

# Management's Discussion and Analysis

# 10

For the Years Ended  
December 31, 2010 & 2009





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

For the Years Ended December 31, 2010 and 2009

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Chartwell Seniors Housing Real Estate Investment Trust (“Chartwell” or the “Trust”) has prepared the following discussion and analysis (the “MD&A”) to provide information to assist its current and prospective investors’ understanding of the financial results for the years ended December 31, 2010 and 2009. This MD&A should be read in conjunction with Chartwell’s audited consolidated financial statements for the years ended December 31, 2010 and 2009 and the notes thereto (the “Financial Statements”). This material is available on Chartwell’s website at [www.chartwellreit.ca](http://www.chartwellreit.ca). Additional information about Chartwell, including its Annual Information Form (“AIF”) for the year ended December 31, 2010, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of March 10, 2011.

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

In this document, “Q1” refers to the three-month period ended March 31; “Q2” refers to the three-month period ended June 30; “Q3” refers to the three-month period ended September 30; “Q4” refers to the three-month period ended December 31; “2010” refers to the calendar year 2010; “2009” refers to the calendar year 2009 and “YTD” means year-to-date.

Unless otherwise indicated, all comparisons of results for 2010 are in comparison to results from 2009 and all comparisons of results for Q4 2010 are in comparison to Q4 2009.

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

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

## Business Overview

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

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

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

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

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

Respect – We honour and celebrate seniors

Empathy – We believe compassion is contagious

Service Excellence – We believe in providing excellence in customer service

Performance – We believe in delivering and rewarding results

Education – We believe in lifelong learning

Commitment – We value commitment to the Chartwell family

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

As of December 31, 2010, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 25,709 suites in 198 communities. As of December 31, 2010, our portfolio of owned and leased communities consisted of interests in 23,791 suites in 184 communities.

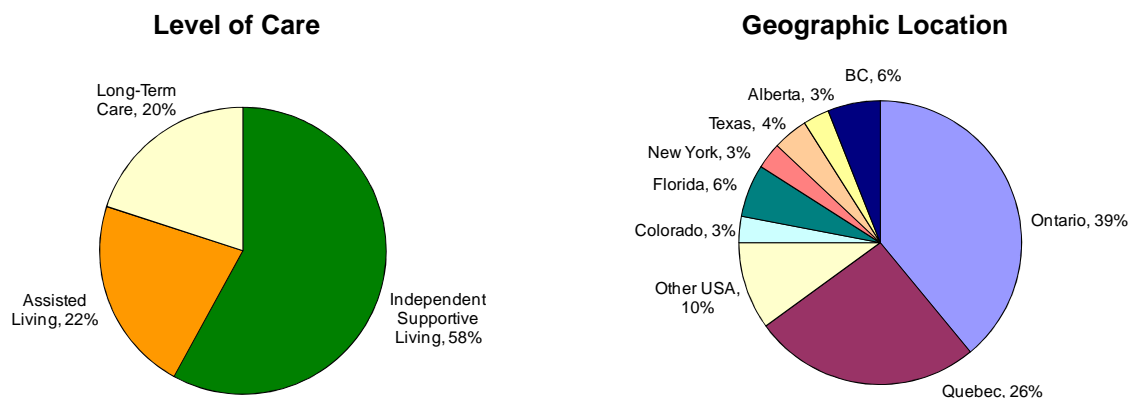
The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our four operating segments at December 31, 2010:

	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
<b>Owned Properties:</b> <sup>(1)</sup>										
100% Owned										
Operating	102	11,894	24	3,164	29	3,366	-	-	155	18,424
Development	-	562	-	-	-	-	-	-	-	562
<b>Total 100% Owned</b>	<b>102</b>	<b>12,456</b>	<b>24</b>	<b>3,164</b>	<b>29</b>	<b>3,366</b>	<b>-</b>	<b>-</b>	<b>155</b>	<b>18,986</b>
50% Owned										
Operating	7	863	-	-	20	3,705	-	-	27	4,568
<b>Total 50% Owned</b>	<b>7</b>	<b>863</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>3,705</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>4,568</b>
<b>Total Owned</b>	<b>109</b>	<b>13,319</b>	<b>24</b>	<b>3,164</b>	<b>49</b>	<b>7,071</b>	<b>-</b>	<b>-</b>	<b>182</b>	<b>23,554</b>
<b>Properties under Operating Lease:</b>										
100% Interest	-	-	-	-	2	237	-	-	2	237
<b>Total Leased</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>237</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>237</b>
<b>Total Owned and Leased</b>	<b>109</b>	<b>13,319</b>	<b>24</b>	<b>3,164</b>	<b>51</b>	<b>7,308</b>	<b>-</b>	<b>-</b>	<b>184</b>	<b>23,791</b>
<b>Managed Properties</b> <sup>(2)</sup>										
							14	1,918	14	1,918
<b>Total</b>	<b>109</b>	<b>13,319</b>	<b>24</b>	<b>3,164</b>	<b>51</b>	<b>7,308</b>	<b>14</b>	<b>1,918</b>	<b>198</b>	<b>25,709</b>

(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) We hold purchase options on five of these communities.

### Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Leased Interest, at December 31, 2010 by:



## Business Strategy

Our business strategy is principally focused on providing quality care and services to our residents, which will allow us to grow AFFO from our core property portfolio over time. The following summarizes our key strategic objectives:

### **Enhance the quality of our cash flows and grow core property AFFO by:**

- Providing high-quality service and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Investing in innovative marketing and sales programs to increase customer traffic and sales closing ratios.
- Managing rental rates.
- Mitigating inflationary pressures on our operating costs through specific vendor management and cost-control initiatives.
- Maintaining our asset management program to ensure each asset is used to its highest potential.

### **Streamline operating processes; improve research and information management by:**

- Investing in market and customer research in order to better tailor service offerings to our residents and our investments in new properties.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to operating teams.
- Implementing information technology (“IT”) solutions to improve operating efficiencies and better communicate with our employees.

### **Build value through internalized development program by:**

- Commencing up to five new development projects per year.

### **Reduce mezzanine loan exposure by:**

- Converting our mezzanine loan investments into equity in the properties, wherever possible, or collecting the remaining mezzanine loans in cash.

### **Acquire newer, state-of-the-art properties by:**

- Sourcing acquisitions of newer, state-of-the-art properties in our existing markets, which are accretive, with a preference towards properties currently under management.

### **Maintain a strong financial position by:**

- Staggering debt maturities over time.
- Financing our properties with long-term debt, while managing interest costs.
- Gradually reducing our debt levels over time.

The following summarizes the progress we made in executing our strategy in 2010:

<p><b>Enhance the quality of our cash flows and grow core property AFFO</b></p>	<ul style="list-style-type: none"> <li>• AFFO from core property operations (excluding contribution from mezzanine loans and fee revenue) increased to 88% of the total AFFO in 2010 from 79% in 2009.</li> <li>• Same property NOI increased 3.5% in 2010 compared to 2009.</li> <li>• Same property occupancy remained stable at 90.4% despite competitive pressures and challenging economic conditions in some of our markets.</li> <li>• Sales closing ratios improved by over 10% in the second half of 2010 in Ontario and Western Canada, as a result of the innovative Value Match sales program.</li> <li>• Completed over 30 assets management reviews and invested approximately \$9.1 million in repositioning and revenue enhancement projects. Divested of interests in two non-core properties.</li> </ul>
<p><b>Streamline operating processes; improve research and information management</b></p>	<ul style="list-style-type: none"> <li>• Completed a detailed review of the financial and administrative processes at our head office and implemented a number of process improvements, which will result in better support services to our operating teams and lower operating costs going forward.</li> <li>• Established ongoing market and resident research programs and completed a number of surveys and studies, which provided us with a greater insight into the current market trends. We now also better understand the needs and preferences of our existing and prospective residents.</li> <li>• Invested \$1.2 million into our information management initiatives to reduce cost and improve our e-mail services. We also implemented new planning and forecasting tools and a company-wide intranet to better communicate with our 11,000 employees in Canada.</li> </ul>
<p><b>Build value through internalized development program</b></p>	<ul style="list-style-type: none"> <li>• Opened a 71-suite addition to our Carrington House retirement community in Vernon, British Columbia.</li> <li>• Commenced construction of two retirement homes adjacent to our existing LTC properties in Kitchener and Oshawa, Ontario.</li> <li>• Commenced redevelopment of one LTC community in Burnaby, British Columbia.</li> </ul>
<p><b>Reduce mezzanine loan exposure</b></p>	<ul style="list-style-type: none"> <li>• Collected \$14.4 million of mezzanine loans in cash and converted \$17.4 million into equity in five properties.</li> <li>• At December 31, 2010, our net mezzanine loan exposure was \$20.8 million compared to \$55.3 million at December 31, 2009.</li> </ul>
<p><b>Acquire newer, state-of-the-art properties</b></p>	<ul style="list-style-type: none"> <li>• Invested \$340.8 million in acquisition of interests in 20 seniors housing communities. We acquired properties from Spectrum Seniors Holdings LP ("Spectrum"), Le Groupe Melior ("Melior"), and ING Real Estate Investment Management Australia PTY Limited and its affiliates ("ING"); all of which we previously managed.</li> </ul>
<p><b>Maintain a strong financial position</b></p>	<ul style="list-style-type: none"> <li>• Replaced \$124.9 million of our convertible debentures with equity reducing our Indebtedness Ratio from 59.9% at December 31, 2009 to 57.7% at December 31, 2010.</li> <li>• Improved the terms of our secured revolving operating credit facility ("Credit Facility").</li> <li>• Maintained a well-staggered maturity profile of our mortgage portfolio, which at December 31, 2010, had a weighted average term to maturity of 7.5 years and a weighted average interest rate of 5.44%.</li> <li>• Refinanced maturing mortgages and completed new financings in the amount of \$52.0 million with a weighted average interest rate of 4.07% and a weighted average term to maturity of 9.3 years.</li> </ul>

## 2011 Outlook \*

With an improved economic outlook both in Canada and the U.S. and the significant decline in seniors housing construction starts in many of our markets, we are cautiously optimistic about 2011.

