Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month and six-month periods ended
June 30, 2009 and 2008
(Unaudited)

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

	June 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
Assets		
Properties (note 3)	$ 2,352,737	$ 2,362,898
Mezzanine loans receivable (note 4)	68,726	96,822
Limited life intangible assets (note 5)	67,458	87,936
Cash and cash equivalents	4,688	10,530
Other assets (note 6)	66,296	75,650
Capital funding receivable	44,928	46,001
Licenses	25,650	25,650
	$ 2,630,483	$ 2,705,487
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7(a))	$ 1,670,538	$ 1,668,445
Revolving operating credit facility (note 7(b))	28,000	8,000
Convertible debentures	186,764	184,634
Accounts payable and other liabilities (note 8)	126,622	128,431
Deferred consideration on business combinations	23,787	23,649
Distributions payable	6,333	6,285
Future income tax liabilities (note 16)	16,569	19,363
	2,058,613	2,038,807
Non-controlling interest (note 9)	9,987	16,446
Unitholders' equity	561,883	650,234
Commitments and contingencies (note 14)		
	$ 2,630,483	$ 2,705,487

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee

"Sidney Robinson" Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended June 30, 2009	Three-month periods ended June 30, 2008	Six-month periods ended June 30, 2009	Six-month periods ended June 30, 2008
Revenue:				
Resident	$ 189,163	$ 167,920	$ 382,360	$ 334,307
Management and other fees (note 12)	1,557	2,257	3,645	4,596
Mezzanine loan interest (notes 4 and 12)	2,760	2,418	5,331	5,446
Bank interest and other	705	677	1,542	1,939
Equity income from variable interest entities	–	992	–	1,847
Below-market lease amortization	305	434	742	912
	194,490	174,698	393,620	349,047
Expenses:				
Direct operating	129,657	115,155	263,084	230,376
General, administrative and trust	5,822	5,302	11,642	10,502
	135,479	120,457	274,726	240,878
	59,011	54,241	118,894	108,169
Interest expense	27,216	25,841	55,528	51,193
Property lease expense	13,299	11,339	27,454	22,760
	40,515	37,180	82,982	73,953
	18,496	17,061	35,912	34,216
Realized foreign exchange loss (gain)	185	–	(4,802)	–
Unrealized loss (gain) on derivative financial instruments and unrealized foreign exchange loss (gain)	4,124	559	7,095	(2,290)
Depreciation of properties	19,427	17,042	39,147	33,510
Amortization of limited life intangible assets	10,671	13,149	22,865	27,743
Provision for impairment of mezzanine loans and accounts receivable (note 4)	30,684	–	30,684	–
Loss on sale of assets	–	102	–	94
	65,091	30,852	94,989	59,057
Loss before income taxes	(46,595)	(13,791)	(59,077)	(24,841)
Income taxes (recovery) (note 16):				
Current	76	(133)	82	866
Future	(4,693)	–	(2,941)	237
	(4,617)	(133)	(2,859)	1,103
Loss before non-controlling interest	(41,978)	(13,658)	(56,218)	(25,944)
Non-controlling interest (note 9)	864	786	1,159	1,551
Loss for the period	(41,114)	(12,872)	(55,059)	(24,393)
Other comprehensive income/(loss):				
Unrealized foreign currency gain (loss) on the translation of self-sustaining foreign operations	(11,594)	(1,031)	(6,257)	5,097
Net change in fair value of derivatives designated as cash flow hedges (net of future income taxes of $147; 2008 - $120) (note 17)	358	182	358	(367)
Non-controlling interest	232	64	122	(283)
	(11,004)	(785)	(5,777)	4,447
Comprehensive income (loss)	$ (52,118)	$ (13,657)	$ (60,836)	$ 19,946
Loss per Unit:				
Basic and diluted (note 11)	$ (0.421)	$ (0.139)	$ (0.565)	$ (0.265)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Six-month period ended June 30, 2009	Trust Units issued, net (note 10)	LTIP Units under subscription (note 10)	LTIP instalment loan receivable (note 10)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components	Total
Unitholders' equity, January 1, 2009	$ 1,137,031	$ 34,099	$ (26,485)	$ (200,116)	$ 3,415	$ (312,783)	$ 15,073	$ 650,234
Loss for the period	–	–	–	(55,059)	–	–	–	(55,059)
Other comprehensive income	–	–	–	–	(5,777)	–	–	(5,777)
Distributions to unitholders	–	–	–	–	–	(36,486)	–	(36,486)
Issuance of Trust Units issued under the Distribution Reinvestment Program ("DRIP")	3,519	–	–	–	–	–	–	3,519
Units issued under the Deferred Trust Unit plan	–	–	–	–	–	–	433	433
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	4,332	–	–	–	–	–	–	4,332
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of Trust Units transferred to Treasury	–	(20)	233	–	–	–	(11)	202
Interest on instalment loan receivable	–	–	(517)	–	–	–	–	(517)
Distributions applied against instalment loan receivable	–	–	1,002	–	–	–	–	1,002
Unitholders' equity, June 30, 2009	$ 1,144,882	$ 34,079	$ (25,767)	$ (255,175)	$ (2,362)	$ (349,269)	$ 15,495	$ 561,883

