Q3

Management's Discussion and Analysis

Third Quarter Report

September 30, 2009

CHARTWELL
SENIORS HOUSING REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three and Nine Months Ended September 30, 2009

Contents

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the three and nine months ended September 30, 2009. This MD&A should be read in conjunction with Chartwell's financial statements for the three and nine months ended September 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. Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of November 11, 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 Q3 2009 are in comparison to results from Q3 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 September 30, 2009, Chartwell's portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 38,300 suites in 266 communities which are operating, under construction or in various stages of development. As of September 30, 2009, Chartwell's portfolio of owned and leased communities, excluding discontinued operations, consisted of interests in 23,022 suites in 179 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 lifelong learning

Commitment – We value commitment to the Chartwell family

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

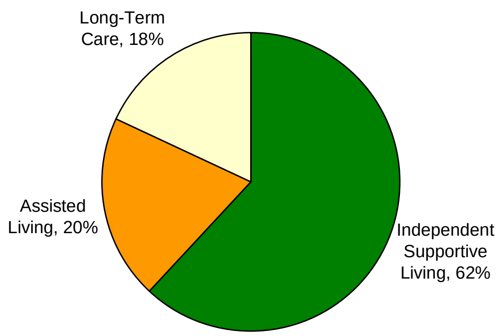
The following is the composition of Chartwell's owned, leased and managed portfolio of seniors housing communities in its four operating segments at September 30, 2009:

	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: (1) (2)										
100% Owned										
Operating	98	11,428	16	1,779	23	2,311	-	-	137	15,518
Internal Growth	-	419	-	-	-	-	-	-	-	419
Total 100% Owned	98	11,847	16	1,779	23	2,311	-	-	137	15,937
50% Owned										
Operating	6	703	8	1,385	26	4,760	-	-	40	6,848
Total 50% Owned	6	703	8	1,385	26	4,760	-	-	40	6,848
Total Owned	104	12,550	24	3,164	49	7,071	-	-	177	22,785
Properties under Operating Lease:										
100% Interest	-	-	-	-	2	237	-	-	2	237
Total Leased	-	-	-	-	2	237	-	-	2	237
Total Owned and Leased	104	12,550	24	3,164	51	7,308	-	-	179	23,022
Other:										
Managed Properties							43 (4)	5,235	43	5,235
Mezzanine Loans (3)	-	-	-	-	-	-	11	1,995	11	1,995
Total Other	-	-	-	-	-	-	54	7,230	54	7,230
Discontinued Operations: (5)										
49% Interest	-	-	-	-	25	5,622	-	-	25	5,622
Managed Properties	-	-	-	-	8	2,426	-	-	8	2,426
Total Discontinued	-	-	-	-	33	8,048	-	-	33	8,048
Total	104	12,550	24	3,164	84	15,356	54	7,230	266	38,300

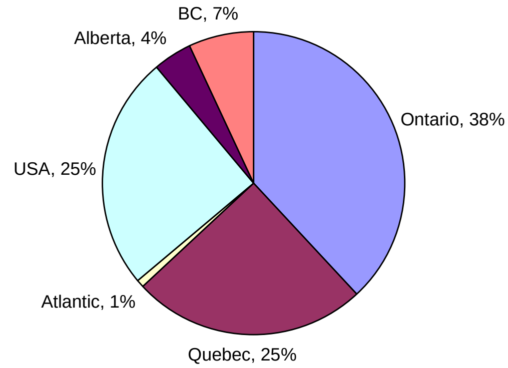
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) On October 1, 2009 we acquired one Canadian Retirement property (109 suites).
(3) Includes communities on which we have mezzanine loans outstanding and retain purchase options.
(4) Chartwell holds purchase options on 18 of these properties.
(5) As described in Note 20 of the consolidated financial statements, effective October 1, 2009 we reorganized our relationships with Horizon Bay resulting in the disposition of our 49% leased interest in 25 properties (5,622 suites) and eight management contracts (2,426 suits).

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Interest, Excluding Discontinued Operations, at September 30, 2009 by:

Level of Care



Geographic Location



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 Spectrum" 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.

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.

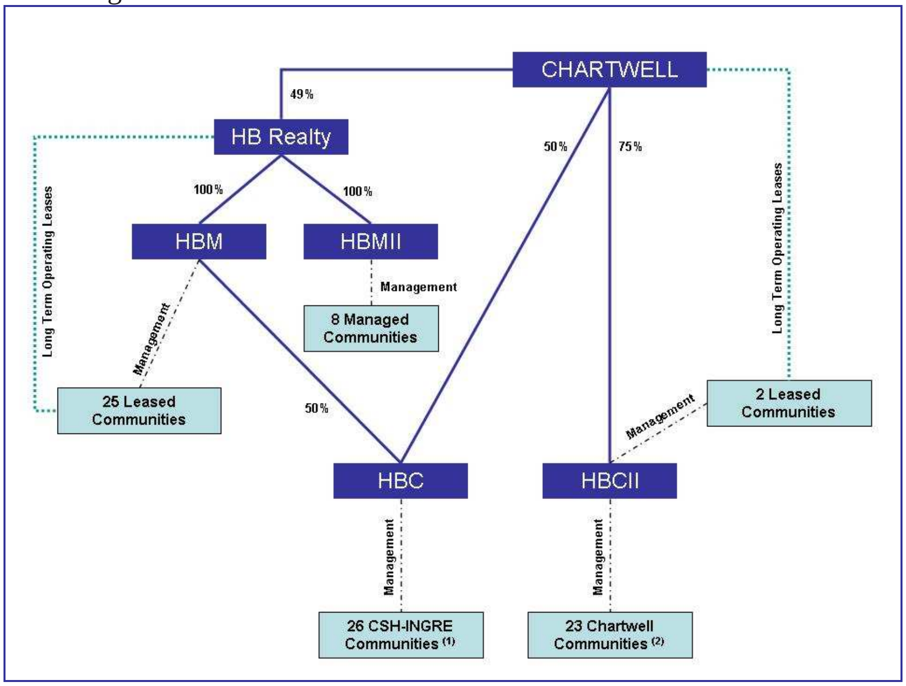
Chartwell also provides due diligence project management and asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited (collectively with its affiliates: "ING"). At September 30, 2009, Chartwell and ING each held a 50% interest in CSH-INGRE LLC ("CSH-INGRE"), 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 long-term care communities (1,385 suites) in Canada.

On October 1, 2009, Chartwell reorganized its relationship with Horizon Bay whereby it disposed of its 49% interest in Horizon Bay Realty LLC ("HB Realty"). Upon completion of the reorganization, Chartwell no longer has an ownership interest in the 25 seniors housing communities under leases, nor the eight third-party management contracts, and retains a 50% interest in Horizon Bay Chartwell LLC

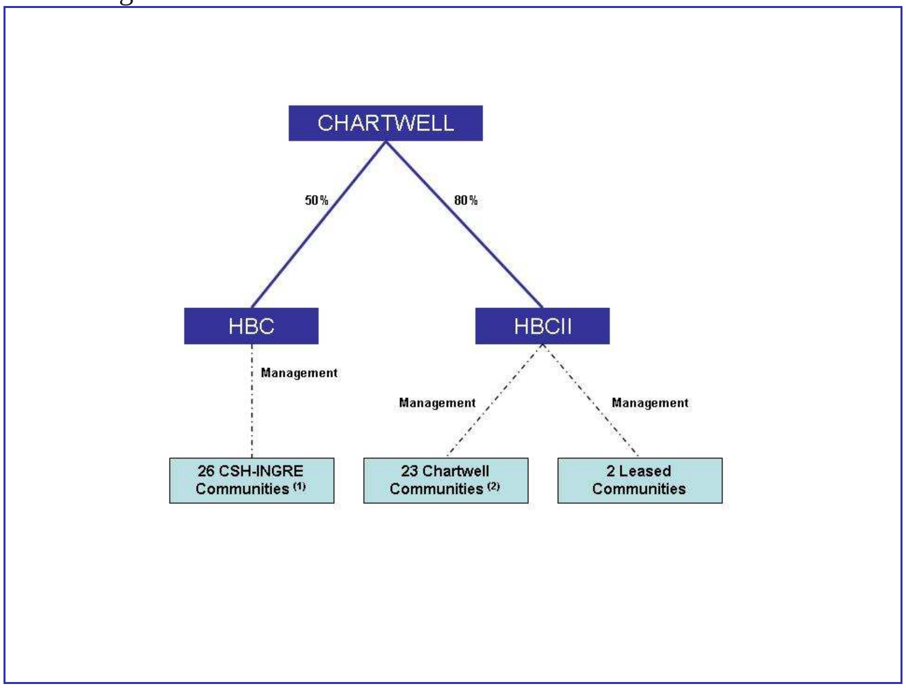
(“HBC”), a manager for CSH-INGRE properties in the U.S. and an 80% interest in HBCII Manager LLC (“HBCII.”), a manager for Chartwell wholly-owned properties in the U.S.