The following summarizes our outlook for 2011 for the markets in which we operate:

### **Canadian Operations**

We expect a continuing recovery in our Canadian Retirement Operations segment in 2011 and anticipate generating moderate growth through rate and occupancy increases supported by improving market conditions. We also believe that our innovative sales and marketing programs will continue generating increased sales activities including an increased number of deposits on hand and increased occupancy. The following summarizes our expectations:

- In Ontario, we anticipate average rental rates will increase by 3.5% to 4.0% in 2011. In Q4 2010, same property portfolio occupancy declined to 91.8% from 92.1% in Q3 2010, with a further slight occupancy decline in the first two months of 2011, which we attribute to seasonality. We have, however, seen an increase in the number of respite stays and our future arrival statistics are positive. We expect that these positive trends, combined with the substantial waiting list for Ontario LTC accommodation that is currently in excess of 24,000 people and which creates a spillover effect to help support occupancies in retirement properties, should result in gradually improving occupancies in Ontario.
- In Alberta, we anticipate average rental rates will increase by approximately 4.0% in 2011 and occupancy levels are projected to continue to remain high.
- In British Columbia, we expect to achieve average rental rate increases of approximately 4.0% in 2011. In Q4 2010, our Western Canada same property portfolio delivered strong occupancy growth to 91.4% from 89.9% in Q3 2010, as supply demand balance in certain previously oversupplied markets began to improve. Our future arrival statistics remain positive and we expect that our Western Canada portfolio will continue delivering occupancy growth in 2011.
- Since obtaining full control of our properties in Quebec in Q4 2008, and investing in initiatives to reposition and renew many of these properties, we have continued to achieve improved occupancy. In Q4 2010, same property portfolio occupancy improved slightly to 87.6% from 87.4% in Q3 2010. We have seen a slight occupancy decline in the first two months of 2011, which we attribute to seasonality. We expect occupancies to begin improving in the spring and into the remainder of 2011. We expect to achieve average rental rate increases of approximately 2.0% in 2011.

In 2010, our Canadian Long-Term Care Operations segment has achieved same property NOI growth of 10.5%, which is attributed to a funding increase received beginning April 1, 2009, and an adjustment to our estimates for vacation and sick-time cost accruals and lower realty taxes. In 2011 we would expect only an inflationary increase in funding which, combined with the additional HST costs, higher cost of compliance mandated by the new LTC legislation and the one-time nature of the adjustment to the estimates noted above, will likely result in a reduction in same property NOI compared to 2010.

In Ontario and British Columbia, our results have been affected by the harmonization of provincial sales taxes with the federal Goods and Services Tax on July 1, 2010 ("HST"). HST resulted in these provinces increasing the tax burden in the seniors housing sector by broadening the scope of sales taxes to include items such as utilities and contracted services, including maintenance contracts. The Province of British Columbia has provided relief to LTC operators; however, to date, the Ontario government has not committed to a relief program for this additional burden placed on LTC communities. We continue to advocate for relief for our Ontario LTC communities. In respect of our retirement operations in Ontario and British Columbia, we anticipate implementing rental rate increases to absorb the new costs beginning

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



in 2011. We estimate that HST will add approximately \$2.0 million in annualized costs, of which approximately \$1.0 million was incurred in 2010.

## ***U.S. Operations***

Continuing previous positive trends, occupancies in our U.S. Operations segment improved in Q4 2010, to 90.4% from 88.9% in Q3 2010. However, we have seen a partial reversal of these positive trends in the first two months of 2011. Economic conditions in the U.S. are forecasted to gradually improve in 2011; however, the recovery in the U.S. housing market is expected to be slower. Strategic capital renewal programs, similar to those in Canada, are demonstrating a strong contribution to occupancy growth. Therefore, we still expect overall positive trends in our U.S. occupancies in 2011, with the possibility of some short-term volatility. We anticipate that average rental rates will increase by 2% to 4% in 2011. Although we reduced our use of incentive programs for new residents in Q4 2010, there remains the risk of reduced rate growth or in some limited cases, a further rate compression on suite turnover.

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

In 2010, we incurred consulting and professional fees related to our conversion to International Financial Reporting Standards ("IFRS"), process efficiency initiatives, and our review of legal structure alternatives with respect to the SIFT Rules ("SIFT review"). These costs amounted to approximately \$1.5 million. In 2011, we will continue our investment in information management systems and process efficiency initiatives. We expect to substantially complete the implementation of a Human Resource Information Management System ("HRIS"), introduce new web-based sales performance coaching and increase scope of our planning and forecasting tool. We will also continue our investments in IT infrastructure and later in the year, commence the implementation of a Customer Relationship Management ("CRM") system to better track customer needs and demands throughout the customer lifecycle. These additional investments are expected to add approximately \$1.9 million to our general, administrative and trust ("G&A") expenses in 2011, which will be partially offset by lower IFRS-related expenses. We also expect to reduce our payroll processing fees beginning in 2012.

## ***Development***

In 2010, we opened a 71-suite addition to our existing retirement community in Vernon, British Columbia. In Q3 2010, we commenced the development of two retirement residences adjacent to our existing LTC communities in Kitchener, Ontario and Oshawa, Ontario. These developments will add 215 retirement suites at an estimated total development cost of approximately \$50.0 million and are expected to be completed in Q1 2012. In addition, in Q3 2010, we commenced redevelopment of 128 LTC beds in one community in British Columbia at an estimated total development cost of approximately \$26.6 million with completion expected in Q2 2012.

The redevelopment of 35,000 LTC beds in Class B and C communities is required by the government of Ontario over the next 10 years, and capital funding is provided for this renewal initiative. We have 12 Class B and C communities in Ontario with a total of 1,166 LTC beds that will be able to access this redevelopment program. In early 2011, we expect to commence redevelopment of three of these communities. We continue our feasibility analysis of redevelopment of the remaining LTC communities.