Six-month period ended June 30, 2008	Trust Units issued, net (note 10)	LTIP Units under subscription (note 10)	LTIP instalment loan receivable (note 10)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components	Total
Unitholders' equity, January 1, 2008	$ 1,102,573	$ 31,894	$ (25,633)	$ (100,644)	$ (28,351)	$ (237,113)	$ 14,878	$ 757,604
Loss for the period	–	–	–	(24,393)	–	–	–	(24,393)
Other comprehensive loss	–	–	–	–	4,447	–	–	4,447
Distributions to unitholders	–	–	–	–	–	(39,764)	–	(39,764)
Trust Units issued under the DRIP	5,434	–	–	–	–	–	–	5,434
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	22,471	–	–	–	–	–	–	22,471
Trust Units issued under the LTIP, net of Units transferred to Treasury	–	6,296	(5,829)	–	–	–	–	467
Disposition of LTIP Units surrendered	932	(1,045)	927	–	–	–	(190)	624
Interest on instalment loan receivable	–	–	(542)	–	–	–	–	(542)
Distributions applied against instalment loan receivable	–	–	1,136	–	–	–	–	1,136
Unitholders' equity, June 30, 2008	$ 1,131,410	$ 37,145	$ (29,941)	$ (125,037)	$ (23,904)	$ (276,877)	$ 14,688	$ 727,484

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended June 30, 2009	Three-month periods ended June 30, 2008	Six-month periods ended June 30, 2009	Six-month periods ended June 30, 2008
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (41,114)	$ (12,872)	$ (55,059)	$ (24,393)
Items not affecting cash:				
Depreciation and amortization	30,098	30,191	62,012	61,253
Loss on sale of assets	–	102	–	94
Below-market lease amortization	(305)	(434)	(742)	(912)
Adjustment to record lease expense on a straight-line basis over the lease term	1,659	1,593	3,426	3,245
Non-cash LTIP compensation expense	122	247	290	367
Income from long-term investments	–	(16)	–	(41)
Unrealized/realized loss (gain) on derivative financial instruments and foreign exchange loss (gain)	4,309	559	2,293	(2,290)
Non-controlling interest	(864)	(786)	(1,159)	(1,551)
Amortization of financing expenses	1,599	1,205	2,926	2,412
Accretion adjustment to convertible debenture liability	747	685	1,478	1,356
Amortization of debt discounts	251	345	535	695
Amortization of mezzanine placement fees	(529)	300	(834)	15
Amortization of legal costs integral to mezzanine lending activities	139	262	310	412
Provision for impairment of mezzanine loans and accounts receivable	30,684	–	30,684	–
Future income taxes	(4,693)	–	(2,941)	237
Change in non-cash operating items (note 15)	(10,498)	3,315	(11,869)	8,881
	11,605	24,696	31,350	49,780
Financing activities:				
Proceeds from mortgage financing	2,581	30,720	17,539	49,548
Proceeds from (repayment of) loans payable and revolving operating credit facility	20,000	(119)	20,000	(119)
Mortgage principal repayments	(10,787)	(7,093)	(18,600)	(14,031)
Financing costs	(1,668)	(949)	(3,829)	(2,059)
Redemption of non-voting preferred interests of CSH Master Care LLC	–	–	–	(971)
Disposition of Treasury Units	–	186	–	741
Distributions paid	(16,233)	(15,064)	(32,367)	(36,626)
Distributions paid to non-controlling interest unitholders	(390)	(1,153)	(875)	(2,819)
Deposits received under LTIP and repayment of LTIP instalment loan receivable	–	100	11	100
	(6,497)	6,628	(18,121)	(6,236)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2009	2008	2009	2008
Investing activities:				
Acquisition of assets, net of debt assumed and units issued (note 2)	–	(3,600)	(1,766)	(27,277)
Payment of deferred consideration on business combinations	–	(2,667)	–	(11,354)
Additions to properties	(10,877)	(20,120)	(19,755)	(35,078)
Amounts received under income guarantees	143	326	261	589
Proceeds on sale of assets	–	–	–	50
Mezzanine loan advances	–	(5,507)	–	(5,507)
Restricted cash and deposits in escrow	(2,006)	(287)	1,676	(2,376)
Proceeds from capital funding receivables	541	524	1,073	1,025
	(12,199)	(31,331)	(18,511)	(79,928)
Foreign exchange gain on U.S. dollar-denominated cash	(1,318)	595	(560)	1,142
Increase (decrease) in cash and cash equivalents	(8,409)	588	(5,842)	(35,242)
Cash and cash equivalents, beginning of period	13,097	36,698	10,530	72,528
Cash and cash equivalents, end of period	$ 4,688	$ 37,286	$ 4,688	$ 37,286

Supplemental cash flow information (note 15)

See accompanying notes to consolidated financial statements.

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

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and are consistent with those policies and methods of application as disclosed in the annual audited consolidated financial statements prepared as at and for the year ended December 31, 2008, except as disclosed below.

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to annual financial statements and should be read in conjunction with the annual audited consolidated financial statements and the accompanying notes included in the 2008 Annual Report.

(b) Impact of new accounting standards:

(i) Goodwill and intangible assets:

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

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

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1. Significant accounting policies (continued):

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

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 was 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.

(c) Future accounting changes:

(i) Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued three new standards:

Business Combinations, Section 1582:

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

1. Significant accounting policies (continued):

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, consolidated net income and 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 after January 1, 2011. Early adoption is permitted, if all three sections are applied at the same time. At present, Chartwell does not expect to adopt these sections earlier than the effective date.