The following charts show the structure of Chartwell’s U.S. portfolio pre and post reorganization:

Pre Reorganization:



Post Reorganization:



(1) *Management of five of these communities is currently performed by Ultimate Care Senior Living with financial management services provided by HBC.*

(2) *Management of one of these communities is currently performed by Merrill Gardens due to regulatory requirements.*

Outlook ♣

Over the past six 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 driven by strong demographic trends that are resulting in the seniors population growing at approximately three to four times the general population.

During 2008, the Canadian and U.S economies moved into a recession. The recession in Canada and particularly in the U.S. is deeper and is lasting longer than most expected and has had an impact on our occupancies in 2009. In addition, these conditions and tight credit markets, affected our development partners. There are recent signs of improvements in the North American economic climate. The signs of economic recovery are still in the early stages and it remains difficult to predict the strength and sustainability of economic recovery. However, it is our expectation that a slow economic recovery will be experienced in 2010.

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

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

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

Property Operations

Our focus on resident contact, quality of service and innovative marketing strategies allows us to maintain higher than industry average occupancies in most of our markets. We also continue our focus on controlling labour and supply costs. The following summarizes our Outlook for the remainder of 2009 and 2010 for the markets we operate in:

Canadian Operations

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

- In Ontario, occupancies softened in the first half of 2009. However, since August we have been achieving steady occupancy gains. We continue to see improvements in customer traffic (inquiries and property tours) and our current statistics show increases in expected future arrivals. We expect that this increased traffic, combined with a substantial waiting list for Ontario long-term care accommodation that is currently in excess of 25,000 people that creates a spillover effect and helps to support occupancies in retirement homes, should result in continued improvements in occupancies. While current trends are positive, given continued economic uncertainty, we are still cautious in our outlook and are expecting a slow recovery of lost occupancy by the end of 2010. We anticipate average rental rates will increase by 3.25 to 3.5% in 2010. We continue to closely manage expenses to ensure that we are mitigating the potential effects of the uncertain economic environment on Net Operating Income ("NOI").
- In Alberta, occupancy levels are projected to continue to remain high and we anticipate average rental rates will increase by 3.25 to 3.5% in 2010.
- In British Columbia, temporary oversupply conditions in two regional markets, combined with reduced occupancies in one long-term care property, have resulted in reduced occupancy in the first half of 2009. Beginning in July, occupancies generally stabilized in our British Columbia properties with the exception of the loss of 17 government funded beds located at one community. Our current statistics show slightly positive future arrivals. Consequently, we are anticipating limited growth in occupancy from current levels in Q4 2009. We anticipate that with the absorption of new supply and improved economic conditions we will begin to see growth in occupancies in mid-2010. We expect to achieve average rental rate increases of 3.25 to 3.5% in 2010. We will continue closely managing costs to mitigate the impact of reduced occupancies on NOI.
- As a result of obtaining full control of our properties in the province of Quebec, and the initiatives to reposition and renew many of these properties, we believe we will continue to realize improved occupancy in our Quebec properties through 2009 and we anticipate this growth will continue in 2010. We expect to achieve an average rate increase of 2.0% in our Quebec properties.

Our Canadian long term care operations have achieved significant same property NOI growth this year. We do not anticipate that this will continue into 2010 as the impact of Provincial government deficits is expected to contain revenue growth. In addition, at this time, the government of Ontario has not yet committed to renew the other accommodation funding increase of $1.55 per resident day beyond March 31, 2010.

Our Ontario and British Columbia operations are expected to be affected by the implementation of the proposal to harmonize provincial sales taxes to the federal Goods and Services Tax ("GST") on July 1, 2010. Harmonization to the GST will result in Ontario and British Columbia increasing the tax burden in the seniors housing sector by broadening the scope of their current sales taxes to include items such as utilities and contracted out services, including maintenance contracts. We are expecting that in the case of our long term care operations, provincial governments will not adversely affect the health services provided to seniors with this additional new tax and are optimistic that we will recover these costs through additional funding from the provincial governments. In respect of our retirement operations in

Ontario and British Columbia, we anticipate that most markets will bear rate increases to absorb the new costs beginning in 2011. The additional cost in 2010 is estimated to be approximately $1.2 million.

U.S. Operations

In mid-2008, 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 turnover and this trend continued through to July 2009. In late Q2 2009 we began to see stabilization in occupancies and in Q3 2009 have been achieving steady growth. We are cautiously optimistic that continued increases in inquiries and tours across our U.S. portfolio, combined with improvements in the U.S. housing market, will result in occupancy improvement over the longer term. We anticipate that average rental rates will increase by 3.5% to 4.5% in 2010. We are continuing with our expense control initiatives to mitigate the effects of lower occupancies on NOI.

Management of General, Administrative and Trust Expenses

In 2009, we have been strictly managing our general, administrative and trust ("G&A") expenses, delaying or cancelling certain corporate activities and actively reducing costs to the extent possible while ensuring that support to our field operations teams remains strong. We will continue to contain G&A growth in 2010 to priority initiatives to drive increased property revenues and/or operational and administrative efficiencies.

Canadian Management Operations

We continue to provide operations management services to a number of owners of seniors housing communities in Canada, and asset management services to ING. 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 and 2010.

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 remaining properties being re-financed or sold to third parties. As a result, we expect mezzanine loan interest income to decline over time. During Q3 2009 we reallocated $1.2 million of accounts receivable provisions to our mezzanine loans provision.

Development and Acquisitions

We have one internal growth project (71 suites) in progress with the expected completion in Q1 2010. We continue evaluating other opportunities for on balance sheet greenfield and internal growth development on a limited scale. We also anticipate beginning a staged program to redevelop our 12 Class B and C long-term care properties with a total of 1,166 beds. The redevelopment of 35,000 long-term care beds in Class B and C homes is required by the government of Ontario over the next 10 years with capital funding provided for this renewal initiative. In addition, we anticipate redeveloping, subject to successful negotiations with the funding authority, one long-term care home in British Columbia with 142 suites.

Liquidity and Debt Profile

Subsequent to September 30, 2009, we successfully raised $86.3 million by issuing 14.4 million REIT Units through a syndicate of investment dealers. The net proceeds from the offering were partially used to repay amounts outstanding under our operating credit facility. The remaining proceeds are expected to be used for general corporate purposes including taking advantage of certain restructuring opportunities relating to our mezzanine financing investments with Spectrum, Melior and others.

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 September 30, 2009 we had $1.6 billion of mortgages payable with weighted average term to maturity of 8.2 years and weighted average contractual interest rate of 5.44%.

In Canada we have access to low-cost mortgage financing insured by the Canada Mortgage and Housing Corporation (“CMHC”) and most of our 2009 financings were completed on a CMHC-insured basis.

At September 30, 2009 our remaining 2009 maturities amounted to $16.5 million, all of which are CMHC-insured mortgages.

Subsequent to September 30, 2009 we refinanced $2.9 million of 2009 maturing debt and arranged for new financing of $4.8 million and top-up financings of $3.4 million. We expect to renew the remaining 2009 maturing debt in due course.

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

One of our U.S. subsidiaries did not comply with certain financial covenants under the terms of a loan agreement for one of its individual properties. As at September 30, 2009, the amount of the loan was $9.6 million (U.S.$8.9 million), bearing interest at 6.24%, maturing on December 26, 2013. The loan payments are current. A paydown of approximately $1.7 million (U.S.$1.6 million) is required to remedy the default; hence, this amount was reclassified as a principal repayment due in 2009.

U.S. Reorganization

As discussed under the “Business Overview” section of this MD&A, subsequent to September 30, 2009 we disposed of our 49% interest in HBR and therefore we no longer have an interest in 25 leased properties. As a result, due to the elimination of negative cash flows associated with these properties, we anticipate that AFFO from our U.S. Operations will increase by approximately $2.0 million in 2010.

Foreign Exchange

In October 2009, we settled one of the intercompany cross-border notes in the amount of U.S.$28.9 million. As a result of this settlement, we expect to record a realized foreign exchange loss of $1.9 million or $0.02 per unit in Q4 2009.

Acquisition of Properties

As discussed under the “Subsequent Events” section of this MD&A, in Q4 2009 we acquired one new seniors housing property from Spectrum. This acquisition is expected to generate positive contribution to 2010 AFFO.

Summary

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

Significant Events

The following events have had a significant effect on our financial results in Q3 2009 and 2009 YTD or may be expected to affect our results in the future.