Early in 2011 we acquired a parcel of land in Hamilton, Ontario for development of a 110 to 120-suite retirement residence. We expect to commence this development in the second half of 2011 and are currently finalizing our development proforma. We continue to evaluate other opportunities for on balance sheet development.

## ***Canadian Management Operations***

We provide operations management services to a number of owners of seniors housing communities, and asset management services to ING. While we ensure that our existing clients receive the highest-quality service, we do not seek to grow the number of “one off” management contracts.

In Q2 2010, we completed previously announced acquisitions of the Meridian and Regency portfolios from ING. As a result, operations and asset management fees have been replaced with property operating income.

In Q4 2010, one of our clients, Seasons Retirement Communities (“Seasons”) repaid their mezzanine loans totalling \$11.7 million, and internalized management of all but one of their properties, effective January 1, 2011. We continue to manage one LTC community, which Seasons acquired from Spectrum earlier in 2010. The mezzanine loan of \$2.6 million on this community matures on March 31, 2012.

With our reduced emphasis on management activities and the wind-down of our relationship with Spectrum, we expect development and operations management fee income to continue to decline in 2011.

## ***Mezzanine Loan Interest Income***

Subsequent to December 31, 2010, Spectrum sold its interests in two properties to third parties and repaid its mezzanine loans totalling \$7.6 million.

We continue working with the mezzanine loan borrowers in order to collect amounts due. It is possible that we may acquire or receive in payment for the amounts due, a limited number of their properties. As a result, we expect mezzanine loan interest income to continue to decline in 2011.

## ***Acquisitions***

We are actively seeking opportunities to acquire newer properties on an accretive basis in geographic regions in which we already operate, with a preference for the properties currently under management.

In 2010, the competition for new acquisitions intensified as certain new investors entered the seniors housing market. Although we are seeing a significant number of acquisition opportunities, we will continue to be disciplined in our underwriting and in the application of our strict acquisition criteria.

## ***Dispositions***

In 2010, we disposed of our 50% interest in a retirement community in British Columbia and a retirement community in Newfoundland. As part of our asset management review program, we may dispose of other select properties if we determine that such properties do not fit into our long-term strategy.

## ***Maintaining a Strong Financial Position***

At December 31, 2010, we had cash on hand of \$14.7 million and unused borrowing capacity on our Credit Facility of \$21.9 million. In Q4 2010, we used our Credit Facility to repay certain high interest rate property-specific mortgages. We expect to refinance two of these properties in the spring of 2011, with the new mortgages totalling approximately \$45.5 million, and use the proceeds to repay amounts outstanding on our Credit Facility.

Our strategy in managing our debt profile is to spread our maturities over time so that no more than 10% of the total debt comes due in any given year, and to finance our properties with long-term debt. At the present time there is a good supply of debt capital available and there has been a decline in the lending spreads in 2010. We expect that these positive credit market conditions will continue in 2011; however,

the forecast is for a gradual increase in interest rates. We expect to continue financing our properties with long-term debt, utilizing mainly insured financing through the Canada Mortgage and Housing Corporation (“CMHC”).

In line with our strategy of gradually reducing debt levels over time, in Q4 2010, we completed a public offering of 13,775,000 Trust Units at \$9.45 per unit, raising proceeds of \$124.2 million, net of offering costs of \$6.0 million. The proceeds from this offering, together with cash on hand, were used to redeem the full outstanding amount of 6% Convertible Debentures at par.

## ***Taxation***

We currently qualify as a mutual fund trust for Canadian income tax purposes, and under legislation that became law on June 22, 2007 (the “SIFT Rules”), we 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 tax. In 2010, 95.162% of our distributions were characterized as tax-deferred returns of capital with the remaining 4.838% being characterized as foreign-source interest income, which is not subject to SIFT tax. In both 2009 and 2008, 100% of our distributions were characterized as tax-deferred returns of capital. We believe that it is likely that a high return of capital component would continue for the next several years, mitigating the impact of the SIFT Rules on Trust Unitholders.

In Q4 2010, we completed, in conjunction with our advisors, a comprehensive review of our legal structure alternatives in order to address the SIFT Rules. The review included an analysis of various alternative structures including status quo, conversion to corporation, reorganization to qualify for the REIT exemption under the SIFT Rules and others. Based on the results of this review, we have concluded that no change in our legal structure is warranted at this time.

## ***IFRS***

As outlined in the “Changes to Significant Accounting Policies” section of this MD&A, conversion to IFRS will result in significant changes to our financial statement presentation and will impact certain of our key performance indicators.

We elected, under First-Time Adoption of International Financial Reporting Standards (“IFRS 1”), to record property, plant and equipment (“PP&E”) at fair value as deemed cost on transition and to subsequently apply the cost model.

Our opening balance sheet will reflect a one-time revaluation of substantially all of our PP&E as at January 1, 2010 (“Transition Date”). This revaluation is expected to result in a carrying value of total assets approximately \$73 million higher than the net book value reported under CGAAP. This amount represents the sum of individual property fair values and excludes any portfolio premium and the value of the management platform. As a result of this revaluation, Adjusted Gross Book Value (“GBV”) (total assets, plus the accumulated depreciation and amortization, less the value of assets for each time there is an outstanding deferred purchase price obligation) is expected to decrease by approximately \$394 million from \$3,069 million to \$2,675 million.

