.34)	0.03	0.36	(0.33)
Diluted	(0.16)	0.16	(0.32)	0.03	0.35	(0.32)

(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.

FFO and FFO per unit diluted decreased by \$33.2 million or \$0.32 per unit diluted for Q2 2009 compared to Q2 2008 and \$32.8 million or \$0.32 per unit diluted for 2009 YTD compared to 2008 YTD primarily due to a provision for impairment of \$30.7 million and the impact of realized / unrealized foreign exchange gains / losses.

## Normalized and Adjusted Funds from Operations (NFFO and AFFO)

The following table provides the calculation of NFFO and AFFO:

(\$000s, except per unit amounts)	Q2 2009	Q2 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
<b>FFO</b> <sup>(1)</sup>	(16,690)	16,524	(33,214)	2,619	35,424	(32,805)
Add (Subtract):						
Adjustment to record lease expense on a straight-line basis over the lease term	1,659	1,593	66	3,426	3,245	181
Unrealized foreign exchange and derivative (gains)/losses	4,124	559	3,565	7,095	(2,290)	9,385
SIFT Income Tax Expense (Recovery)	-	(133)	133	(91)	866	(957)
<b>NFFO</b> <sup>(2)</sup>	(10,907)	18,543	(29,450)	13,049	37,245	(24,196)
Add (Subtract):						
SIFT Income Tax (Expense) Recovery	-	133	(133)	91	(866)	957
Amortization of below-market leases	(305)	(434)	129	(742)	(912)	170
Principal portion of capital subsidy receivable from Health Authorities	541	524	17	1,073	1,025	48
Amounts received under income guarantees	143	326	(183)	261	589	(328)
Amortization of financing costs	1,599	1,205	394	2,926	2,412	514
Accretion adjustment to convertible debenture liability	747	685	62	1,478	1,356	122
Amortization of debt mark-to-market adjustments arising on acquisition	(402)	(305)	(97)	(649)	(582)	(67)
Deferred financing fee reserve <sup>(3)</sup>	(288)	(248)	(40)	(587)	(497)	(90)
AFFO before Capex reserve	(8,872)	20,429	(29,301)	16,900	39,770	(22,870)
Maintenance Capex reserve - 2% of property revenue	(3,783)	(3,358)	(425)	(7,647)	(6,686)	(961)
<b>AFFO</b> <sup>(4)</sup>	(12,655)	17,071	(29,726)	9,253	33,084	(23,831)
NFFO per unit						
Basic	(0.11)	0.19	(0.30)	0.13	0.38	(0.25)
Diluted	(0.11)	0.18	(0.29)	0.13	0.37	(0.24)
AFFO per unit						
Basic	(0.13)	0.17	(0.30)	0.09	0.34	(0.25)
Diluted	(0.12)	0.17	(0.29)	0.09	0.33	(0.24)

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

(3) Deferred financing fee reserve is calculated quarterly as 0.6 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.

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

An analysis of AFFO is described under the “Overview of Consolidated Results of Operations” section of this MD&A.

## Quarterly Financial Information

The following table summarizes Chartwell's quarterly unaudited financial information:

(\$000s, except per unit amounts)	2009		2008				2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	194,490	199,130	195,943	180,319	174,698	174,349	173,165	177,231
Direct operating expenses	(129,657)	(133,427)	(133,062)	(117,428)	(115,155)	(115,221)	(115,064)	(113,240)
General, administrative and trust expenses	(5,822)	(5,820)	(5,302)	(4,098)	(5,302)	(5,200)	(5,935)	(5,832)
Interest expense	59,011	59,883	57,579	58,793	54,241	53,928	52,166	58,159
Property lease expenses	(27,216)	(28,312)	(27,309)	(25,287)	(25,841)	(25,352)	(24,931)	(25,483)
Foreign exchange gains/(losses)	(13,299)	(14,155)	(13,529)	(11,670)	(11,339)	(11,421)	(10,731)	(11,565)
Depreciation and amortization	(4,309)	2,016	12,534	3,358	(559)	2,849	(122)	(4,898)
Write down of carrying value of management contracts	(30,098)	(31,914)	(31,607)	(29,520)	(30,191)	(31,062)	(28,243)	(32,344)
Provision for impairment of goodwill	-	-	-	-	-	-	(1,284)	-
Provision for impairment	-	-	(64,506)	-	-	-	-	-
(Loss)/Gain on sale of assets	(30,684)	-	(6,406)	-	-	-	-	-
Non-controlling interest	-	-	63	126	(102)	8	(413)	11
Current income tax (expense) recovery	864	295	1,989	378	786	765	1,179	982
Future income tax (expense) recovery	(76)	(6)	496	(629)	133	(999)	(2,004)	-
Net loss for the period	4,693	(1,752)	1,568	(1,500)	-	(237)	4,267	(1,802)
Net loss per unit diluted	(41,114)	(13,945)	(69,128)	(5,951)	(12,872)	(11,521)	(10,116)	(16,940)
FFO	(0.42)	(0.14)	(0.72)	(0.06)	(0.14)	(0.13)	(0.11)	(0.19)
FFO per unit diluted	(16,690)	19,309	23,249	24,451	16,524	18,900	14,317	16,160
	(0.16)	0.19	0.23	0.24	0.16	0.19	0.14	0.16