Acquisitions

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

($millions)	Q1 2009	Q2 2009	Q3 2009	2009 YTD
Number of communities (1)	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
2009 Acquisitions:					
1.	Chatsworth Suites and Bungalows (1)	Kelowna, BC	Retirement	February 1, 2009	103
2.	Churchill House Retirement Community (1)	North Vancouver, BC	Retirement	February 1, 2009	97
3.	Riverside Retirement Residence (1)	London, ON	Retirement	March 1, 2009	138
4.	Pickering City Centre (1)	Pickering, ON	Retirement	March 1, 2009	117
Total 2009 Acquisitions					**455**
2008 Acquisitions:					
1.	Cite-Jardin IIIA	Gatineau, QC	Retirement	January 9, 2008	173
2.	Chateau Gardens Elmira	Elmira, ON	Retirement	April 24, 2008	64
3.	Chartwell Kanata (1)	Kanata, ON	Retirement	May 29, 2008	80
4.	Residences St-Pierre (2)	Rouyn-Noranda, QC	Retirement	October 27, 2008	121
5.	Le Monastere d'Aylmer (2)	Aylmer, QC	Retirement	October 27, 2008	273
6.	Residence Principale (2)	Cowansville, QC	Retirement	October 27, 2008	197
7.	Residence Notre-Dame de Hull (2)	Hull, QC	Retirement	October 27, 2008	224
8.	Le Domaine de Chateau de Bordeaux (2)	Sillery, QC	Retirement	October 27, 2008	153
9.	Marquis de Tracy II (2)	Sorel, QC	Retirement	October 27, 2008	137
10.	Marquis de Tracy I (2)	Sorel, QC	Retirement	October 27, 2008	125
Total 2008 Acquisitions					**1,547**

(1) Chartwell acquired the remaining 50% interest in this community.
(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

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

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

Completed Internal Growth Projects

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

Project	Location	Suites	Total Cost ($million)	Debt ($million)	Construction Completion	Leased Suites at September 30, 2009
2009						
Gayton Terrace[1]	Richmond, VA	98	22.1	17.7	Q2 2009	14
Quail Creek Retirement Centre	Renfrew, ON	34	6.3	5.5	Q3 2009	21
Total 2009		132	28.4	23.2		35
2008						
Collegiate Heights Retirement Residence	Sault Ste. Marie, ON	30	6.7	4.3	Q3 2008	27
Residence Ste-Marthe	St. Hyacinthe, QC	133	14.8	10.5	Q3 2008	68
Manoir Pierrefonds	Montreal, QC	83	9.8	7.0	Q3 2008	10
Maison Herron	Dorval, QC	72	9.7	5.4	Q4 2008	8
Total 2008		318	$41.0	$27.2		113
Total		450	$69.4	$50.4		148

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

Mezzanine Loans

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

($millions)	**September 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)[1]	(8.6)[2]
Other repayments of mezzanine loans	-	(3.8)
	102.4	108.1
Fees, net of costs recorded as a reduction of mezzanine loan balances	(4.5)	(4.9)
Allowance for impairment of mezzanine loans	(30.6)[3]	(6.4)
Net mezzanine loans outstanding (end of period)	67.3	96.8

(1) Relates to four properties.
(2) Relates to eight properties.
(3) Includes $1.2 million reallocated from accounts receivable.

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 September 30, 2009, we acquired one new seniors housing property from Spectrum and converted our $3.0 million mezzanine loan on this property into equity in the asset. In addition, subsequent to September 30, 2009 Spectrum disposed of its interest in another seniors housing property to a third party and repaid our mezzanine loan outstanding on this property in the amount of $2.8 million plus accrued interest.

As discussed in our Q2 2009 MD&A, due to the uncertain market conditions and the inability of Spectrum and Melior to remain current on their interest payments to Chartwell, in Q2 2009 we recorded an impairment provision of $30.7 million of which $7.7 million was allocated to accounts receivable and $23.0 million was allocated to mezzanine loans. Combined with the $6.4 million impairment provision recorded in Q4 2008, the cumulative impairment provision allocated to mezzanine loans was $29.4 million or $37.1 million including amounts allocated to accounts receivable.

In Q3 2009, we updated our assessment of the underlying value of the security for each mezzanine loan as well as the value of the corporate guarantee securing mezzanine loans where applicable. As discussed in the "Critical Accounting Estimates" section of this MD&A, the process of determining fair value is subjective and requires us to exercise judgement in making valuation assumptions including revenue and expense projections, capitalization and discount rates. Based on our updated assessment, we believe no changes are required to the cumulative impairment provision of $37.1 million.

However, during and subsequent to Q3 2009, we collected certain accounts receivable against which an impairment provision was recorded in Q2 2009. Accordingly, in Q3 2009 we reallocated $1.2 million of the impairment provision from accounts receivable to mezzanine loans as follows:

($millions)	Mezzanine Loans	Accounts Receivable	Total
Balance June 30, 2009	29.4	7.7	37.1
Reallocation in Q3 2009	1.2	(1.2)	-
Balance September 30, 2009	30.6	6.5	37.1

We continue working with the mezzanine loans borrowers on settlement arrangements with respect to amounts due to Chartwell.

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

($millions)	# Projects	Mezzanine Loans Outstanding	Fees, net of costs recorded as a reduction of mezzanine loan balances	Impairment Provision	Net Balance Outstanding
Spectrum and Partners outside Quebec	18	34.5	(0.3)	(2.1)[2]	32.1
Melior, Spectrum and Partner	12	51.5	(3.6)	(28.5)[3]	19.4
Seasons and Partners	6	14.0	(0.6)	-	13.4
Chartwell's Partner	2[1]	2.4	-	-	2.4
Total gross mezzanine loans outstanding	38	102.4	(4.5)	(30.6)	67.3

(1) Chartwell owns a 50% interest in these projects.
(2) Includes $1.2 million reallocated from accounts receivable in Q3 2009.
(3) Includes $6.4 million provision recorded in Q4 2008.

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.

Distributions

Effective with the payment to Unitholders for August 2009, paid on September 15, 2009, monthly cash distributions per unit were 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.

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	9,830
Canadian Long-Term Care Operations	23	3,100
U.S. Operations (owned and leased) (1)	50	7,112
Total Same Property Portfolio	159	20,042

(1) Excludes discontinued operations.

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 [1]

Same property NOI decreased by $1.0 million or 2.2% for Q3 2009 compared to Q3 2008 and decreased by $0.6 million or 0.5% for 2009 YTD compared to 2008 YTD as follows:

- Our Canadian retirement portfolio same property NOI decreased in Q3 2009 compared to Q3 2008 by $0.4 million or 1.6% and decreased by $0.7 million or 1.0% 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 rate increases, which range between 2.5% and 5.0%.
- In our U.S. same property portfolio regular annual rent increases were offset by reduced occupancy, targeted cost reduction initiatives, and tight management of expenses. As a result, same property NOI decreased by $0.9 million or 6.4% in Q3 2009 compared to Q3 2008, and decreased by $0.3 million or 0.8% for 2009 YTD compared to 2008 YTD.
- Our same property Canadian long-term care portfolio NOI increased $0.3 million in Q3 2009 compared to Q3 2008 and achieved an increase of $0.4 million or 3.4% for 2009 YTD compared to 2008 YTD.

Same property occupancy continued to be relatively high at 91.2% in Q3 2009. However, this represents a 2.0 percentage point decrease from 93.2% in Q3 2008.

Acquisition and Internal Growth Portfolio Highlights

For Q3 2009, acquisitions and internal growth contributed $5.4 million of NOI and $14.3 million for 2009 YTD, or an additional $2.6 million compared to Q3 2008 and $6.7 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 2.3% of revenues for Q3 2009 compared to 1.8% for Q3 2008 primarily due to costs incurred to rebrand certain of our U.S. assets as required by certain acquisition agreements. G&A expenses increased slightly as a percentage of revenue to 2.5% for 2009 YTD compared to 2.4% for 2008 YTD.

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

Per Unit Analysis

AFFO for Q3 2009 was $18.7 million, or $0.18 per unit diluted, a reduction of $0.03 per unit compared to Q3 2008 primarily due to the following:

- Lower mezzanine loan interest reduced AFFO by $1.3 million or $0.01 per unit diluted.
- Lower management fee and other income reduced AFFO by $0.8 million or $0.01 per unit diluted.
- Lower contribution from the property portfolio of approximately $0.6 million or $0.01 per unit diluted.

Excluding the impairment provisions of $30.7 million recorded in Q2 2009, AFFO for 2009 YTD was $0.57 per unit diluted an increase of $0.04 per unit diluted for 2008 YTD primarily due to the following:

- Realized foreign exchange gain of $5.0 million or $0.05 per unit diluted.
- Increased contribution from the property portfolio, primarily due to acquisitions completed subsequent to January 1, 2008 of $1.7 million or $0.02 per unit diluted.
- Reduction to current SIFT income tax expense of $1.3 million or $0.01 per unit diluted.
- G&A expenses increased by $1.5 million or $0.02 per unit diluted primarily due to severance and rebranding costs.
- Lower mezzanine loan interest, management fees and other income reduced AFFO by $2.1 million or $0.02 per unit diluted.

The Q3 2009 FFO diluted per unit was $14.5 million or $0.14 per unit diluted, a decrease of $9.9 million or $0.10 per unit diluted compared to Q3 2008. FFO diluted per unit is described more fully in the "Funds from Operations" section of this MD&A.

The Q3 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 $0.20 or $0.03 per unit diluted, lower than Q3 2008.