Effective January 1, 2011 Chartwell’s Trustees approved, in compliance with the Declaration of Trust, an amendment to the GBV definition in the Declaration of Trust to add back the difference between the GBV of assets under CGAAP and IFRS on Transition Date and to add back related costs in respect of completed property acquisitions that were expensed in the period incurred. Chartwell’s Trustees determined that this change is required in order to maintain comparability of the Indebtedness Ratios<sup>1</sup> upon conversion to IFRS with the ratios calculated under CGAAP in prior periods.

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<sup>1</sup> Refer to the “Liquidity and Capital Commitments – Debt Strategy” section of this MD&A for a discussion and calculation of Indebtedness Ratio.

Our cumulative IFRS implementation costs for audit, consulting and systems redesign are estimated at approximately \$1.6 million with approximately \$0.9 million expensed in 2010 and an additional \$0.3 million expected in 2011. We expect that our public company costs will increase going forward, due to the complexities and particulars of complying with IFRS.

## Significant Events

The following events have had a significant effect on our financial results in 2010 or may be expected to affect our results in the future.

### ***Acquisitions***

In line with our strategy to acquire newer properties in geographic regions in which we already operate, in Q1 2010 we acquired, through foreclosure proceedings, two operating properties and one parcel of vacant land from Melior and one operating property from Melior and Spectrum in Quebec. As a result, mezzanine loans with a carrying amount of \$12.8 million were settled. The original amount of these loans was \$22.6 million which was reduced by fees recorded as a reduction of mezzanine loan balances of \$1.0 million and previously recorded impairment provisions of \$8.8 million. In addition, as part of the settlement agreement with Melior, we acquired one parcel of vacant land in Quebec, adjacent to our existing community for \$1.8 million.

In Q2 2010, we completed previously announced acquisitions of ING's 50% interest in the Regency and Meridian portfolios as well as Spectrum's 50% interest in the Valley Vista Retirement Residence.

The Regency portfolio is comprised of eight LTC communities consisting of 1,384 Class A beds situated in southern Ontario and was originally acquired in a joint venture with ING in July 2007. The purchase price for ING's 50% interest in the Regency portfolio was \$79.5 million (before closing costs) and was settled through the assumption of the existing mortgages payable of approximately \$68.0 million bearing interest at a weighted average interest rate of 7.41% and a weighted average term to maturity of 17.4 years, with the remaining balance, subject to working capital adjustments, paid in cash.

The Meridian portfolio consists of 1,045 suites in five properties in the Denver, Colorado area and one property in Temple, Texas. The Meridian portfolio was originally acquired in a joint venture with ING in August 2005. Our U.S. joint venture property management company, Horizon Bay Chartwell ("HBC"), will continue managing these properties. The purchase price for ING's 50% interest in the Meridian portfolio was U.S.\$110.5 million (before closing costs), and was settled through the assumption of the existing mortgages in respect of the properties of approximately U.S.\$74.6 million bearing interest at 5.41% and maturing in September 2015, settlements of outstanding amounts due from ING of U.S.\$6.0 million, with the remaining balance, subject to working capital adjustments, paid in cash.

Valley Vista is a 139-suite retirement residence located in Vaughan, Ontario. The purchase price for Spectrum's 50% interest was \$17.4 million and was partially settled by the assumption of the existing mortgage payable of \$15.1 million. The remaining portion of the purchase price, subject to working capital adjustments and settlement of certain amounts owing to us, was paid in cash.

In Q3 2010, we acquired Spectrum's 50% interest in Chartwell Classic Oakville Retirement Residence. The purchase price was \$18.5 million and was settled by the assumption of existing mortgage payable of \$12.8 million, discharge of the mezzanine loan of \$1.9 million, settlement of outstanding accounts receivable of \$0.9 million with the remaining balance, net of working capital adjustments, paid in cash.

In Q4 2010, we acquired Spectrum's 100% interest in Chartwell Select Muskoka Traditions in Huntsville, Ontario. The purchase price was \$26.0 million and was settled through the assumption of the existing mortgage payable of \$16.8 million, discharge of the mezzanine loan of \$2.7 million with the remaining balance, net of working capital adjustments, paid in cash.

The following tables summarize acquisitions completed in 2010:

(\$millions, except communities and suites/beds)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010
Number of communities	3	15	1	1	20
Number of suites/beds	598	2,568	147	106	3,419
Purchase price (including closing costs)	82.8	214.2	18.5	25.3	340.8
<i>Financed as follows:</i>					
Mortgage debt assumed	67.7	163.7	12.8	16.8	261.0
Discharge of mezzanine loans receivable	12.8	-	1.9	2.7	17.4
Settlement of accounts receivable and management contracts	-	8.4	0.9	-	9.3
Cash	1.8	40.2	2.5	5.3	49.8
Acquisition costs	0.5	1.9	0.4	0.5	3.3
<b>Total</b>	<b>82.8</b>	<b>214.2</b>	<b>18.5</b>	<b>25.3</b>	<b>340.8</b>