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

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

## Financial Position

### Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity for June 30, 2009 compared to December 31, 2008:

	Increase / (Decrease) (\$millions)	Explanation
Properties	(10.2)	Properties increased as follows: properties acquired during the first six months of 2009 added \$47.2 million; internal growth developments, building improvements and other capital expenditures added \$19.8 million. These increases were offset by depreciation and amortization of \$39.1 million and foreign exchange translation adjustment of \$38.1 million.
Mezzanine loans	(28.1)	Mezzanine loans outstanding decreased due to a provision for impairment of \$23.0 million and the discharge of \$5.7 million of mezzanine loans on the acquisition of the related properties. This was offset by the amortization of placement fees and lending expenses of \$0.6 million.
Limited life intangible assets	(20.5)	Limited life intangible assets increased by \$4.7 million from acquisitions during the first six months of 2009. This increase was offset by amortization of \$22.9 million and foreign exchange translation adjustment of \$2.3 million.
Total assets	(75.0)	The decrease in total assets during the first six months of 2009 is principally due to the decrease in properties, limited life intangible assets, mezzanine loans and cash.
Mortgages payable	2.1	Mortgages payable increased as a result of new mortgage financings of \$17.5 million, assumed mortgages on acquired properties of \$35.6 million. These increases were offset by regular amortizing principal repayments of \$18.6 million, foreign exchange translation adjustment of \$30.8 million and additional deferred financing costs, net of amortization, of \$1.6 million.
Total liabilities	19.8	The increase in total liabilities is primarily due to increases in mortgages payable and revolving operating credit facility.
Non-controlling interest	(6.5)	Non-controlling interest decreased primarily due to exchanges of Class B Units of Master LP for Trust Units of \$4.3 million, distributions to the holders of the Class B Units of Master LP of \$0.8 million and non-controlling interests share of net loss of \$1.2 million.
Unitholders' equity	(88.4)	The decrease in Unitholders' equity is due primarily to cash distributions, the allocation of the net loss to the Trust's Unitholders and foreign exchange translation in other comprehensive income. This was offset by an increase to Unitholders' equity as a result of the exchange of Class B Units of Master LP for Trust Units described above.

## Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at June 30, 2009.

(\$000s)	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Year					
Remainder of 2009	14,765	74,625	89,390	5.83%	5.06%
2010	36,771	81,166	117,937	6.34%	4.84%
2011	29,680	49,111	78,791	3.84%	4.82%
2012	30,708	95,871	126,579	7.49%	4.95%
2013	30,670	113,193	143,863	8.85%	5.33%
2014	26,396	87,123	113,519	6.81%	4.29%
2015	25,563	90,560	116,123	7.08%	5.38%
2016	21,889	190,098	211,987	14.86%	6.03%
2017	17,880	281,708	299,588	22.02%	5.68%
2018	15,559	32,625	48,184	2.55%	5.55%
2019-2023	67,328	139,038	206,366	10.87%	6.09%
Thereafter	81,003	44,409	125,412	3.47%	5.43%
Total	398,212	1,279,527	1,677,739	100.00%	
Mark-to-market adjustments arising on acquisition			14,317		
Less: Financing costs			(21,518)		
Total Mortgage Debt			1,670,538		