Net loss after discontinued operations increased to $0.09 per unit diluted for Q3 2009, an increase of $0.03 per unit diluted compared to Q3 2008. Increased depreciation, interest, lease expenses and unrealized foreign exchange losses were partially offset by increased net operating income, recovery of future taxes, lower amortization and lower SIFT tax-related provisions for current income tax expense. For 2009 YTD, net loss after discontinued operations increased to $0.65 per unit diluted, an increase of $0.32 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)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Property revenue [1]	161,559	149,059	12,500	490,331	439,290	51,041
Total revenues [1]	165,837	156,524	9,313	505,742	460,953	44,789
Net loss	(8,950)	(5,951)	(2,999)	(64,009)	(30,344)	(33,665)
Net loss per unit (basic and diluted)	(0.09)	(0.06)	(0.03)	(0.65)	(0.33)	(0.32)
Distributions declared	15,424	18,491	(3,067)	52,738	60,711	(7,973)
Distributions declared per unit	0.15	0.19	(0.04)	0.52	0.61	(0.09)
FFO [2]	14,552	24,451	(9,899)	17,171	59,875	(42,704)
Diluted FFO per unit	0.14	0.24	(0.10)	0.17	0.59	(0.42)
NFFO [3]	20,194	23,315	(3,121)	33,243	60,411	(27,168)
Diluted NFFO per unit	0.20	0.23	(0.03)	0.32	0.60	(0.28)
AFFO [4]	18,699	20,875	(2,176)	27,952	53,959	(26,007)
Diluted AFFO per unit	0.18	0.21	(0.03)	0.27	0.53	(0.26)
Weighted average occupancy rate - same property portfolio	91.3%	93.3%	(2.0pp)	91.5%	93.4%	(1.9pp)[5]
Operating margin – same property portfolio	30.3%	31.5%	(1.2pp)	29.9%	30.7%	(0.8pp)
Weighted average number of units including Class B Units of Chartwell Master Care LP [6]:						
Basic	100,188,847	98.677,288	1,511,559	99,897,846	98,376,860	1,520,986
Diluted (includes LTIP)	102,876,254	101,478,126	1,398,128	102,530,727	101,020,882	1,509,845

(1) Excludes the effects of discontinued operations.
(2) Refer to the "Non-GAAP Measures - Funds from Operations" section of this MD&A for the reconciliation of FFO to Net Loss.
(3) Refer to the "Key Performance Indicators - Normalized Funds from Operations" section of this MD&A for the details of the NFFO calculation.
(4) Refer to the "Key Performance Indicators - Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.
(5) Percentage points.
(6) 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)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Same property[(1)]	143,509	142,021	1,488	429,183	422,086	7,097
Acquisitions and other[(1)]	15,911	10,025	5,886	45,941	28,617	17,324
Eliminations	(1,766)	(1,620)	(146)	(5,369)	(4,568)	(801)
Equity-accounted VIEs	-	(3,024)	3,024	-	(9,080)	9,080
Foreign exchange on U.S. dollar revenue	3,905	1,657	2,248	20,576	2,235	18,341
Total property revenue [(2)]	161,559	149,059	12,500	490,331	439,290	51,041
Weighted average occupancy rate - same property portfolio	91.2%	93.2%	(2.0pp)	91.5%	93.4%	(1.9pp)

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

Total property revenue increased by 8.4% in Q3 2009 compared to Q3 2008 and 11.6% for 2009 YTD compared to 2008 YTD due to the contributions from acquisitions completed subsequent to January 1, 2008, and same property revenue growth.

Same property revenue increased by approximately $1.5 million or 1.0% in Q3 2009 compared to Q3 2008 and $7.1 million or 1.7% for 2009 YTD compared to 2008 YTD despite lower occupancies. We continue to drive revenue growth with our proven strategies as follows:

- Yield management programs in the Canadian retirement home portfolio to increase market-based rates on suite turnover. However, the 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 91.2% in Q3 2009, a decrease of 2.0 percentage points from 93.2% in Q3 2008. For 2009 YTD, the weighted average occupancy rate for the same property portfolio was 91.5%, a decrease of 1.9 percentage points from 93.4% for 2008 YTD. The following factors have contributed to the decrease:

- We experienced a softening of occupancies in the U.S. toward the end of 2008 and through the first half of 2009. U.S. same property average occupancy in Q3 2009 at 89.4% or 4.5 percentage points lower than Q3 2008.
- In addition, occupancies softened in the first half of 2009 in our Ontario and BC properties.

These reductions were partially offset by strengthening occupancies in our Quebec platform with occupancy in the same property platform rising to 87.8% or 1.1 percentage points higher than Q2 2009 and 1.8 percentage points higher than Q3 2008.

Summary of Direct Operating Expenses

($000s)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Same property(1)	100,312	97,852	2,460	301,553	293,828	7,725
Acquisitions and other(1)	10,503	7,220	3,283	31,684	21,016	10,668
Eliminations	(1,769)	(1,629)	(140)	(5,368)	(4,599)	(769)
Equity-accounted VIEs	-	(2,004)	2,004	-	(6,194)	6,194
Foreign exchange on U.S. dollar expenses	2,668	1,085	1,583	13,362	1,464	11,898
Total direct operating expenses – properties	111,714	102,524	9,190	341,231	305,515	35,716
Direct operating expenses – management operations	1,025	1,025	-	3,075	3,077	(2)
Total direct operating expenses (2)	112,739	103,549	9,190	344,306	308,592	35,714

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

Total direct operating expenses increased by 8.9% in Q3 2009 compared to Q3 2008 and 11.7% for 2009 YTD compared to 2008 YTD primarily due to additional expenses from acquisitions completed subsequent to January 1, 2008.

Same property direct operating expenses increased by approximately $2.5 million or 2.5% for Q3 2009 compared to Q3 2008 and $7.7 million or 2.6% 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 expenditures.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
General, administrative and trust expenses (“G&A”)	4,406	3,168	1,238	14,351	12,553	1,798
Severance and other costs	19	930	(911)	1,716	2,047	(331)
Total G&A per financial statements	4,425	4,098	327	16,067	14,600	1,467
As % of revenue:						
Excluding severance and other costs	2.3%	1.8%	0.5pp	2.5%	2.7%	(0.2pp)

In Q3 2009, G&A expenses before severance and other costs increased by approximately $1.2 million to $4.4 million or 2.3% of revenue compared to $3.2 million or 1.8% of revenue in Q3 2008 primarily due to rebranding costs of $0.3 million for our U.S. properties. In addition, Q3 2008 expenses included a one-time reduction of $0.6 million for over-accrued acquisition costs. For 2009 YTD, G&A expenses before severance and other costs increased by $1.8 million to $14.4 million or 2.5% of revenue compared to $12.6 million or 2.7% of revenue for 2008 YTD.

Severance and other costs decreased by $0.9 million in Q3 2009 as compared to Q3 2008 and decreased by $0.3 million for 2009 YTD compared to 2008 YTD. Included in 2009 YTD amounts are $1.1 million of severance costs recorded in Q1 2009.

Interest and Property Lease Expense

($000s)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Interest Expense						
Mortgages and loans payable	22,158	21,560	598	68,492	63,524	4,968
Convertible debentures	2,979	2,979	-	8,937	8,939	(2)
Operating credit facility and other	260	149	111	411	233	178
Interest capitalized to properties under development	(309)	(1,046)	737	(941)	(1,049)	108
	25,088	23,642	1,446	76,899	71,647	5,252
Accretion adjustment to convertible debenture liability	763	701	62	2,241	2,057	184
Amortization of debt mark-to-market adjustments arising on acquisition	(248)	(255)	7	(962)	(859)	(103)
Amortization of financing costs	1,570	1,199	371	4,496	3,611	885
Total Interest Expense	27,173	25,287	1,886	82,674	76,456	6,218
Property Lease Expense						
Contractual lease payments for the period [(1)]	588	590	(2)	1,999	1,705	294

(1) Excludes discontinued operations.

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 Q3 2009 compared to Q3 2008 and 2009 YTD compared to 2008 YTD due to an increase in foreign exchange rates.

During Q3 2009 and 2009 YTD, we capitalized interest of $0.3 million and $0.9 million respectively, which relates to our net investment in internal growth projects.

Mezzanine Loans, Mezzanine Loan Interest Income and Impairment Provision

($000s)	**September 30, 2009**	September 30, 2008	Increase / (Decrease)
Gross mezzanine loan balances outstanding (end of the period)	102,414	114,675	(12,260)
Fees net of costs recorded as a reduction of mezzanine loan balances	(4,459)	(5,176)	717
Allowance for impairment of mezzanine loans	(30,623)	-	(30,623)
Net mezzanine loan receivable	67,332	109,499	(42,166)

($000s)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Mezzanine loan interest before effective yield adjustments	1,579	3,092	(1,513)	6,386	8,965	(2,579)
Effective yield adjustments for:						
Placement fees integral to lending activities	(23)	(240)	217	811	(255)	1,066
Legal costs integral to lending activities	(124)	(79)	(45)	(434)	(491)	57
Total Mezzanine Loan Interest Income	1,432	2,773	(1,341)	6,763	8,219	(1,456)

Mezzanine loan interest decreased by $1.3 million for Q3 2009 compared to Q3 2008 and by $1.5 million for 2009 YTD compared to 2008 YTD as interest revenue from Spectrum and Melior is only recognized if payment has been received. For all other projects, mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method. Under this method, we update our expectations for targeted stabilization dates of the underlying development projects and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate.