(ii) Harmonizing of Canadian and international standards:

In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required in Canada for publicly accountable profit-oriented enterprises for interim and annual reporting periods beginning on or after January 1, 2011. The Trust's first annual IFRS consolidated financial statements will be for the year ending December 31, 2011 and will include the comparative period for the year ending December 31, 2010. Starting with the first quarter of 2011, the Trust will provide unaudited consolidated financial statements in accordance with IFRS, including comparative figures for 2010.

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

1. Significant accounting policies (continued):

(d) Deferred unit plan:

On May 21, 2009, unitholders of Chartwell approved a deferred unit plan for its independent trustees. The plan is described in note 10(c). Deferred Trust Units granted to eligible trustees are considered to be in respect of past performance and are recognized in compensation expense when granted. Compensation costs is measured based on the fair market value of the Trust's units on the date of the grant of the Deferred Trust Units. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust units, as opposed to Deferred Trust Units, had been issued on the date of the grant. No additional compensation cost is recorded for these additional Deferred Trust Units issued. When applicable, Deferred Trust Units will be converted to Trust units.

2. Acquisitions:

(a) Acquisitions during the six-month period ended June 30, 2009:

Effective February 1, 2009, Chartwell acquired a 50% ownership interest in two seniors housing communities in British Columbia, and effective March 1, 2009, Chartwell acquired a 50% ownership interest in two seniors housing communities in Ontario; in both cases the vendor was Spectrum Seniors Housing Development LP ("Spectrum"). The purchase price, before closing costs, amounted to $50,078 and was satisfied by the assumption of loans of $35,750, offset by the discharge of mezzanine loans receivable of $5,676, settlement of amounts due from Spectrum of $7,493, and assumption of other liabilities of $683 with the remaining $476 paid in cash.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

2. Acquisitions (continued):

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

	Six-months ended June 30, 2009
	Spectrum
Date of acquisition	February 1, 2009 and March 1, 2009
Segment	Canadian retirement operations
Location	London, Ontario, Pickering, Ontario, Kelowna, B.C., North Vancouver, B.C. (Four retirement communities - 455 suites)
Properties	$ 47,206
Limited life intangible assets	4,668
Mortgages assumed	(35,750)
Below-market resident contracts	(506)
Other liabilities	(683)
Net assets acquired	$ 14,935
Discharge of mezzanine loans receivable	$ 5,676
Settlement of outstanding receivables from Spectrum	7,493
Cash consideration	476
Acquisition costs	1,290
Total consideration	$ 14,935

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

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

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

2. Acquisitions (continued):

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

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

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

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

3. Properties:

			June 30, 2009			December 31, 2008
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 239,601	$ –	$ 239,601	$ 238,123	$ –	$ 238,123
Buildings	2,179,664	184,176	1,995,488	2,167,727	156,418	2,011,309
Furniture, fixtures and equipment	89,139	51,420	37,719	89,320	45,923	43,397
	2,508,404	235,596	2,272,808	2,495,170	202,341	2,292,829
Properties under development	59,495	–	59,495	49,425	–	49,425
Land held for development	20,434	–	20,434	20,644	–	20,644
	$ 2,588,333	$ 235,596	$ 2,352,737	$ 2,565,239	$ 202,341	$ 2,362,898

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

3. Properties (continued):

Included in properties as at June 30, 2009 are assets under capital leases with a cost of $147,537 (December 31, 2008 - $154,439) and accumulated depreciation of $9,592 (December 31, 2008 - $7,892).

Included in properties under development is interest of $2,451 (December 31, 2008 - $1,854) and incremental operating costs of $1,019 (December 31, 2008 - $422) capitalized to date as at June 30, 2009.

4. Mezzanine loans receivable:

The following table summarizes mezzanine loans receivable from the entity or entities owned by Spectrum, Le Groupe Melior ("Melior"), Seasons Retirement Communities LP ("Seasons") and others:

				June 30, 2009	December 31, 2008
	Contractual interest rate	Principal amount	Lending expenses/ (deferred placement fees), net	Net balance	Net balance
Spectrum	10% - 14%	$ 36,960	$ 148	$ 37,108	$ 51,094
Melior	10% - 14%	40,545	(3,502)	37,043	36,354
Seasons	10% - 14%	8,214	(729)	7,485	–
Others	10% - 12%	16,695	(230)	16,465	15,780
		$ 102,414	$ (4,313)	98,101	103,228
Provision for impairment				(29,375)	(6,406)
				$ 68,726	$ 96,822

4. Mezzanine loans receivable (continued):

(a) Spectrum:

In accordance with the terms of the Development Agreement, the interest rate payable on mezzanine loans is determined at the time of the loan commitment and shall be equal to the greater of the yield on five-year Government of Canada bonds plus 5% and Chartwell's annualized cash contribution yield for the most recent quarter subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum and is payable monthly. The loans are secured by second charges or pledges of Spectrum's interest over 24 (December 31, 2008 - 34) seniors housing development properties. In addition, the loans are cross defaulted.

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

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

In first quarter of 2009, Chartwell agreed to a limited waiver of its option to purchase development properties from Spectrum in order to facilitate potential sales of such properties by Spectrum to third parties.

On June 1, 2009, Spectrum disposed of its interest in eight of its properties and agreed to dispose of one additional property upon receipt of the required regulatory approval to Seasons, a partnership controlled by a subsidiary of the Labourers Pension of Central and Eastern Canada. As part of this transaction, Chartwell agreed to Seasons assuming mezzanine loans on six of the acquired properties totalling $8,214 (note 4(c)).