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

	As at June 30, 2009	As at December 31, 2008
Average term to maturity	8.2 years	8.7 years
Weighted average contractual interest rate	5.49%	5.65%
Variable rate mortgage debt	\$43.1 million	\$28.9 million

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

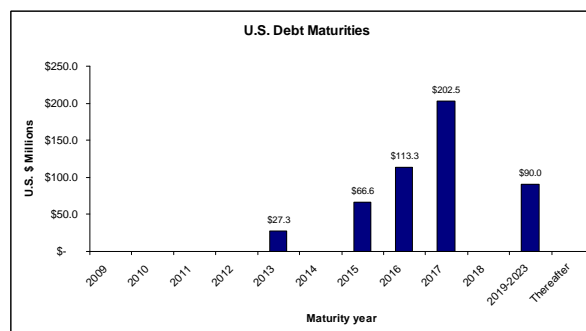
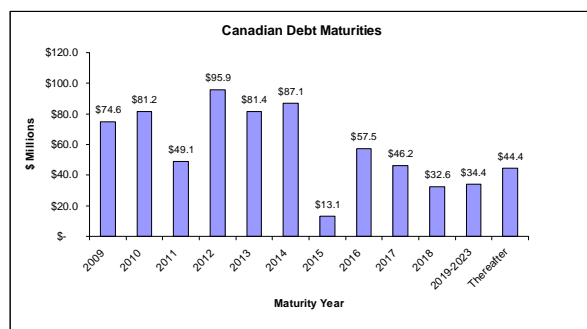
Our variable rate mortgages relate to one community acquired from Spectrum in Q1 2009 of \$9.8 million, five of our internal growth projects of \$27.8 million and one property specific bridge loan of \$5.5 million. We anticipate refinancing the variable-rate loan on the acquired property into fixed-rate debt in 2010. Variable-rate loans on internal growth projects are expected to be refinanced with fixed-rate debt upon completion and stabilization of the internal growth projects.\*

Debt maturing in 2009 through to 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. We have no U.S. debt maturities until 2013. In Canada, we have access to low cost CMHC-insured debt and we intend to continue financing our properties through this program. During Q2 2009, we refinanced \$11.0 million of our debt with at the weighted average interest rate of 5.03%, lower than the 6.1% average interest rate on maturing debt. In addition, we refinanced \$25.1 million of mortgages assumed on acquisition of three properties with five to ten-year CMHC-insured mortgages at a weighted average interest rate of 4.13%. In the first six months of 2009, \$63.8 million of the maturing debt has been refinanced at an average rate of approximately 3.70% compared to 5.23% rate on maturing debt, taking advantage of current low interest rates and improving the balance of our maturity schedule. Of the remaining \$74.6 million of 2009 maturities, 97% are already CMHC-insured and subsequent to

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

June 30, 2009, we refinanced \$55.0 million of this maturing debt (inclusive of top-up financing of \$4.1 million) with five-year mortgages bearing weighted average interest rate of 4.19% compared to 4.77% on the maturing debt. In addition, \$12.6 million of 2010 maturing debt was also refinanced at the weighted average interest rate of 4.36% for a five-year term. We anticipate renewing or replacing remaining maturing mortgages in due course.\*

The following charts provide the breakdown of our debt maturities in Canada and the United States:



### Convertible Debentures

At June 30, 2009 Chartwell had \$124.9 million of 6% convertible unsecured subordinated debentures and \$75 million of 5.9% convertible unsecured subordinated debentures outstanding. The 6% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of \$15.60 per unit and mature on December 1, 2011. The 5.9% Convertible Debentures are convertible at the holder's option into Trust Units at a conversion price of \$16.25 per unit and mature on May 1, 2012.

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



## Debt Leverage

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

The following table presents the calculation of the debt leverage ratio as at June 30, 2009, including the indebtedness of third parties guaranteed by Chartwell:

(\$000s)	June 30, 2009
Mortgages payable	1,677,739
Loans payable <sup>(1)</sup>	1,138
Guarantees	18,712
Revolving operating credit facility	28,000
<b>Total indebtedness excluding convertible debentures</b>	<b>1,725,589</b>
Convertible debentures (face value)	199,925
<b>Indebtedness</b>	<b>1,925,514</b>
Total assets	2,630,483
Accumulated depreciation and amortization <sup>(2)</sup>	453,369
<b>Gross book value ("GBV") of assets</b>	<b>3,083,852</b>
Less: Assets financed by deferred purchase consideration on acquisition properties	23,787
<b>Gross book value of assets (net of deferred consideration)</b>	<b>3,060,065</b>
Debt to GBV before convertible debentures	56.4%
Debt to GBV including convertible debentures	62.9%

(1) Included in accounts payable and accrued liabilities.