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. In addition, we reallocated $1.2 million of provisions from Spectrum accounts receivable to Spectrum mezzanine loans.

Discontinued Operations

The following table shows the results of discontinued operations:

(U.S.$000s, except as noted otherwise)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Net Operating Income						
Revenue	22,251	22,719	(468)	66,677	66,482	195
Interest and other	25	25	-	69	189	(120)
Below market lease amortization	-	129	(129)	61	504	(443)
	22,276	22,873	(597)	66,807	67,175	(368)
Direct operating expense	13,552	13,349	203	39,681	38,503	1,178
Total Net Operating Income	8,724	9,524	(800)	27,126	28,672	(1,546)
Interest expense	1	-	1	22	24	(2)
Contractual lease expense	9,380	9,030	350	28,131	27,299	832
Adjustment to record lease expense on a straight-line basis over the lease term	1,415	1,611	(196)	4,256	4,834	(578)
Total Lease Expense	10,796	10,641	155	32,409	32,157	252
	(2,072)	(1,117)	(955)	(5,283)	(3,485)	(1,798)
Depreciation of properties	544	397	147	1,573	1,076	497
Amortization of limited life intangible assets	401	401	-	1,198	1,204	(6)
	945	798	147	2,771	2,280	491
Loss before income taxes	(3,017)	(1,915)	(1,102)	(8,054)	(5,765)	(2,289)
Income taxes – current	-	-	-	140	-	140
Total Net Loss	(3,017)	(1,915)	(1,102)	(8,194)	(5,765)	(2,429)
Foreign exchange in CDN	(326)	(79)	(247)	(1,392)	(105)	(1,287)
Total Net Loss in CDN	(3,343)	(1,994)	(1,349)	(9,586)	(5,870)	(3,716)
Non-controlling interest allocation	78	119	(41)	203	351	(148)
Net Loss after non-controlling interest	(3,265)	(1,875)	(1,390)	(9,383)	(5,519)	(3,864)

Other Items

($000s)	Q3 2009	Q3 2008	Increase / (Decrease)	2009 YTD	2008 YTD	Increase / (Decrease)
Bank interest and other income	689	1,090	(401)	2,178	2,864	(686)
Below-market lease amortization revenue	246	273	(27)	914	808	106
Gain/(Loss) on sale of assets	-	126	(126)	-	32	(32)
Realized foreign exchange gains and (losses)	241	-	241	5,042	-	5,042
Unrealized gains and (losses) on derivative financial instruments and unrealized foreign exchange gains and (losses)	(4,089)	3,358	(7,447)	(11,183)	5,648	(16,831)
Depreciation of properties	(18,670)	(16,786)	(1,884)	(56,576)	(49,612)	(6,964)
Amortization of limited life intangible assets	(8,362)	(11,904)	3,542	(30,266)	(38,839)	8,573
Provision for impairment of mezzanine loans and accounts receivable	-	-	-	(30,684)	-	(30,684)
Results from discontinued operations	(3,265)	(1,875)	(1,390)	(9,383)	(5,519)	(3,864)
Current income tax (expense) recovery	(91)	(629)	538	(5)	(1,495)	1,490
Future income tax (expense) recovery	4,234	(1,500)	5,734	7,175	(1,737)	8,912
Non-controlling interest	140	259	(119)	1,175	1,578	(403)
Net loss	(8,950)	(5,951)	(2,999)	(64,009)	(30,344)	(33,665)

Bank Interest and Other Income

Bank interest and other income was lower in Q3 2009 compared to Q3 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 gain of $0.2 million in Q3 2009 which includes a gain of $0.4 million on redemption of Series A interests in Mastercare LLC, offset by $0.2 million realized losses from payment of accrued interest on intercompany loans.

Chartwell recorded a realized foreign exchange gain for 2009 YTD of $5.0 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 September 30, 2009, we had net loans outstanding of approximately U.S.$66.4 million from our U.S. subsidiaries and loans payable of U.S.$28.1 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 Q3 2009 as compared to Q3 2008 and for 2009 YTD compared to 2008 YTD as approximately $53.7 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 Q3 2009, we recorded a future income tax recovery of $4.2 million, and a $7.2 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 September 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 Q3 2009 increased in comparison to Q3 2008 by $3.0 million and by $33.7 million for 2009 YTD compared to 2008 YTD primarily due to increased depreciation, interest, impairment provisions and lease expenses that were reclassified within the results from discontinued operations. This was partially offset by improvements in net operating income and lower current SIFT tax provisions, recovery of future income taxes and lower amortization of intangible assets.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments for Q3 2009 compared to Q3 2008.

Canadian Retirement Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property					
100% Owned	84	6,731	2,106	745	9,582
50% Owned	2	248	-	-	248
Total Same Property	86	6,979	2,106	745	9,830
Acquisitions & Internal Growth					
100% Owned:					
Operating	14	1,428	164	254	1,846
Internal growth	-	264	-	155	419
	14	1,692	164	409	2,265
50% Owned	4	418	37	-	455
Total Acquisitions & Internal Growth	18	2,110	201	409	2,720
Total	104	9,089	2,307	1,154	12,550

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

($000s, except occupancy rates and operating margins)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Revenues						
Same property	67,808	67,317	491	202,994	199,900	3,094
Acquisitions and internal growth	13,244	4,484	8,760	37,920	13,243	24,677
Equity-accounted VIEs	-	3,025	(3,025)	-	9,081	(9,081)
Total Revenue	81,052	74,826	6,226	240,914	222,224	18,690
Direct Operating Expenses						
Same property	42,469	41,557	912	129,542	125,710	3,832
Acquisitions and internal growth	8,589	3,239	5,350	25,894	9,645	16,249
Equity-accounted VIEs	-	2,014	(2,014)	-	6,223	(6,223)
Total Direct Operating Expenses	51,058	46,810	4,248	155,436	141,578	13,858
Net Operating Income						
Same property	25,339	25,760	(421)	73,452	74,190	(738)
Acquisitions and internal growth	4,655	1,245	3,410	12,026	3,598	8,428
Equity-accounted VIEs	-	1,011	(1,011)	-	2,858	(2,858)
Total Net Operating Income	29,994	28,016	1,978	85,478	80,646	4,832
Overall operating margins	37.0%	37.4%	(0.4pp)	35.5%	36.3%	(0.8pp)
Same property statistics:						
Operating margins	37.4%	38.3%	(0.9pp)	36.2%	37.1%	(0.9pp)
Weighted average occupancy rate	90.5%	91.5%	(1.0pp)	90.7%	91.5%	(0.8pp)

Same property revenues increased by 0.7% in Q3 2009 as regular rental increases, which ranged between 2.5% and 5.0%, have offset a 1.0 percentage point decline in same property occupancy compared to Q3 2008. Same property average occupancy remains strong at 90.5%.

Same property direct operating expenses increased by 2.2% in Q3 2009 compared to Q3 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 tax exempt.

Same property NOI decreased $0.4 million or 1.6% in Q3 2009 compared to Q3 2008. Same property NOI in our Eastern Canadian retirement properties (outside Quebec) for Q3 2009 decreased 2.3% primarily due to lower occupancies and increased property taxes described above, partially offset by regular annual rent increases. Our Western Canadian platform same property NOI decreased by 1.2%, due to reduced occupancies in certain local markets and increased goods and services taxes described above, partially offset by regular annual rental increases and cost control initiatives. Our same property Quebec platform NOI was stable compared to Q3 2008. In Q4 2008 we acquired full control of our Quebec operating platform and have completed significant construction and renovation activity to renew and position many of these properties. As a result, we are continuing to realize improved occupancy in the Quebec portfolio.