4. Mezzanine loans receivable (continued):

(b) Melior and other joint venture partners:

Chartwell has advanced 24 (December 31, 2008 - 24) mezzanine loans to Melior and six other joint venture partners of Spectrum (the "Borrowers"). These loans are secured by second charges or pledges of the Borrowers' interest over 22 (December 31, 2008 - 22) seniors housing development projects.

Chartwell has the first right to purchase the Borrowers' interest in these projects at fair market value upon properties reaching a stabilized occupancy. In addition, the Borrowers of mezzanine loans on 11 properties (December 31, 2008 - 11) can obligate Chartwell to acquire their interests in the projects at the appraised value, subject to certain conditions being satisfied.

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

(c) Seasons:

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

These loans are secured by second charges over six (December 31, 2008 - nil) seniors housing development projects.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

4. Mezzanine loans receivable (continued):

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

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

	Spectrum	Melior	Seasons	Other joint venture partners	Total
2009	$ 6,555	$ 16,193	$ 2,383	$ –	$ 25,131
2010	11,624	17,346	2,380	6,932	38,282
2011	11,599	3,252	1,575	6,462	22,888
2012	7,182	3,754	–	1,427	12,363
2013	–	–	1,876	1,874	3,750
	$ 36,960	$ 40,545	$ 8,214	$ 16,695	$ 102,414

In connection with the acquisition of Spectrum's 50% interest in four seniors housing communities (note 2), Chartwell agreed to extend the maturity date of two mezzanine loans to Spectrum's joint venture partner totalling $2,438 to August 31, 2010.

Chartwell updated its evaluation of the underlying project security and corporate guarantees of the mezzanine loan borrowers. Based on this updated evaluation, Chartwell believes that under current market conditions it may not collect the full amount of outstanding accounts receivable and mezzanine loans from Spectrum and Melior and their joint venture partners. Accordingly, in the three-month period ended June 30, 2009, Chartwell recorded an impairment provision of $30,684, of which $7,715 relates to accounts receivable and $22,969 relates to mezzanine loans.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

5. Limited life intangible assets:

			June 30, 2009			December 31, 2008
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 11,694	$ 5,343	$ 6,351	$ 11,976	$ 4,483	$ 7,493
Resident contracts	93,065	64,003	29,062	143,877	99,231	44,646
Other intangibles	43,354	11,309	32,045	45,323	9,526	35,797
	$ 148,113	$ 80,655	$ 67,458	$ 201,176	$ 113,240	$ 87,936

During the six-month period ended June 30, 2009, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and other intangibles that were fully amortized by $51,629 (December 31, 2008 - $46,931).

6. Other assets:

	June 30, 2009	December 31, 2008
Accounts receivable	$ 23,804	$ 22,548
Due from Spectrum, net of provision for impairment	–	9,977
Due from ING	324	501
Prepaid expenses and deposits	14,376	11,760
Deposits in escrow	19,686	22,275
Other	8,106	8,589
	$ 66,296	$ 75,650

Chartwell updated its evaluation of the underlying project security and corporate guarantees of the mezzanine loan borrowers. Based on this updated evaluation, Chartwell believes that under current market conditions it may not collect the full amount of outstanding accounts receivable and mezzanine loans from Spectrum and Melior and their joint venture partners. Accordingly, in the three-month period ended June 30, 2009, Chartwell recorded an impairment provision of $30,684, of which $7,715 relates to accounts receivable and $22,969 relates to mezzanine loans.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

7. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are repayable as follows as at June 30, 2009:

	Regular principal payments	Principal due on maturity	Total
Remainder of 2009	$ 14,765	$ 74,625	$ 89,390
2010	36,771	81,166	117,937
2011	29,680	49,111	78,791
2012	30,708	95,871	126,579
2013	30,670	113,193	143,863
2014	26,396	87,123	113,519
2015	25,563	90,560	116,123
2016	21,889	190,098	211,987
2017	17,880	281,708	299,588
2018	15,559	32,625	48,184
2019 - 2023	67,328	139,038	206,366
Thereafter	81,003	44,409	125,412
	$ 398,212	$ 1,279,527	1,677,739
Mark-to-market adjustment arising on acquisition			14,317
Financing costs			(21,518)
			$ 1,670,538

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

7. Secured debt (continued):

	June 30, 2009	December 31, 2008
Mortgages at fixed rates:		
Mortgages	$1,634,652	$1,644,135
Interest rates	3.06% - 10.00%	4.11% - 8.75%
Weighted average interest rate	5.57%	5.69%
Mortgages at variable rates:		
Mortgages	$43,087	$28,934
Interest rates	Bankers' acceptance + 0.95% to prime plus 1.75%	Bankers' acceptance + 0.95% to prime plus 3.00%
Weighted average interest rate	2.44%	3.23%
Blended weighted average rate of maturing debt	5.49%	5.65%

During the three-month and six-month periods ended June 30, 2009, interest expense on mortgages payable amounted to $22,531 and $46,296 (three-month and six-month periods ended June 30, 2008 - $21,599 and $42,664), respectively.