#	Community	Location	Type	Effective Date of Acquisition	% Acquired	Beds/Suites at 100%
<b>2010 Acquisitions:</b>						
1.	Les Seigneuries du Carrefour	Sherbrooke, QC	Retirement	March 9, 2010	100%	275
2.	Les Appartements du Château de Bordeaux	Sillery, QC	Retirement	March 9, 2010	100%	150
3.	Cite-jardin IV	Gatineau, QC	Retirement	March 9, 2010	100%	173
4.	Arvada Meridian <sup>(1)</sup>	Arvada, CO	Retirement	May 14, 2010	50%	125
5.	Boulder Meridian <sup>(1)</sup>	Boulder, CO	Retirement	May 14, 2010	50%	96
6.	Englewood Meridian <sup>(1)</sup>	Englewood, CO	Retirement	May 14, 2010	50%	266
7.	Lakewood Meridian <sup>(1)</sup>	Lakewood, CO	Retirement	May 14, 2010	50%	173
8.	Temple Meridian <sup>(1)</sup>	Temple, TX	Retirement	May 14, 2010	50%	232
9.	Westland Meridian <sup>(1)</sup>	Lakewood, CO	Retirement	May 14, 2010	50%	153
10.	Regency Care – The Waterford <sup>(1)</sup>	Oakville, ON	Long-term care	June 1, 2010	50%	168
11.	Regency Care – The Wenleigh <sup>(1)</sup>	Mississauga, ON	Long-term care	June 1, 2010	50%	161
12.	Regency Care – The Westbury <sup>(1)</sup>	Etobicoke, ON	Long-term care	June 1, 2010	50%	187
13.	Regency Care – The Woodhaven <sup>(1)</sup>	Markham, ON	Long-term care	June 1, 2010	50%	192
14.	Regency Care – The Wynfield <sup>(1)</sup>	Oshawa, ON	Long-term care	June 1, 2010	50%	172
15.	Regency Care – The Westmount <sup>(1)</sup>	Kitchener, ON	Long-term care	June 1, 2010	50%	160
16.	Regency Care – The Willowgrove <sup>(1)</sup>	Ancaster, ON	Long-term care	June 1, 2010	50%	169
17.	Regency Care – The Brant Centre <sup>(1)</sup>	Burlington, ON	Long-term care	June 1, 2010	50%	175
18.	Valley Vista Retirement Residence	Vaughan, ON	Retirement	June 1, 2010	50%	139
19.	Chartwell Classic Oakville	Oakville, ON	Retirement	September 1, 2010	50%	147
20.	Chartwell Select Muskoka Traditions	Huntsville, ON	Retirement	December 1, 2010	100%	106
<b>Total 2010 Acquisitions</b>						<b>3,419</b>
<b>2009 Acquisitions:</b>						
1.	Chatsworth Suites and Bungalows	Kelowna, BC	Retirement	February 1, 2009	50%	103
2.	Churchill House Retirement Community	North Vancouver, BC	Retirement	February 1, 2009	50%	97
3.	Riverside Retirement Residence	London, ON	Retirement	March 1, 2009	50%	138
4.	Pickering City Centre	Pickering, ON	Retirement	March 1, 2009	50%	117
5.	Chartwell Select Thunder Bay	Thunder Bay, ON	Retirement	October 1, 2009	100%	109
6.	Carrington Suites	Mission, BC	Retirement	December 1, 2009	100%	55
<b>Total 2009 Acquisitions</b>						<b>619</b>

(1) We now own a 100% interest in these communities.

## ***Dispositions***

In Q2 2010, we invoked the buy-sell provision under our joint venture agreement on one 127-suite retirement community in British Columbia. Our joint venture partner matched our purchase offer and as a result, we disposed of our 50% interest in this community for \$15.3 million. The purchaser assumed the existing mortgage in the amount of \$12.3 million with the net proceeds, net of working capital adjustments, of approximately \$2.8 million paid to us in cash. In Q2 2010, as a result of this transaction, we recorded a gain for accounting purposes of \$4.4 million. We acquired our 50% interest in this property from Spectrum in 2006 for \$14.6 million.

In Q2 2010, we committed to a plan to divest two of our Canadian retirement communities. The carrying value of these properties was reduced to estimated fair value less cost to sell, and a cumulative asset impairment provision of \$8.6 million was recorded in our consolidated financial statements.

In Q4 2010, the sale of one of these two properties was completed. The divested community has 104 suites located in St. John's, Newfoundland. The sale price of the property was \$18.5 million, with the purchasers assuming the existing debt of approximately \$14.4 million and the net proceeds, net of working capital adjustments, of approximately \$3.7 million received in cash. As a result of this transaction, we recorded a gain for accounting purposes of \$0.3 million. As a condition of the sale of the property, we agreed to pay the defeasance costs related to the discharge of the assumed mortgage. Subsequent to December 31, 2010, the mortgage was discharged by the purchaser and we paid \$0.9 million in defeasance costs. These costs were included in the accounting gain calculation.

In Q4 2010, we abandoned our plans to sell the other property. Therefore, for accounting purposes, it was reclassified back to an operating property with the results of operations, for all comparable periods, being included in loss before discontinued operations in the Financial Statements.

Please refer to the "Discontinued Operations" section of this MD&A for further information.

## ***Transactions with Spectrum***

As a result of the departure of Stephen Suske, former Chief Executive Officer and Vice-Chair of Chartwell, in the first half of 2009 and the disposition of the minor economic interests in Spectrum held by Brent Binions, President and Chief Executive Officer of Chartwell and Richard Noonan, Chief Operating Officer of Chartwell, none of the trustees, directors or officers have a material interest in Spectrum.

In Q2 2010, we agreed to extend the term of our settlement agreement with Spectrum from the original date of August 16, 2010 to December 31, 2010 to allow Spectrum more time to complete its orderly wind down.