(2) Includes accumulated depreciation and amortization related to fully amortized intangible assets of \$137,118.

## Outstanding Units Data

The following table summarizes changes in the number of outstanding units in the first six months of 2009:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2008	96,369,598	2,571,990	2,865,472	101,807,060
Trust Units issued pursuant to Dividend Reinvestment Plan ("DRIP")	742,366	-	-	742,366
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	122,500	-	122,500
LTIP Units under subscription surrendered	-	(80,754)	-	(80,754)
Units transferred to treasury	-	-	-	-
Exchange of Class B Units of Master LP	754,758	-	(754,758)	-
<b>Balance June 30, 2009</b>	<b>97,866,722</b>	<b>2,613,736</b>	<b>2,110,714</b>	<b>102,591,172</b>

## Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q2 2009 and Q2 2008:

Cash Provided by (Used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	(13.1)	Cash flows from operating activities decreased primarily due to decrease in non-cash working capital items.
Financing activities	(13.1)	Cash flows from financing activities decreased by \$13.1 million in Q2 2009 compared to Q2 2008. This decrease is primarily attributable to a decrease in proceeds from mortgage financings which, net of repayments, decreased cash flow from financing activities by \$31.8 million. The above decrease in cash inflow from financing activities was offset by proceeds from our revolving credit facility of \$20.0 million.
Investing activities	19.1	Cash flow from investing activities increased by \$19.1 million due primarily to lower acquisition activity and capital expenditures.

## Distributions

As described in the “2009 Outlook” section of this MD&A, effective with the payment to Unitholders for August 2009, due on September 15, 2009, cash distributions will be reduced to \$0.54 per annum per unit from the current level of \$0.74 per annum per unit. 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 2008, 100% of Chartwell’s distributions were characterized as tax-deferred returns of capital (97.7% in 2007).

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

The following table summarizes distributions made in Q2 2009, 2009 YTD and the years ended December 31, 2008 and 2007:

(\$000s)	Q2 2009	2009 YTD	Years Ended December 31	
			2008	2007
Distributions declared	18,303	36,486	75,670	94,145
Distributions on Class B Units of Master LP	390	828	3,595	6,839
Distributions reinvested under DRIP	(1,766)	(3,519)	(9,230)	(4,317)
Distributions applied against LTIP installment loan receivable	(532)	(1,002)	(2,144)	(2,557)
Distributions paid or payable in cash	16,395	32,793	67,891	94,110

The following table summarizes cash distributions made by Chartwell in Q2 2009, 2009 YTD and the years ended December 31, 2008 and 2007 in relation to net loss and cash flows from operating activities:

(\$000s)	Q2 2009	2009 YTD	Years Ended December 31	
			2008	2007
Cash flows from operating activities	11,605	31,350	101,525	101,435
Loss before non-controlling interest	(41,978)	(56,218)	(103,390)	(72,347)
Cash distributions declared <sup>(1)</sup>	16,395	32,793	67,891	94,110
Excess (shortfall) of cash flows from operating activities over cash distributions paid	(4,790)	(1,443)	33,634	7,325
Excess (shortfall) of net loss before non-controlling interest over cash distributions paid	(58,373)	(89,011)	(171,281)	(166,457)

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

The following table provides the details of additional sources of cash available to Chartwell to fund its distributions to Unitholders in Q2 2009, 2009 YTD, and the years ended December 31, 2008 and 2007:

(\$000s)	Q2 2009	2009 YTD	Years Ended December 31	
			2008	2007
Principal portion of capital subsidy receivable from Health Authorities <sup>(1)</sup>	541	1,073	2,077	1,343
Income guarantees <sup>(1)</sup>	143	261	740	1,548

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

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 the first six months of 2009, changes in non-cash working capital reduced cash flows from operating activities by approximately \$11.9 million.