(b) Revolving operating credit facility:

Chartwell has received approval to renew its $75,000 secured revolving operating credit facility (the "Credit Facility"). At June 30, 2009, the maximum available borrowing capacity under the Credit Facility was $55,929 (December 31 2008 - $62,153) based on the security provided. The approved Credit Facility matures on June 27, 2010. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 2.75% or the applicable bankers' acceptance rate plus 4.00%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The Credit Facility is secured by first and second charges on specific properties. As at June 30, 2009, $28,000 (December 31, 2008 - $8,000) was outstanding under the Credit Facility.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

8. Accounts payable and other liabilities:

	June 30, 2009	December 31, 2008
Accounts payable and accrued liabilities	$ 108,577	$ 108,583
Income taxes payable	3,025	3,003
Below-market resident contracts, net of accumulated amortization of $2,472 (December 31, 2008 - $2,450)	1,767	2,101
Resident deposits	4,279	4,711
Deferred revenue	8,097	10,033
Loan payable	877	–
	$ 126,622	$ 128,431

9. Non-controlling interest:

The details of non-controlling interest are as follows:

	June 30, 2009	December 31, 2008
Balance, beginning of period	$ 16,446	$ 47,005
Non-controlling interest's share of loss for the period	(1,159)	(3,918)
Distributions on Class B Units of Master LP	(828)	(3,595)
Exchange of Class B Units of Master LP for Trust Units and redemptions	(4,350)	(24,296)
Other comprehensive income (loss)	(122)	1,250
Balance, end of period	$ 9,987	$ 16,446

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

10. Unitholders' equity:

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

	Number of voting units	Amount
Balance, January 1, 2008	91,625,701	$ 1,102,573
Trust Units issued under DRIP	1,265,991	9,230
Trust Units issued on exchange of Class B Units of Master LP	3,407,906	24,296
Disposition of LTIP Units surrendered	70,000	932
Balance, January 1, 2009	96,369,598	1,137,031
Trust Units issued under DRIP	742,366	3,519
Trust Units issued on exchange of Class B Units of Master LP	754,758	4,332
Balance, June 30, 2009	97,866,722	$ 1,144,882

(b) The following table summarizes LTIP Units issued under the LTIP:

	Number of Units under subscription	Amount
Balance, January 1, 2008	2,336,323	$ 31,894
Sale of Trust Units	(15,000)	(150)
Issuance of Trust Units	656,667	5,929
Compensation expense	–	752
Units transferred to Treasury	(406,000)	(4,326)
Balance, January 1, 2009	2,571,990	34,099
Issuance of Trust Units	122,500	614
Compensation expense	–	290
Units transferred to Treasury	(80,754)	(924)
Balance, June 30, 2009	2,613,736	$ 34,079

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

10. Unitholders' equity (continued):

(c) Deferred unit plan:

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

Trustees elected to receive 83,637 Deferred Trust Units in consideration for Trustee fees amounting to $411. In addition, 4,590 units amounting to $22 were issued related to distributions on units granted under the plan.

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

	Units outstanding	Amount
Granted since inception	83,637	$ 411
Reinvested distributions	4,590	22
Balance, June 30, 2009	88,227	$ 433

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

11. Loss per Unit calculation:

	Three-month periods ended June 30		Six-month periods ended June 30,	
	2009	2008	2009	2008
Numerator:				
Loss for the period	$ (41,114)	$ (12,872)	$ (55,059)	$ (24,393)
Denominator:				
Denominator for basic earnings per Unit - weighted average Units	97,709,942	92,374,769	97,381,546	92,087,343
Denominator for diluted earnings per Unit - weighted average Units	97,709,942	92,374,769	97,381,546	92,087,343
Loss per Unit:				
Basic and diluted	$ (0.421)	$ (0.139)	$ (0.565)	$ (0.265)

Excluded from the calculation of diluted weighted average units are the following weighted average Units:

	Three-month periods ended June 30		Six-month periods ended June 30,	
	2009	2008	2009	2008
LTIP Units under subscription	2,593,473	2,817,001	2,605,166	2,569,368
Class B Units of Master LP	2,110,714	6,027,491	2,247,992	6,137,652
Assumed conversion of convertible debentures	12,623,398	12,623,398	12,623,398	12,623,398

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

12. Related party and other significant transactions and balances:

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

(a) Spectrum:

	Three-month periods ended June 30, 2009	Three-month periods ended June 30, 2008	Six-month periods ended June 30, 2009	Six-month periods ended June 30, 2008
Contractual mezzanine loan interest (note 4)	$ 1,103	$ 1,367	$ 2,399	$ 2,693
Effective interest rate adjustment	(49)	(88)	(105)	(135)
Development fees	(213)	403	164	814
Operations management fees	466	478	1,021	982
Other fees	17	67	34	84
Interest on overdue receivables	82	13	235	30

(b) Melior:

Other assets as at June 30, 2009 included $1,038, net of provision for impairment, (December 31, 2008 - $794) due from Melior. Subsequent to June 30, 2009, $36 of this balance was collected.

At June 30, 2009, Chartwell had accounts payable due to Melior of nil (December 31, 2008 - $57) relating to management fees and other fees.