Canadian Long-Term Care Operations

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

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

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

($000s, except occupancy rates and operating margins)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Revenues						
Same property	35,973	34,532	1,441	106,376	101,703	4,673
Acquisitions	530	518	12	1,580	892	688
Total Revenues	36,503	35,050	1,453	107,956	102,595	5,361
Direct Operating Expenses						
Same property	30,969	29,862	1,107	92,897	88,668	4,229
Acquisitions	334	318	16	986	544	442
Total Direct Operating Expenses	31,303	30,180	1,123	93,883	89,212	4,671
Net operating income						
Same property	5,004	4,670	334	13,479	13,035	444
Acquisitions	196	200	(4)	594	348	246
Total Net Operating Income	5,200	4,870	330	14,073	13,383	690
Overall operating margins	14.2%	13.9%	(0.3pp)	13.0%	13.0%	-
Same property statistics:						
Operating margins	13.9%	13.5%	(0.4pp)	12.7%	12.8%	(0.1pp)
Weighted average occupancy rate	98.5%	99.2%	(0.7pp)	98.3%	99.0%	(0.7pp)

Same property revenues increased by 4.2% in Q3 2009 compared to Q3 2008. Direct operating expenses increased by 3.7% in Q3 2009 compared to Q3 2008. The increases are primarily due to higher government funding provided for direct resident care services which are mainly staffing related. This direct resident care funding results in an increase in both revenue and direct operating expenses. In addition, the Ontario government provided additional funding for other accommodation which increased revenues by approximately $0.3 million for Q3 2009 compared to Q3 2008. We will continue to receive this new funding up to March 31, 2010. Same property NOI increased $0.3 million for Q3 2009 compared to Q3 2008 as a result of this new funding.

Weighted average occupancies in the same property portfolio were at 98.5% for Q3 2009, a decrease of 0.7 percentage points from Q3 2008. Occupancy in all of our Ontario long-term care communities exceeded 97% for 2009 YTD, and as a result, these communities receive government funding as though fully occupied.

U.S. Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Same Property - Owned					
100%	23	1,544	767	-	2,311
50%	25	3,134	1,240	190	4,564
Total Same Property Owned	48	4,678	2,007	190	6,875
Properties under Operating Lease					
100% Interest	2	129	108	-	237
Total Same Property Owned and Leased	50	4,807	2,115	190	7,112
Internal Growth					
50% Owned	1	161	35	-	196
Discontinued Operations [(1)]					
49% Interest	25	4,714	757	151	5,622
Properties under management	8	2,316	110	-	2,426
Total Discontinued Operations	33	7,030	867	151	8,048
Total	84	11,998	3,017	341	15,356

(1) As described in Note 20 of the consolidated financial statements, effective October1, 2009 we reorganized our relationships with Horizon Bay resulting in the disposition of our leased interest in 25 properties (5,622 suites) and eight management contracts (2,426 suites).

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

(U.S.$000s, except as noted otherwise)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Revenues						
Same property	39,732	40,170	(438)	119,814	120,485	(671)
Internal growth and other (1)	2,137	2,000	137	6,442	5,398	1,044
Intercompany eliminations	(1,769)	(1,629)	(140)	(5,368)	(4,599)	(769)
Total Revenues	40,100	40,541	(441)	120,888	121,284	(396)
Direct Operating Expenses						
Same property	26,875	26,434	441	79,117	79,449	(332)
Internal growth and other (1)	1,580	1,649	(69)	4,803	4,604	199
Intercompany eliminations	(1,769)	(1,629)	(140)	(5,368)	(4,599)	(769)
Total Direct Operating Expenses	26,686	26,454	232	78,552	79,454	(902)
Net Operating Income						
Same property	12,857	13,736	(879)	40,697	41,036	(339)
Internal growth and other (1)	557	351	206	1,639	794	845
Total Net Operating Income	13,414	14,087	(673)	42,336	41,830	506
Foreign exchange in CDN	1,236	573	663	7,211	772	6,439
Total Net Operating Income in CDN	14,650	14,660	(10)	49,547	42,602	6,945
Overall operating margins(2)	33.5%	34.7%	(1.2pp)	35.0%	34.5%	0.5pp
Same property statistics:						
Operating margins (2)	32.4%	34.2%	(1.8pp)	34.0%	34.1%	(0.1pp)
Weighted average occupancy rate	89.4%	93.9%	(4.5pp)	90.2%	94.2%	(4.0pp)

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

Same property revenue decreased by U.S.$0.4 million or 1.0% for Q3 2009 compared to Q3 2008. Same property revenues have been impacted by declining occupancy with Q3 2009 weighted average occupancy 89.4% or 4.5 percentage points lower compared to 93.9% in Q3 2008. Declining occupancies were partially offset by rent increases which range between 5% and 7%.

Same property direct operating expenses have increased by $0.4 million or 1.7%, for Q3 2009 compared to Q3 2008. To mitigate reduced occupancy, we are continuing to implement strategies to provide more payment flexibility to existing and potential residents, and continue to invest in marketing and advertising initiatives including launching a new U.S. website to drive increased traffic.

Same property NOI declined U.S.$0.9 million or 6.4% for Q3 2009 compared to Q3 2008.

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

	Q3 2009	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	1.10	1.04	0.06	1.17	1.02	0.15

A $0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar impacts AFFO by approximately $0.1 million on an annualized basis.

Canadian Management Operations

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

		Composition of Suites			
	Properties	**ISL**	**AL**	**LTC**	**Total**
Managed properties	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)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Management and Other Fee Revenue						
Spectrum:						
Development management	157	436	(279)	321	1,250	(929)
Operations management	437	575	(138)	1,458	1,557	(99)
Other	17	17	-	51	101	(50)
Total Spectrum	611	1,028	(417)	1,830	2,908	(1,078)
ING	583	586	(3)	1,753	1,788	(35)
Other	718	704	14	1,974	2,218	(244)
Total Management and Other Fee Revenue:	1,912	2,318	(406)	5,557	6,914	(1,357)
Direct operating expenses	1,025	1,025	-	3,074	3,075	(1)
Income from Management Operations	887	1,293	(406)	2,483	3,839	(1,356)

In Q3 2009 management operations revenue decreased by $0.4 million as compared to Q3 2008 primarily due to lower fees from Spectrum as the number of Spectrum properties under management declined as a result of completion of the majority of the development projects and sales of certain operating projects in 2009.

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

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

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)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
Net loss per financial statements	(8,950)	(5,951)	(2,999)	(64,009)	(30,344)	(33,665)
Add (Subtract):						
Depreciation of properties (1)	19,269	17,198	2,071	58,416	50,708	7,708
Amortization of limited life intangible assets (1)	8,803	12,322	(3,519)	31,668	40,065	(8,397)
Depreciation of leasehold improvements included in depreciation of properties	(118)	(114)	(4)	(352)	(330)	(22)
Loss/ (Gain) on sale of assets	-	(126)	126	-	(32)	32
Future income tax expense/ (recovery)	(4,234)	1,500	(5,734)	(7,175)	1,737	(8,912)
Non-controlling interest	(218)	(378)	160	(1,377)	(1,929)	552
FFO (2)	14,552	24,451	(9,899)	17,171	59,875	(42,704)
FFO per unit:						
Basic	0.14	0.24	(0.10)	0.17	0.61	(0.44)
Diluted	0.14	0.24	(0.10)	0.17	0.59	(0.42)

(1) Includes depreciation and amortization that has been reclassified as discontinued operations.
(2) 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.

Diluted FFO decreased by $9.9 million or $0.10 per unit Q3 2009 compared to Q3 2008 primarily due to the increase in net loss during the period.

For 2009 YTD compared to 2008 YTD, diluted FFO decreased by $42.8 million or $0.42 per unit primarily due to a provision for impairment of $30.7 million recorded in Q2 2009 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)	**Q3 2009**	Q3 2008	Increase / (Decrease)	**2009 YTD**	2008 YTD	Increase / (Decrease)
FFO (1)	14,552	24,451	(9,899)	17,171	59,875	(42,704)
Add (Subtract):						
Adjustment to record lease expense on a straight-line basis over the lease term	1,553	1,677	(124)	4,979	4,922	57
Unrealized foreign exchange and derivative (gains)/losses	4,089	(3,358)	7,447	11,184	(5,648)	16,832
SIFT Income Tax Expense (Recovery)	-	545	(545)	(91)	1,262	(1,353)
NFFO(2)	20,194	23,315	(3,121)	33,243	60,411	(27,168)
Add (Subtract):						
SIFT Income Tax (Expense) Recovery	-	(545)	545	91	(1,262)	1,353
Amortization of below-market leases	(243)	(409)	166	(985)	(1,321)	336
Principal portion of capital subsidy receivable from Health Authorities	549	524	25	1,622	1,549	73
Amounts received under income guarantees	151	52	99	412	641	(229)
Amortization of financing costs	1,570	1,199	371	4,496	3,611	885
Accretion adjustment to convertible debenture liability	763	701	62	2,241	2,057	184
Amortization of debt mark-to-market adjustments arising on acquisition	(285)	(255)	(30)	(934)	(837)	(97)
Deferred financing fee reserve (3)	(280)	(253)	(27)	(867)	(750)	(117)
AFFO before capex reserve	22,419	24,329	(1,910)	39,319	64,099	(24,780)
Maintenance capex reserve - 2% of property revenue	(3,720)	(3,454)	(266)	(11,367)	(10,140)	(1,227)
AFFO(4)	18,699	20,875	(2,176)	27,952	53,959	(26,007)
NFFO per unit						
Basic	0.20	0.24	(0.04)	0.33	0.61	(0.28)
Diluted	0.20	0.23	(0.03)	0.32	0.60	(0.28)
AFFO per unit						
Basic	0.19	0.21	(0.02)	0.27	0.55	(0.28)
Diluted	0.18	0.21	(0.03)	0.27	0.53	(0.26)