In Q3 2010, we agreed to a further extension from December 31, 2010 to June 30, 2011. As part of the extension agreement, we agreed to purchase Spectrum's property located in Huntsville, Ontario for \$26.0 million.

## ***Development Activities***

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

## Completed Development Projects

The following table summarizes completed development projects in 2010 and 2009:

Project	Location	Suites	Total Cost (\$millions)	Debt (\$millions)	Construction Completion	Leased Suites at December 31, 2010
<b>2010</b>						
Carrington Place	Vernon, BC	71	9.6	6.8	Q1 2010	54
Total 2010		71	9.6	6.8		54
<b>2009</b>						
Gayton Terrace <sup>(1)</sup>	Richmond, VA	98	U.S.\$21.1	U.S.\$17.7	Q2 2009	63
Quail Creek Retirement Centre	Renfrew, ON	34	6.1	4.7	Q3 2009	32
Total 2009		132				95
Total		203				149

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

## Highlights of Consolidated Results of Operations

The following table summarizes selected financial and operating performance measures:

(\$000s, except occupancy rates, per unit amounts and number of units)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Property revenue <sup>(1)</sup>	186,046	161,715	24,331	701,678	646,806	54,872
Total revenue <sup>(1)</sup>	189,625	166,084	23,541	717,044	666,546	50,498
Weighted average occupancy rate - same property portfolio <sup>(1)</sup>	90.9%	90.7%	0.2pp	90.4%	90.6%	(0.2pp) <sup>(7)</sup>
Same property NOI <sup>(1)(2)</sup>	39,764	37,924	1,840	162,214	156,783	5,431
FFO <sup>(3)(4)</sup>	15,933	16,858	(925)	81,144	64,713	16,431
FFO per unit diluted <sup>(3)(5)</sup>	0.11	0.14	(0.03)	0.61	0.61	-
AFFO <sup>(3)(6)</sup>	19,083	14,667	4,416	81,489	73,303	8,186
AFFO per unit diluted <sup>(3)(5)</sup>	0.14	0.13	0.01	0.61	0.69	(0.08)
Distributions declared	19,462	16,368	3,094	72,133	69,106	3,027
Distributions declared per unit	0.14	0.14	(0.01)	0.54	0.66	(0.12)
Distributions declared as a percentage of AFFO	102.0%	111.6%	(9.6pp)	88.5%	94.3%	(5.8pp)
Net income/(loss)	(16,099)	(7,236)	(8,863)	(26,337)	(71,245)	44,908
Net income/(loss) per unit (basic and diluted)	(0.12)	(0.06)	(0.06)	(0.20)	(0.70)	0.50
Weighted average number of units including Class B Units of Chartwell Master Care LP <sup>(5)</sup> :						
Basic	137,983,823	114,522,908	23,460,915	130,671,279	103,550,525	27,120,754
Diluted (includes LTIP)	140,315,468	116,986,471	23,328,997	132,998,080	106,140,729	26,857,351

(1) Excludes the effects of discontinued operations.

(2) Excludes the effects of foreign exchange on U.S. dollar revenue.

(3) 2009 amounts exclude the provision for impairment of mezzanine loans and accounts receivable of \$30.7 million.

(4) Refer to the "Non-CGAAP Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net loss.

(5) Refer to the "Key Performance Indicators – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.

(6) Refer to the "Non-CGAAP Measures – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.

(7) pp = percentage points.

AFFO in 2010 was \$81.5 million, an increase of \$8.2 million compared to 2009 AFFO of \$73.3 million, excluding the provision for impairment of \$30.7 million. On a per unit basis, AFFO in 2010 was \$0.61 per unit diluted compared to \$0.69 per unit diluted in 2009. The following items contributed to the changes in AFFO and AFFO per unit diluted:

- Incremental contribution from the property portfolio, primarily due to same property NOI growth and acquisitions, increased AFFO by \$16.1 million or \$0.12 per unit diluted.
- Lower G&A expenses and other items increased AFFO by \$0.6 million or \$0.01 per unit diluted.
- Lower management operations contribution reduced AFFO by \$2.6 million or \$0.02 per unit diluted, primarily due to lower asset management fees from ING, as we acquired their interest in the Meridian and Regency portfolios, and lower fees from Spectrum.
- Lower mezzanine loan interest income of \$2.6 million reduced AFFO by \$0.02 per unit diluted.
- In 2009, AFFO also included realized foreign exchange gain of \$3.2 million for which there was no comparable amount in 2010. This reduced AFFO by \$0.02 per unit diluted.
- Per unit amounts were also affected by a 25% increase in the weighted average number of units outstanding primarily due to the issuance of Trust Units completed in two public offerings in Q4 2009.

**Fourth Quarter:** AFFO in Q4 2010 was \$19.1 million or \$0.14 per unit diluted, an increase of \$4.4 million or \$0.01 per unit diluted from Q4 2009 AFFO of \$14.7 million or \$0.13 per unit diluted, primarily due to the following:

- Increased contribution from the property portfolio, primarily due to same property NOI growth and acquisitions of \$4.9 million or \$0.04 per unit diluted.
- Lower management fee income reduced AFFO by \$0.9 million or \$0.01 per unit diluted.
- In Q4 2009, we recorded a realized foreign exchange loss of \$1.9 million for which there was no comparable amount in Q4 2010. This increased AFFO by \$0.01 per unit diluted.
- Higher G&A expenses and other items reduced AFFO by \$1.5 million or \$0.01 per unit diluted.
- Per unit amounts were also affected by a 20% increase in the weighted average number of units outstanding.