As described in the "2009 Outlook" section of this MD&A, effective with the payment to Unitholders for August 2009, due on September 15, 2009, cash distributions will be reduced to \$0.54 per annum per unit from the current level of \$0.74 per annum per unit. The declaration and payment of future distributions is subject to the discretion of the Board of Trustees.

## Liquidity and Capital Resources

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

Chartwell's principal source of liquidity is cash flow from operations. In order to provide for its operating and capital requirements, Chartwell raises funds through the capital markets, arranges mortgage debt financing and has arranged for a secured revolving operating facility ("Credit Facility").

Subsequent to June 30, 2009 we received the syndicate lenders' approval to renew 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 is reduced to \$75 million from the current \$90 million, as we do not anticipate having sufficient security in 2009 to support the \$90 million borrowing capacity. The Credit Facility is secured by first and second charges on 25 seniors housing communities. At June 30, 2009, the maximum available borrowing capacity under the Credit Facility was \$55.9 million, of which \$28.0 was drawn.

## Capital Expenditures

Chartwell classifies its capital expenditures under the following categories:

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

The following table summarizes additions to properties during Q2 2009 and 2009 YTD:

(\$000s)	Q2 2009	2009 YTD
Building expansions (internal growth)	4,830	9,109
Acquisition-related capital expenditures	464	1,038
Building improvements	2,321	4,105
Long-term replacement items	1,424	1,837
Furniture, fixtures and equipment	1,592	3,241
Other	246	425
Total	10,877	19,755

## Contractual Obligations and Guarantees

### Contractual Obligations

Chartwell's major contractual obligations as at June 30, 2009 were as follows:

(\$000s)	Total	Remainder of 2009	2010	2011	2012	2013	Thereafter
Mortgages payable	1,677,739	89,390	117,937	78,791	126,579	143,863	1,121,179
Convertible debentures	199,925	-	-	124,925	75,000	-	-
Loans payable	1,138	1,138	-	-	-	-	-
Revolving operating credit facility	28,000	28,000	-	-	-	-	-
Purchase obligations	44,846	19,615	13,215	7,740	4,276	-	-
Property operating leases	530,935	22,701	46,998	48,653	50,363	52,130	310,090
Other operating leases	9,804	1,066	2,048	1,973	2,008	1,329	1,380
Land leases	11,259	123	245	245	245	245	10,156
Total contractual obligations	2,503,646	162,033	180,443	262,327	258,471	197,567	1,442,805

Purchase obligations relate to the following:

- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately \$23.8 million payable generally on the earlier of the maturity date or the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Purchase obligations with respect to previously closed acquisitions up to the amount of approximately \$2.8 million payment which is contingent upon the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Commitments with respect to various construction contracts of approximately \$10.0 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately \$8.3 million.

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

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

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

### Other Contracts

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

- (i) For a period of 10 years, expiring February 5, 2016, payment to Melior of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell in the Province of Quebec provided such acquisitions are introduced, presented or referred by Melior. In addition, 2.0% of the purchase price of all acquisitions by Chartwell of properties in Canada, excluding the Province of Quebec, which are introduced, presented or referred by Melior.
- (ii) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of \$50,000 and 3% of total budgeted development costs for the related project.

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

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

## **Guarantees**

Chartwell provides a guarantee of the debt of one property that it sold to Spectrum in 2005 for which it receives an annual guarantee fee. The obligation outstanding on June 30, 2009 was \$17.9 million. The maximum amount of the guarantee is \$22.9 million. Spectrum has indemnified Chartwell in respect of this guarantee.

## **Transactions with Related Parties**

In the normal course of operations, Chartwell enters into transactions with various related parties. The following is a summary of significant related-party transactions for the three and six months ended June 30, 2009:

### **Spectrum**

During Q2 2009, Stephen A. Suske, who held a significant interest in Spectrum, resigned as CEO and Vice-Chair of Chartwell. In addition, during Q2 2009, Brent Binions, President and CEO 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 June 30, 2009, Richard Noonan, Chief Operating Officer of Chartwell owned a minority (less than 3%) interest in Spectrum.

Under the terms of the Development Agreement with Spectrum, Chartwell provides mezzanine financing to Spectrum's development projects and provides development and operating management services for a fee.

During Q2 2009 and 2009 YTD, Chartwell earned mezzanine loan interest of \$1.1 million and \$2.3 million respectively, from Spectrum.