(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
	Q3	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Revenues [1]	165,837	168,620	171,285	169,440	156,524	152,605	151,824	151,021
Direct operating expenses [1]	(112,739)	(114,177)	(117,390)	(117,145)	(103,549)	(102,401)	(102,642)	(102,305)
General, administrative and trust expenses	(4,425)	(5,822)	(5,820)	(5,302)	(4,098)	(5,302)	(5,200)	(5,695)
	48,673	48,621	48,075	46,993	48,877	44,902	43,982	43,021
Interest expense	(27,173)	(27,217)	(28,284)	(27,309)	(25,287)	(25,841)	(25,328)	(24,931)
Property lease expenses [1]	(588)	(703)	(708)	(655)	(590)	(591)	(524)	(502)
Foreign exchange gains/(losses)	(3,848)	(4,309)	2,016	12,534	3,358	(559)	2,849	(122)
Depreciation and amortization	(27,032)	(29,012)	(30,798)	(30,646)	(28,690)	(29,431)	(30,330)	(27,514)
Write down of carrying value of management contracts	-	-	-	-	-	-	-	(1,284)
Provision for impairment of goodwill	-	-	-	(64,506)	-	-	-	-
Provision for impairment of mezzanine loans and accounts receivable	-	(30,684)	-	(6,406)	-	-	-	-
(Loss)/Gain on sale of assets		-	-	64	126	(102)	8	(411)
Non-controlling interest	140	801	234	1,996	259	660	659	989
Current income tax (expense) recovery	(91)	(82)	168	496	(629)	133	(999)	(2,004)
Future income tax (expense) recovery	4,234	4,693	(1,752)	1,568	(1,500)	-	(237)	4,267
(Loss) from discontinued operations [1]	(3,265)	(3,223)	(2,895)	(3,257)	(1,875)	(2,043)	(1,601)	(1,625)
Net loss for the period	(8,950)	(41,115)	(13,944)	(69,128)	(5,951)	(12,872)	(11,521)	(10,116)
Net loss per unit diluted	(0.12)	(0.42)	(0.14)	(0.72)	(0.06)	(0.11)	(0.13)	(0.11)
FFO	14,552	(16,690)	19,309	23,249	24,451	14,317	18,900	14,317
FFO per unit diluted	0.14	(0.16)	0.19	0.23	0.24	0.14	0.19	0.14

(1) Chartwell disposed of its interest in HBR effective October 1, 2009. The disposition is considered discontinued operations. Accordingly, the results attributed to the discontinued operations are disclosed separately.

Chartwell's results for the past eight quarters have been affected by the contribution of the acquired seniors housing communities and changes in foreign exchange rates resulting in realized and unrealized gains and losses.

In Q4 2008 we recorded a provision for impairment of goodwill of $64.5 million. In Q4 2008 and in Q2 2009, we recorded provisions for impairment of mezzanine loans and accounts receivable of $6.4 million and $30.7 million, respectively.

Financial Position

Balance Sheet Analysis

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

	Increase / (Decrease) ($millions)	**Explanation**
Properties	(80.6)	Properties increased as follows: properties acquired during the first nine months of 2009 added $47.2 million; internal growth developments, building improvements, other capital expenditures added $31.1 million and a net decrease in the transfer to assets held for sale of $1.1 million. These increases were offset by depreciation and amortization of $58.6 million, foreign exchange translation adjustment of $101.4 million.
Mezzanine loans	(29.5)	Mezzanine loans outstanding decreased due to a provision for impairment of $24.2 million and the discharge of $5.7 million of mezzanine loans on the acquisition of the related properties. This was offset by the effective interest rate adjustments of $0.4 million.
Limited life intangible assets	(28.9)	Limited life intangible assets increased by $4.7 million from acquisitions during the first nine months of 2009 and a net decrease in the transfer to assets helf for sale of $3.7 million. This increase was offset by amortization of $31.7 million, foreign exchange translation adjustment of $5.6 million.
Total assets	(165.3)	The decrease in total assets during the first nine months of 2009 is principally due to the decrease in properties, limited life intangible assets, mezzanine loans and cash.
Mortgages payable	(41.7)	Mortgages payable decreased as a result of regular amortizing principal repayments of $26.9 million, foreign exchange translation adjustment of $80.7 million and additional deferred financing costs, net of amortization, of $2.1 million. These decreases were offset by new mortgage financings of $32.4 million, assumed mortgages on acquired properties of $35.6 million.
Total liabilities	(38.1)	The decrease in total liabilities is primarily due to decreases in mortgages payable.
Non-controlling interest	(7.8)	Non-controlling interest decreased primarily due to exchanges of Class B Units of Master LP for Trust Units of $5.0 million, distributions to the holders of the Class B Units of Master LP of $1.1 million and non-controlling interests share of net loss of $1.4 million.
Unitholders' equity	(119.3)	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 September 30, 2009.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Remainder of 2009	9,308	16,469	25,777	1.33%	5.06%
2010	31,680	84,371	116,051	6.79%	4.62%
2011	31,059	50,944	82,003	4.10%	4.78%
2012	31,953	95,047	127,000	7.65%	5.11%
2013	31,585	130,344	161,929	10.49%	5.10%
2014	26,632	125,475	152,107	10.10%	4.30%
2015	25,046	84,409	109,455	6.79%	5.38%
2016	22,363	178,892	201,255	14.40%	6.02%
2017	17,830	263,016	280,846	21.17%	5.68%
2018	15,644	32,625	48,269	2.63%	5.55%
2019-2023	67,538	136,266	203,804	10.97%	6.03%
Thereafter	81,004	44,409	125,413	3.57%	5.43%
Total	391,642	1,242,267	1,633,909	100.00%	
Mark-to-market adjustments arising on acquisition			13,797		
Less: Financing costs			(20,923)		
Total Mortgage Debt			1,626,783		

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

	As at September 30, 2009	As at December 31, 2008
Average term to maturity	8.2 years	8.7 years
Weighted average contractual interest rate	5.44%	5.65%
Variable rate mortgage debt	$44.0 million	$28.9 million

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

Our variable rate mortgages relate to one community acquired from Spectrum in Q1 2009 of $9.8 million, five of our internal growth projects of $21.7 million and two property specific bridge loans of $12.5 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 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 Q3 2009, we refinanced $70.7 million of debt, including $12.6 million of 2010 maturing debt at a weighted average interest rate of 4.04%, lower than the 4.91% average interest rate on the maturing debt. In the first nine months of 2009, $121.9 million of maturing debt has been refinanced at an average rate of approximately 3.83% compared to 5.15% rate on the maturing debt, taking advantage of current low interest rates and improving the balance of our maturity schedule. The remaining $16.5 million of 2009 maturities are CMHC-insured and subsequent to September 30, 2009, we refinanced $2.9 million of this maturing debt. In addition, subsequent to September 30, 2009, we arranged $4.8 million of new mortgage

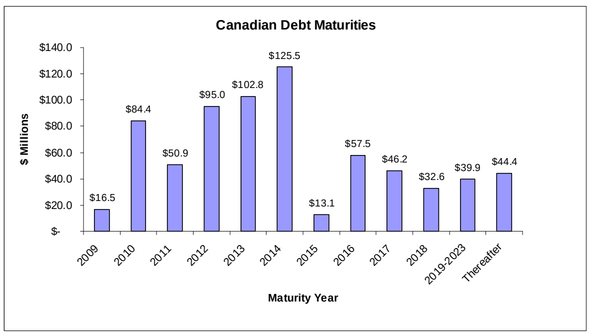
[*] *This paragraph contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section in this MD&A.*

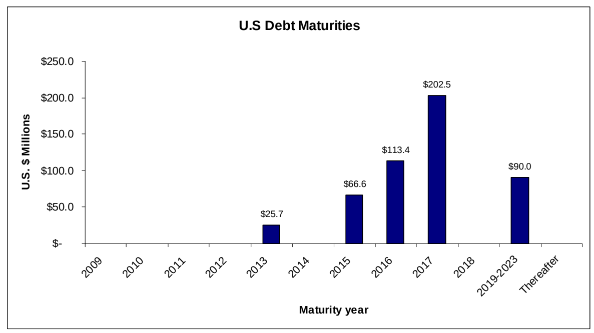
refinancings and $3.4 million of top-up financings. We anticipate renewing or replacing remaining maturing mortgages in due course.*

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

One of our U.S. subsidiaries had not complied with certain financial covenants under the terms of a loan agreement for one property. As at September 30, 2009, the amount of this loan was $9.6 million (U.S.$8.9 million), bearing interest at 6.24% and maturing on December 26, 2013. The loan payments are current. A paydown of approximately $1.7 million (U.S.$1.6 million) is required to remedy the default; and this amount was reclassified as a principle repayment due in 2009.