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

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

13. Segmented information:

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

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

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

13. Segmented information (continued):

	Three-month period ended June 30, 2009				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 80,378	$ 36,400	$ 1,557	$ 72,385	$ 190,720
Below-market lease amortization	198	–	–	107	305
Direct operating expense	(51,503)	(31,653)	(1,025)	(45,476)	(129,657)
Income before the undernoted	29,073	4,747	532	27,016	61,368
Interest expense	(9,446)	(2,297)	–	(11,414)	(23,157)
Property lease expense	(20)	(51)	–	(13,228)	(13,299)
Income before the following	19,607	2,399	532	2,374	24,912
Depreciation and amortization	(14,991)	(2,127)	(461)	(12,519)	(30,098)
	$ 4,616	$ 272	$ 71	$ (10,145)	(5,186)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					3,465
General, administrative and trust expenses					(5,822)
Interest on convertible debentures					(4,059)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain					(4,309)
Provision for impairment on mezzanine loans and accounts receivable					(30,684)
Non-controlling interest					864
Current income tax expense					(76)
Future income tax expense					4,693
Loss for the period					$ (41,114)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets	$ –	$ –	$ –	$ –	$ –
Capital improvements	5,602	786	–	4,489	10,877

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

13. Segmented information (continued):

	Three-month period ended June 30, 2008				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 70,853	$ 34,074	$ 2,257	$ 62,993	$ 170,177
Equity income from variable interest entities	992	–	–	–	992
Below-market lease amortization	77	–	–	357	434
Direct operating expense	(44,914)	(29,392)	(1,027)	(39,822)	(115,155)
Income before the undernoted	27,008	4,682	1,230	23,528	56,448
Interest expense	(9,521)	(2,438)	–	(9,919)	(21,878)
Property lease expense	(40)	(52)	–	(11,247)	(11,339)
Income before the following	17,447	2,192	1,230	2,362	23,231
Depreciation and amortization	(14,518)	(2,778)	(536)	(12,359)	(30,191)
Loss on sale of assets	(102)	–	–	–	(102)
	$ 2,827	$ (586)	$ 694	$ (9,997)	(7,062)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					3,095
General, administrative and trust expenses					(5,302)
Interest on convertible debentures					(3,963)
Unrealized and realized loss on derivative financial instruments and unrealized and realized foreign exchange loss					(559)
Non-controlling interest					786
Current income tax recovery					133
Loss for the period					$ (12,872)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 12,067	$ –	$ –	$ –	$ 12,067
Capital improvements	15,111	2,270	148	2,591	20,120

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

13. Segmented information (continued):

	Six-month period ended June 30, 2009				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 159,862	$ 71,453	$ 3,645	$ 151,045	$ 386,005
Below-market lease amortization	320	–	–	422	742
Direct operating expense	(104,378)	(62,580)	(2,050)	(94,076)	(263,084)
Income before the undernoted	55,804	8,873	1,595	57,391	123,663
Interest expense	(19,417)	(4,637)	–	(23,382)	(47,436)
Property lease expense	(74)	(102)	–	(27,278)	(27,454)
Income before the following	36,313	4,134	1,595	6,731	48,773
Depreciation and amortization	(29,941)	(4,349)	(934)	(26,788)	(62,012)
	$ 6,372	$ (215)	$ 661	$ (20,057)	(13,239)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					6,873
General, administrative and trust expenses					(11,642)
Interest on convertible debentures					(8,092)
Unrealized and realized loss on derivative financial instruments and unrealized and realized foreign exchange loss					(2,293)
Provision for impairment on mezzanine loans and accounts receivable					(30,684)
Non-controlling interest					1,159
Current income taxes					(82)
Future income taxes					2,941
Loss for the period					$ (55,059)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 51,874	$ –	$ –	$ –	$ 51,874
Capital improvements	10,363	1,730	–	7,662	19,755

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

13. Segmented information (continued):

	Six-month period ended June 30, 2008				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 141,341	$ 67,545	$ 4,596	$ 125,421	$ 338,903
Equity income from variable interest entities	1,847	–	–	–	1,847
Below-market lease amortization	155	–	–	757	912
Direct operating expense	(90,560)	(59,032)	(2,050)	(78,734)	(230,376)
Income before the undernoted	52,783	8,513	2,546	47,444	111,286
Interest expense	(18,822)	(4,881)	–	(19,587)	(43,290)
Property lease expense	(61)	(96)	–	(22,603)	(22,760)
Income before the following	33,900	3,536	2,546	5,254	45,236
Depreciation and amortization	(29,199)	(4,933)	(1,032)	(26,089)	(61,253)
Loss on sale of assets	(94)	–	–	–	(94)
	$ 4,607	$ (1,397)	$ 1,514	$ (20,835)	(16,111)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					7,385
General, administrative and trust expenses					(10,502)
Interest on convertible debentures					(7,903)
Unrealized and realized loss on derivative financial instruments and unrealized and realized foreign exchange gain					2,290
Non-controlling interest					1,551
Current income tax recovery					(866)
Future income taxes					(237)
Loss for the period					$ (24,393)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 40,901	$ –	$ –	$ –	$ 40,901
Capital improvements	24,213	6,129	496	4,240	35,078

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

13. Segmented information (continued):

	June 30, 2009					
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,371,880	$ 295,216	$ 3,839	$ 885,810	$ 73,738	$ 2,630,483
Total liabilities	984,277	185,163	–	681,386	207,787	2,058,613

	December 31, 2008					
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,331,094	$ 298,772	$ 13,937	$ 953,830	$ 107,854	$ 2,705,487
Total liabilities	922,332	190,187	–	717,956	208,332	2,038,807

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

14. Commitments and contingencies:

(a) Operating leases of seniors housing properties:

Chartwell has a leasehold interest in 25 properties through the acquisition of a 49% interest in HB Realty and a leasehold interest in two properties acquired with the Merrill Gardens Portfolio. The master lease for 25 properties expires on February 1, 2019 and December 1, 2019 and contains two five-year renewal options. Annual lease payments for Chartwell's share amount to $43,544 (U.S. $37,441) subject to annual increases as per the Master Lease Agreement. The leases on two other properties expire on December 1, 2017 with a 10-year option to renew or an option to buy these properties. The annual lease payments on these properties amount to $1,857 (U.S. $1,597). Chartwell's share of the aggregate amount of all future minimum lease payments under the leases are as follows for the years ending December 31:

	U.S. $	Cdn. $
Remainder of 2009	$ 19,519	$ 22,701
2010	40,411	46,998
2011	41,834	48,653
2012	43,304	50,363
2013	44,824	52,130
Thereafter	266,630	310,090
	$ 456,522	$ 530,935

(b) Other leases:

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

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

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14. Commitments and contingencies (continued):

In addition, Chartwell has operating leases on office space in Canada that expire on various dates up to May 31, 2015. Annual payments in aggregate on these leases vary from $974 to $1,082 over the term of the lease. Further, Chartwell has an operating lease in the United States that expires on April 30, 2013. Annual payments on this lease vary from U.S. $829 to U.S. $889 over the term of the lease. Chartwell's share is 49% of the amounts due under the lease.

(c) Purchase obligations:

Chartwell has entered into various construction contracts related to various internal growth projects. As at June 30, 2009, the remaining commitments under these contracts amounted to approximately $9,991.

Chartwell has entered into fixed-price natural gas contracts with a third party natural gas supplier for $2,248 to provide gas for its own use at its properties. Chartwell has also entered into fixed-price electricity and natural gas contracts with local utilities in the United States for $6,024 (U.S. $5,180) to provide electricity for its own use at its properties. These contracts vary in length ranging from one to three years. The gas contracts are recorded at fair value and the impact of EIC-173 on the valuation is not material (note 1(b)(ii)).

(d) Contingent consideration on acquisitions:

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

At June 30, 2009, contingent consideration on acquisitions of properties amounted to $2,795 (December 31, 2008 - $2,795).

(e) Mezzanine loans:

As at June 30, 2009, borrowers of mezzanine loans on 11 properties (December 31, 2008 - 11) can obligate Chartwell to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied (note 4(b)).

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14. Commitments and contingencies (continued):

(f) Other contracts:

(i) Properties Chartwell owns in the United States are managed by Horizon Bay Chartwell LLC ("HBC") and HBC II Manager LLC ("HBC II"). The properties' management agreements are for a term of 20 years and call for payment of management fees between 4.0% and 5.5% of gross revenue plus an incentive fee based on certain operating targets. Through Chartwell's acquisition of HB Realty, Chartwell owns a 74.5% effective interest in HBC. Chartwell also owns a 75% interest in HBC II.

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

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

(b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50 and 3.0% of total budgeted development costs for the related project.

(g) Litigation and claims:

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

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

15. Supplemental cash flow information:

The change in non-cash operating items for the three-month and six-month periods ended June 30 are as follows:

	Three-month periods ended June 30, 2009	Three-month periods ended June 30, 2008	Six-month periods ended June 30, 2009	Six-month periods ended June 30, 2008
Change in non-cash operating items:				
Accounts receivable	$ (234)	$ 8,787	$ (1,516)	$ 3,802
Deposits on acquisitions	–	111	–	111
Due from Spectrum	(3,416)	780	(5,736)	(274)
Due from ING	23	(21)	177	4,264
Accounts payable and other liabilities	(5,060)	(4,870)	(1,024)	2,256
Prepaid expenses	(2,734)	(2,333)	(2,840)	(2,739)
Other	923	861	(930)	1,461
	$ (10,498)	$ 3,315	$ (11,869)	$ 8,881

The following amounts recognized during the three-month and six-month periods ended June 30 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

	Three-month periods ended June 30, 2009	Three-month periods ended June 30, 2008	Six-month periods ended June 30, 2009	Six-month periods ended June 30, 2008
Discharge of mezzanine loans receivable	$ –	$ –	$ 5,676	$ 5,860
Distributions applied against instalment loans receivable related to LTIP	532	518	1,002	1,136
Interest on instalment loans receivable related to LTIP	265	290	517	542
Trust Units issued pursuant to the DRIP	1,767	2,575	3,519	5,434

During the three-month and six-month periods ended June 30, 2009, $28,958 and $52,858 (three-month and six-month periods ended June 30, 2008 - $27,433 and $48,145), respectively, was paid in interest.

16. Income taxes:

For the three-month and six-month periods ended June 30, 2009, Chartwell recorded a current income tax expense (recovery) of $76 and $82 (2008 - $(133) and $866) and a future income tax (recovery) expense of $(4,693) and $(2,941) (2008 - nil and $237), respectively.

As at June 30, 2009, the net future tax assets of Chartwell's U.S. corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of $42,771 (U.S. $36,777) against which a valuation allowance of $42,771 (U.S. $36,777) has been recorded.

17. Financial instruments and financial risk management:

Financial risk management objectives and policies:

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

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

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

These risks are managed as follows:

(a) Credit risk:

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

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

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

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

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

At June 30, 2009, Spectrum was in breach of certain covenants of the Development Agreement. Chartwell is currently working with Spectrum to have these covenants remedied. Chartwell completed an evaluation of the project security and corporate guarantees of Spectrum. Based on this updated evaluation, Chartwell recorded an impairment provision of $11,589, of which $5,369 relates to mezzanine loans and $6,220 relates to accounts receivable. Chartwell believes that Spectrum has sufficient equity to satisfy its remaining obligations, net of impairment provisions, in due course. The process of determining whether Spectrum has sufficient equity value is subjective and requires management to exercise a significant amount of judgment in making valuation assumptions.