During Q2 2009 and 2009 YTD, Chartwell earned fee and other income of \$0.3 million and \$1.2 million respectively, from Spectrum.

At June 30, 2009, principal amount of mezzanine loans receivable from Spectrum was \$37.0 million.

These loans are secured by second charges or pledges of Spectrum's interests in 24 seniors housing projects. These loans are cross-defaulted and Spectrum provided its corporate guarantee to Chartwell.

At June 30, 2009, other assets included \$6.2 million due from Spectrum. A portion of these amounts is past due. Past due amounts bear interest at 15% and Chartwell is working with Spectrum to collect these amounts.

At June 30, 2009, Spectrum was in breach of certain covenants under its agreements with Chartwell. Chartwell has not delivered a default notice and is currently working with Spectrum to have these breaches corrected.

In Q1 2009, Chartwell completed acquisitions of Spectrum's 50% interest in four seniors housing communities in British Columbia and Ontario. The purchase price for these assets (before closing costs) amounted to \$50.1 million and was settled by assumption of debt and working capital of \$36.4 million offset by mezzanine loans of \$5.7 million and offset by amounts due from Spectrum of approximately \$7.5 million with the remainder paid in cash to Spectrum.

In Q1 2009, Chartwell agreed to a limited waiver of its option to purchase additional seniors housing properties from Spectrum in order to facilitate potential sales of such properties by Spectrum to third parties. During Q2 2009, Spectrum sold eight properties and agreed to sell one additional property upon receipt of regulatory approvals to Seasons. Chartwell agreed to Seasons assuming mezzanine loans outstanding on seven of these properties.

Subsequent to June 30, 2009 we updated our evaluation of the security underlying each mezzanine loan, as well as the evaluation of Spectrum's corporate guarantee securing mezzanine loans due to Chartwell. As described in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair values is subjective and requires management to exercise a significant amount of judgment in making valuation assumptions including revenue and expense projections, capitalization and discount rates. In developing our valuation assumptions we held extensive consultations with valuation and other professionals. Based on our updated evaluation, we believe that under current market conditions we may not collect the full amount of our accounts receivable and mezzanine loans receivable due from Spectrum. Therefore, in Q2 2009 we recorded an impairment provision of \$6.2 million related to accounts receivable due from Spectrum and \$5.4 million related to mezzanine loans due from Spectrum.\*

---

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

## Changes to Significant Accounting Policies

Chartwell prepares its financial statements in Canadian dollars in accordance with Canadian generally accepted accounting principles (GAAP). Chartwell's significant accounting policies are summarized in note 1 to its annual consolidated Financial Statements.

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

### Changes Adopted in 2009

On January 1, 2009, Chartwell 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 Chartwell's consolidated 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 requires the Trust to take into account its own credit risk and the credit risk of the counterparty in determining the fair values of its financial assets and financial liabilities including derivative instruments. EIC-173 is applicable to the Trust for its first quarter of fiscal 2009 with retrospective application, if any, to the beginning of its current fiscal year. The adoption of EIC-173 did not have a significant impact on its consolidated financial statements.

#### *Ontario Long-Term Care Licensing:*

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

#### *International Financial Reporting Standards:*

- Canada's Accounting Standards Board recently confirmed its strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IFRS-IASB") over a transitional period to be completed by 2011. Chartwell will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011.
- Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: first, as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and secondly, standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The IASB currently has projects underway that are expected to result in new pronouncements that continue to evolve.
- Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP based clauses (including debt covenants), employee compensation plans and performance metrics. Accordingly, Chartwell's implementation plan will include measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst Management, the Board, the Audit Committee and Investors.



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

*Initial Assessment Phase:* This phase included the identification of significant differences between existing Canadian GAAP and IFRS-IASB at a high level as relevant to Chartwell. Based upon the current state of IFRS-IASB, this phase identified a modest number of topics that may possibly impact Chartwell's financial results and/or the necessary effort to make the transition to IFRS-IASB. Targeted training and communication activities, leveraging both internal and external resources, occurred during this phase. Chartwell has completed its 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 Chartwell to change over to IFRS-IASB;
- identification of the business impacts resulting from the identified accounting differences. Business impacts to be considered in Chartwell's Project Plan are: business units, control processes, information technology, stakeholders, regulatory matters and others as identified during this phase;
- assessment of IFRS 1 elections. This aspect of the project plan will follow the detailed assessment of the financial statement items and will be revisited periodically throughout the project;
- an initial training analysis and information systems impact analysis were also components of this phase.