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





Convertible Debentures

At September 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 September 30, 2009, including the indebtedness of third parties guaranteed by Chartwell:

($000s)	**September 30, 2009**
Mortgages payable	1,633,909
Loans payable	-
Guarantee [(1)]	6,885
Revolving operating credit facility	22,000
Total indebtedness excluding convertible debentures	1,662,794
Convertible debentures (face value)	199,925
Indebtedness	1,862,719
Total assets	2,540,236
Accumulated depreciation and amortization[(2)]	532,867
Gross book value ("GBV") of assets	3,073,103
Less: Assets financed by deferred purchase consideration on acquisition properties	23,308
Gross book value of assets (net of deferred consideration)	3,049,795
Debt to GBV before convertible debentures	54.7%
Debt to GBV including convertible debentures	61.4%

(1) Guarantee was reduced to $6,885 upon the property achieving revenue targets as per the loan agreements.
(2) Includes accumulated depreciation and amortization related to fully amortized intangible assets of $142,131.

Outstanding Units Data

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

	Trust Units	**LTIP Units under Subscription**	**Class B Units of Master LP**	**Deferred Trust Units**	**Total**
Balance December 31, 2008	96,369,598	2,571,990	2,865,472	34,286	101,841,346
Trust Units issued pursuant to Dividend Reinvestment Plan ("DRIP")	896,063	-	-		896,063
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	122,500	-		122,500
LTIP Units under subscription surrendered	-	(110,927)	-		(110,927)
Exchange of LTIP Units	120,000	(120,000)	-	-	-
Deferred Trust Units issued				62,813	62,813
Deferred Trust Unit distributions				6,589	6,589
Units transferred to treasury	-	-	-		-
Exchange of Class B Units of Master LP	888,613	-	(888,613)		-
Balance September 30, 2009	98,274,274	2,463,563	1,976,859	103,688	102,818,384

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q3 2009 and Q3 2008:

Cash Provided by (Used in):	Increase / (Decrease) ($millions)	Explanation
Operating activities	(7.3)	Cash flows from operating activities decreased primarily due to lower mezzanine loan interest and fee income and a decrease in non-cash working capital items.
Financing activities	(2.1)	Cash flows from financing activities decreased primarily due to repayments on the revolving operating credit facility of $6.0 million. This decrease was offset by higher proceeds from mortgage refinancings net of repayments of $3.0 million, and repayments of LTIP loans which increased $0.6 million.
Investing activities	10.8	Cash flow from investing activities increased by $10.8 million due primarily to lower capital expenditures.

Distributions

As described in the "Significant Events" section of this MD&A, effective with the payment to Unitholders for August 2009, and paid on September 15, 2009, cash distributions were reduced to $0.54 per annum per unit from $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 Q3 2009, 2009 YTD and the years ended December 31, 2008 and 2007:

			Years Ended December 31	
($000s)	**Q3 2009**	**2009 YTD**	2008	2007
Distributions declared	15,124	51,610	75,670	94,145
Distributions on Class B Units of Master LP	300	1,128	3,595	6,839
Distributions reinvested under DRIP	(849)	(4,368)	(9,230)	(4,317)
Distributions applied against LTIP installment loan receivable	(459)	(1,460)	(2,144)	(2,557)
Distributions paid or payable in cash	14,116	46,910	67,891	94,110

The following table summarizes cash distributions made by Chartwell in Q3 2009, 2009 YTD and the years ended December 31, 2008 and 2007 in relation to net loss and cash flows from operating activities:

			Years Ended December 31	
($000s)	**Q3 2009**	**2009 YTD**	2008	2007
Cash flows from operating activities	25,642	56,992	101,525	101,435
Loss before non-controlling interest	(9,168)	(65,386)	(103,390)	(72,347)
Cash distributions declared(1)	14,116	46,910	67,891	94,110
Excess (shortfall) of cash flows from operating activities over cash distributions paid	(12,526)	10,082	33,634	7,325
Excess (shortfall) of net loss before non-controlling interest over cash distributions paid	(23,284)	(112,296)	(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 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 nine months of 2009, changes in non-cash working capital reduced cash flows from operating activities by approximately $8.9 million.

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").

In Q3 2009 we renewed our Credit Facility until June 27, 2010. Under the amended terms, the amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 2.75% or at the applicable bankers' acceptance rate plus 4.00%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to Unitholders. At our request, the committed amount under the Credit Facility has been reduced to $75 million from the current $90 million. The Credit Facility is secured by first and second charges on 23 seniors housing communities. At September 30, 2009, the maximum available borrowing capacity under the Credit Facility was $54.4 million, of which $22.0 was drawn.

Subsequent to September 30, 2009, the outstanding balance was repaid with proceeds from the equity financing completed on October 8, 2009.

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 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 Q3 2009 and 2009 YTD:

($000s)	Q3 2009	2009 YTD
Building expansions (internal growth)	4,611	13,720
Acquisition-related capital expenditures	749	1,787
Building improvements	1,948	6,054
Long-term replacement items	1,243	3,080
Furniture, fixtures and equipment	2,625	5,866
Other	200	624
Total	11,376	31,131

Contractual Obligations and Guarantees

Contractual Obligations

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

($000s)	Total	Remainder of 2009	2010	2011	2012	2013	Thereafter
Mortgages payable	1,633,909	25,777	116,051	82,003	127,000	161,929	1,121,148
Convertible debentures	199,925	-	-	124,925	75,000	-	-
Revolving operating credit facility	22,000	22,000	-	-	-	-	-
Purchase obligations	39,727	15,599	12,605	7,392	4,131	-	-
Property operating leases	14,109	428	1,710	1,710	1,710	1,710	6,841
Other operating leases	5,684	299	1,083	974	974	974	1,380
Land leases	11,197	61	245	245	245	245	10,156
Total contractual obligations	1,926,551	64,164	131,694	217,249	209,060	164,858	1,139,526

Purchase obligations relate to the following:

- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately $23.3 million payable generally on the earlier of the maturity date or the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Purchase obligations with respect to previously closed acquisitions up to the amount of approximately $2.8 million payment contingent upon the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Commitments with respect to various construction contracts of approximately $7.2 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately $3.0 million.

Property operating leases relate to Chartwell's 100% leased interests two seniors housing communities.

On October 1, 2009, we disposed of our 49% interest in 25 leased communities in the U.S. as described in the "Business Overview" section of this MD&A. As a result, commitments related to minimum lease payments on these leases in the amount of $464.2 million were excluded from the table above.

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) 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. This agreement expires on February 5, 2016.

(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'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.

Subsequent to September 30, 2009 we restructured our relationships with Horizon Bay such that we now own a 50% interest in HBC and an 80% interest in HBCII.

Guarantees

Chartwell provides a guarantee of the debt of one property sold to Spectrum in 2005 for which it receives an annual guarantee fee. The maximum amount of guarantee was reduced to $6.9 million upon the property achieving predetermined revenue targets. Spectrum has indemnified Chartwell in respect of this guarantee.

Transactions with Spectrum

The following is a summary of significant transactions with Spectrum for the three and nine months ended September 30, 2009:

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 September 30, 2009, Richard Noonan, Chief Operating Officer of Chartwell owned a minority interest (less than 3%) in Spectrum.

Details of Q3 2009 transactions with Spectrum are disclosed in Note 13 to the consolidated financial statements.

At September 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 September 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 loan payments of $5.7 million amounts due from Spectrum of approximately $7.5 million with the remainder paid in cash to Spectrum.

During Q2 2009, Spectrum sold eight properties and agreed to sell one additional property, upon receipt of regulatory approvals, to Seasons. Chartwell agreed to the purchaser assuming mezzanine loans outstanding on seven of these properties.

Subsequent Events

On October 8, 2009, Chartwell completed a public offering of 14,375,000 Trust Units at $6.00 per Trust Unit for the gross proceeds of $86.2 million through a syndicate of underwriters.

Subsequent to September 30, 2009, Chartwell acquired one seniors housing property in Canada from Spectrum for consideration before closing costs of approximately $23.1 million. The purchase price after working capital adjustments of $0.2 million was settled through the assumption of existing mortgage debt of $17.1 million, the settlement of outstanding accounts receivable of $2.8 million and mezzanine loans of $3.0 million.

Subsequent to September 30, 2009 Spectrum sold one property to a third party and repaid one of its mezzanine loans to Chartwell in the amount of $2.8 million plus accrued interest.

Subsequent to September 30, 2009, Chartwell disposed of its 49% interest in HBR to HB Partners LLC for nominal consideration. Prior to disposition, HBR distributed to Chartwell a portion of its interest in HBCII. Upon completion of the transaction, Chartwell no longer has an interest in the 25 seniors housing communities leased by subsidiaries of HBR and eight third-party management contracts, but retains a 50% interest in HBC and an 80% interest in HBCII.

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 plans 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 Q3 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 September 30, 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 September 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.

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

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 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 September 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. – 25%; Canada – 75%; by province as a percentage of total suites as follows: Ontario – 38%; Quebec – 25%; and other Canadian provinces – 12%. 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 Q3 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 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 September 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.