At June 30, 2009, Melior was in arrears on interest payments on six projects. Chartwell is working with Melior on settlement arrangements related to these loans. Chartwell has recorded a provision for impairment of these mezzanine loans of $24,006 (December 31, 2008 - $6,406) (note 4).

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

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

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

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

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

The aging of resident receivables at June 30, 2009 is as follows:

Current	$ 3,474
31 - 60 days	1,184
61 - 90 days	443
Over 90 days	1,611
	6,712
Allowance for doubtful accounts	(1,224)
Net resident receivables	$ 5,488

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

(b) Liquidity risk:

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

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

The above liquidity needs are funded from cash flows from operating the property portfolio, with the exception of debt repayment obligations and property acquisition funding requirements. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include additional draws on the Credit Facility, raising new equity by issuing Units or convertible debentures or the disposition of properties. At June 30, 2009, the Trust had $27,929 available on a secured revolving Credit Facility. The risk with issuing new capital is that the capital markets may not be receptive to an equity or debenture issue with financial terms favourable to the Trust.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

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

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

At June 30, 2009, Chartwell's remaining 2009 debt maturities amounted to approximately $74,625, of which approximately 97% are CMHC insured.

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

Chartwell's major contractual obligations for the periods ending December 31, 2009 and 2010 as at June 30, 2009 are as follows:

	2009	2010	Total
Mortgages payable	$ 89,390	$ 117,937	$ 207,327
Revolving operating credit facility	28,000	–	28,000
Loans payable	1,138	–	1,138
Property operating leases	22,701	46,998	69,699
Other operating leases	1,066	2,048	3,114
Land leases	123	245	368
	$ 142,418	$ 167,228	$ 309,646

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

(c) Market risk:

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

(i) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At June 30, 2009, $71,964 (December 31, 2008 - $36,934) of Chartwell's mortgages and loans payable, excluding hedged loans, bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell fixes the term of long-term debt within a range from 3 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell entered into an interest rate swap contract with a current notional principal amount of $11,578 that entitles Chartwell to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.9% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on the present value of the estimated net cash flows using net adjusted discount rates as at June 30, 2009 is a loss position of $1,711 (December 31, 2008 - $2,087), which is included in accrued liabilities on the consolidated balance sheets (note 8). Included in other comprehensive loss for the three and six-month periods ended June 30, 2009 is a loss of $358 (net of future taxes of $147) (three-month and six-month periods ended June 30, 2008 - a gain of $182 and a loss of $367 (net of future taxes of nil and $120) respectively, that relates to the effective portion of the net change in fair value of the interest rate swap designated as a hedge.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

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

The Trust's interest-bearing financial instruments were:

	Carrying amount June 30, 2009	Carrying amount December 31, 2008
Fixed rate instruments:		
Financial assets (mezzanine loans)	$ 68,726	$ 96,822
Financial liabilities	1,821,416	1,828,769
Variable rate instruments:		
Financial liabilities	$ 71,964	$ 36,934

A change in interest rates at June 30, 2009 would not affect loss for the period with respect to the fixed rate instruments, including hedged loans. Therefore, no sensitivity analysis is provided for the fixed rate instruments. An increase of 100 basis points in interest rates at June 30, 2009 for the variable rate mortgages would have decreased equity by $180 and increased the loss for the period by $180 (on a pre-tax basis).

(ii) Foreign currency exchange risk:

At June 30, 2009, through its self-sustaining United States operations, 33% (December 31, 2008 - 35%) of Chartwell's assets and 38% (December 31, 2008 - 40%) of Chartwell's mortgages payable were held in the United States and, for the three-month and six-month periods ended June 30, 2009, 37% and 38% (three-month and six-month periods ended June 30, 2008 - 36% and 36%) respectively, of its revenue was generated in the United States. Foreign currency exchange risk results from changes in the exchange rate between Chartwell's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. dollar-denominated financial instruments, which are not a component of the self-sustaining U.S. operations or part of the net investment in self-sustaining U.S. operations.

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

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

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency risk. For example, cash flow from U.S. operating activities is first used for repayment of loans denominated in U.S. dollars. Chartwell may use derivative financial instruments to hedge its net foreign currency exposures. Chartwell's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the consolidated financial statements. The U.S. operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk. There were no foreign exchange hedge contracts outstanding as at June 30, 2009.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining U.S. operations at June 30, 2009:

	U.S. dollar
Cash	$ 97
Loans receivable from self-sustaining U.S. operations	66,462
Loan payable to self-sustaining U.S. operations	(26,951)
Net investment in self-sustaining U.S. operations	109,311
Net exposure	$ 148,919

A $0.01 reduction in the foreign exchange translation rate of U.S. dollars to Canadian dollars would have decreased the loss for the period and decreased other comprehensive loss for the period by the amounts shown below:

Decrease in loss before income taxes for the period	$ 396
Decrease in other comprehensive income before income taxes for the period	1,093

(In thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

18. Capital structure financial policies:

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

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

The following are the debt leverage ratios at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008	Increase
Debt to adjusted gross book value ratio (excluding convertible debentures)	56.4%	55.2%	1.2%
Debt to adjusted gross book value ratio (including convertible debentures)	62.9%	61.7%	1.2%

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

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

The debt to adjusted gross book value ratio at June 30, 2009 has increased from the December 31, 2008 ratio due primarily to an increase in short-term operating debt.

19. Comparative figures:

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