The detailed assessment phase is now complete.

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

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

*Status of Convergence Plan:* Currently, design activities are underway and progressing according to plan.

*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 guideline 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 owed 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. The new standards are applicable to Chartwell prospectively to business combinations for which the acquisition date is on or January 1, 2011. Early adoption is permitted, if all three sections are applied at the same time. At present, Chartwell has no plan to adopt these sections earlier than the effective date.

## **Critical Accounting Estimates**

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

Chartwell's Annual MD&A sets out the nature of critical accounting estimates that may affect our financial statements. There have not been any significant changes in the nature of the critical accounting estimates that could affect Chartwell's financial statements in Q2 2009.

## **Controls and Procedures**

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

## **Evaluation of Disclosure Controls and Procedures 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 March 31, 2009. Based on this evaluation, we have concluded that Chartwell has 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 June 30, 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 of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. These statements generally can be identified by use of forward-looking words such as “may”, “will”, “expect”, “estimate”, “anticipate”, “believe”, “project”, “should” or “continue” or the negative thereof or other similar variations. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond Chartwell's control, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

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

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- possible benefits from the implementation of new purchasing programs, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods that offset any benefits from our purchasing power and is subject to the assumption that we can negotiate favourable terms with our vendors in the future;
- growth or lack thereof of G&A expenses, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase;

- 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 management fees due to Spectrum's reduced development activities; and
- our ability to renew maturing debt in due course.

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

## Risks and Uncertainties ♦

- (a) **Business Risks:** Chartwell is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.
- (b) **Taxation:** Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. For a description of the recent tax developments relating to the SIFT Rules, please refer to the "Significant Events – Taxation Related Matters" section of this MD&A.

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

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's units. In 2008, 100% of Chartwell's distributions were characterized

---

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

as return of capital (2007, 97.7%). Management believes it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

- (c) **Geographic Concentration:** Chartwell's business and operations are conducted in the United States and Canada, and within Canada primarily in Ontario and Quebec. At June 30, 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. – 35%; Canada – 65%; by province as a percentage of total suites as follows: Ontario – 33%; Quebec – 22%; and other Canadian provinces – 10%. The market value of these properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.
- (d) **Maintenance of Productive Capacity:** Chartwell is committed to keep its communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio, the annual capital maintenance requirements are approximately 2% of annual gross property revenues. In addition to recurring capital maintenance projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the capital maintenance requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in capital maintenance requirements of our communities could adversely impact cash available to Chartwell. The details of our actual capital asset spending for Q2 2009 can be found in the "Capital Expenditures" section of this MD&A.
- (e) **Acquisition and Development:** Chartwell's external growth prospects depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. Chartwell has significantly reduced its focus on external growth over the past year. If Chartwell is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.
- (f) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with Chartwell in seeking residents. The existence of competing owners, managers and developers and competition for Chartwell's residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect Chartwell's revenues and, consequently, cash available to Chartwell. The supply of long-term care suites in the regions in which Chartwell owns seniors housing may have an impact on the demand for retirement community suites.
- (g) **Government Regulation:** Healthcare in Canada is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect Chartwell. In addition, new regulatory standards and requirements are being considered in a number of provinces which may affect all types of seniors housing communities.

Currently, the long-term care beds in Ontario are operated pursuant to the Nursing Homes Act, the Charitable Institutions Act or Homes for the Aged and Rest Homes Act. On October 3, 2006, the Government of Ontario introduced Bill140, now known as the Long-Term Care Homes Act,

2007 (“LTC Act 2007”) which will consolidate the three pieces of legislation currently governing the LTC Communities. Aspects of the LTC Act 2007 which could affect Chartwell’s LTC Communities include: new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of replacement licenses to be based on a home’s structural classification that will be issued for a maximum of 25 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of community staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes. In addition, there will be a notice given three years before the end of the term of a license as to whether a new license will be issued. The LTC Act 2007 received third reading on June 4, 2007.

The LTC Act 2007 can not be fully proclaimed into force until regulations are drafted. It is anticipated that the regulations will be completed in the fall of 2009 or early 2010 at which time the LTC Act 2007 could be fully in force.

- (h) **Personnel Costs:** Chartwell competes with other healthcare providers with respect to attracting and retaining qualified personnel. Chartwell is also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.
- (i) **Labour Relations:** Chartwell, directly and indirectly, employs or supervises over 15,000 persons, of whom approximately 40% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that Chartwell will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on Chartwell’s business, operating results and financial condition. Most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

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

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

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

Over the past 18 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 Chartwell to obtain financing on favourable terms, or at all.

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

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

- (k) **Mezzanine Financing:** The mezzanine financing that has been provided by Chartwell to Spectrum pursuant to the Development Agreement, to Melior, 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, including Chartwell, the Trust could suffer a loss of management fees and of either interest or principal or both on the mezzanine loans it has advanced since lenders under the construction financing will rank ahead of Chartwell in any recovery from the assets of mezzanine loan borrowers. Further, Chartwell may not, at the applicable time, have the financial capacity to acquire all communities that it is entitled to acquire from mezzanine loan borrowers. In the event that Chartwell does not exercise its purchase option, the Trust would expect to have the principal and any unpaid interest relating to its mezzanine financing returned to it at which time Chartwell would cease to receive mezzanine loan interest income, and/or may cease to receive its management fees when mezzanine loan borrowers sell the property to a third-party. There is no guarantee that the level of development carried on by mezzanine loan borrowers will be maintained at current levels. Mezzanine loan borrowers' level of development activity may be constrained by their capital resources.
- (l) **U.S./Canadian Exchange Rate Fluctuations:** Chartwell has interests in seniors housing communities located in the United States. Chartwell will therefore be subject to foreign currency fluctuations which may, from time to time, have an impact upon its financial position and results. Chartwell may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging agreements, if any, would be sufficient to protect against currency rate losses that could adversely affect cash available to Chartwell.
- (m) **Environmental Liabilities:** Under various environmental laws and regulations, Chartwell, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations sometimes regardless of whether or not the Trust knew of or was responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs.

Notwithstanding the above, management of Chartwell is not aware of any material non-compliance, liability or other claim in connection with any of our owned properties and properties in respect of which mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that it believes would involve material expenditure by the Trust.

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

- (n) **Liability and Insurance:** The businesses, which are carried on, directly or indirectly, by Chartwell, entail an inherent risk of liability. Management expects that from time to time Chartwell may be subject to such lawsuits as a result of the nature of its businesses. The Trust maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.
- (o) **Joint Venture Interests:** Chartwell has entered into joint venture arrangements in respect of certain of its seniors housing operations. These joint venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing facilities including those risks described above. However, Chartwell relies, in part, on its joint venture partners to successfully manage and operate certain of its seniors housing operations, including those owned by certain of the joint ventures. Such reliance may include, but is not limited to: personnel; local, regional and/or industry expertise and licensing; historical performance; technical resources and information systems; financial strength and access to capital; economies of scale; and operations management. Therefore, Chartwell may be exposed to adverse developments, including a possible change in control, in the business and affairs of its joint venture partners which could have a significant impact on, or termination of, Chartwell's interests in its joint ventures and could affect the value of the joint ventures to Chartwell and/or cause Chartwell to incur additional costs if it were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint venture arrangements themselves, including: the risk that the other joint venturer may exercise buy-sell, put or other sale or purchase rights which could obligate Chartwell to sell its interest or buy the other joint venturer's interest at a price which may not be favourable to Chartwell or at a time which may not be advantageous to Chartwell, the effect of which could be materially adverse to Chartwell's financial position or resources.
- (p) **Variable Interest Entities:** In June 2003, 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.

Chartwell continuously evaluates the impact of AcG-15 on the accounting for its relationships with and interests in various entities. In order to complete its evaluation under AcG-15,



management is required, among other things, to make estimates of expected losses and/or residual returns, the probabilities of any such losses and/or residual returns relating to Spectrum, Melior, joint ventures, mezzanine financings and other relationships, and the impact of changing economic conditions. These estimates are based on historical and available market information. Imprecision in these estimates can affect the assessment of expected losses and/or residual returns.

At June 30, 2009, Chartwell holds, directly or indirectly, variable interests in 19 variable interest entities. Although these entities were identified as VIEs, it was determined that Chartwell is not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

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