In 2010, FFO was \$81.1 million or \$0.61 per unit diluted, an increase of \$16.4 million compared to 2009 of \$64.7 million or \$0.61 per unit diluted, excluding the \$30.7 million provision for impairment recorded in Q2 2009. In addition to the items described above in the discussion of AFFO, FFO changes were also impacted by unrealized foreign exchange gains and losses, an accelerated accretion and amortization of financing costs on redemption of convertible debentures and an adjustment to record lease expense on a straight-line basis over the lease term.

In Q4 2010, FFO was \$15.9 million or \$0.11 per unit diluted, a decrease of \$0.9 million compared to Q4 2009 of \$16.9 million or \$0.14 per unit diluted.

Net loss in 2010 was \$26.3 million or \$0.20 per unit diluted compared to a net loss in 2009 of \$71.2 million or \$0.70 per unit diluted. Net loss in Q4 2010 was \$16.1 million or \$0.12 per unit diluted compared to a net loss in Q4 2009 of \$7.2 million or \$0.06 per unit diluted. In addition to items which impacted AFFO and FFO as discussed above, net loss amounts were also impacted by depreciation and amortization charges, the write-down of the carrying amount of a property, changes in future income tax expense/recovery, as well as the mezzanine loan impairment provision recorded in Q2 2009.



## Same Property Portfolio Highlights

(\$000s, except occupancy rates)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Canadian retirement:						
NOI	25,895	23,991	1,904	107,100	100,963	6,137
Occupancy	90.0%	90.0%	-	89.7%	89.7%	-
Canadian LTC:						
NOI	3,849	2,969	880	13,399	12,122	1,277
Occupancy	97.3%	97.7%	(0.4pp)	97.8%	97.9%	(0.1pp)
U.S.:						
NOI (U.S.\$)	10,020	10,964	(944)	41,715	43,698	(1,983)
Occupancy	90.4%	89.8%	0.6pp	89.0%	89.7%	(0.7pp)
Combined:						
NOI <sup>(1)</sup>	39,764	37,924	1,840	162,214	156,783	5,431
Occupancy	90.9%	90.7%	0.2pp	90.4%	90.6%	(0.2pp)

(1) Excludes the effects of foreign exchange on U.S. dollar revenue.

Combined same property occupancy declined slightly to 90.4% with same property NOI increasing 3.5% in 2010 compared to 2009 as strong contributions from our Canadian retirement and LTC portfolios were partially offset by a decline in our U.S. portfolio NOI as follows:

- In our Canadian retirement portfolio, same property NOI increased 6.1% in 2010 compared to 2009, primarily as a result of regular annual rental rate increases, increased ancillary revenues and successful cost-control initiatives. Occupancies remained stable at 89.7% in 2010 compared to 2009.
- In our Canadian LTC portfolio, same property NOI increased 10.5% in 2010 compared to 2009, primarily due to increased government funding which commenced in April 2009, lower administration costs due to an adjustment in our estimates for vacation and sick-time cost accruals and lower realty taxes. Occupancies remained stable at 97.8% in 2010 compared to 97.9% in 2009. All of our LTCs achieved average occupancies above 97% in 2010 and therefore received government funding as though fully occupied.
- In our U.S. portfolio, same property NOI decreased 4.5% in 2010 compared to 2009 primarily due to lower occupancies and higher resident incentives. Occupancies declined to 89.0% in 2010 from 89.7% in 2009 as challenges in certain markets affected our occupancies in the first half of 2010.

**Fourth Quarter:** Combined same property NOI increased 4.9% in Q4 2010 compared to Q4 2009 as follows:

- In our Canadian retirement portfolio, same property NOI increased 7.9%, primarily due to higher ancillary revenues, rental rate growth and effective cost control including higher volume incentives on our purchases, with occupancies remaining stable at 90.0%.
- In our Canadian LTC portfolio, same property NOI increased 29.6% primarily due to an adjustment in our estimates for vacation and sick-time cost accruals, which resulted in a positive NOI change of approximately \$0.8 million compared to Q4 2009. Occupancies declined to 97.3% in Q4 2010 compared to 97.7% in Q4 2009, primarily due to lower occupancy retirement suites adjacent to one of our LTC properties, subject to redevelopment in 2011.
- In our U.S. portfolio, same property NOI decreased U.S.\$0.9 million or 8.6% primarily due to higher compensation costs as a result of expiry of the 18-month wage freeze in July 2010 and higher commissions and referral costs as we grew our occupancies in the quarter. Occupancies improved to 90.4% in Q4 2010 compared to 89.8% in Q4 2009, as a result of successful marketing and sales efforts and improving conditions in certain U.S. markets.

# Consolidated Results of Operations

## Summary of Property Revenue

(\$000s, except occupancy rates)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Same property <sup>(1)</sup>	137,299	133,517	3,782	538,507	526,058	12,449
Acquisitions and other <sup>(1)</sup>	49,131	27,544	21,587	162,967	104,889	58,078
Eliminations	(1,058)	(1,632)	574	(5,107)	(7,002)	1,895
Foreign exchange on U.S. dollar revenue	674	2,286	(1,612)	5,311	22,861	(17,550)
Total property revenue <sup>(2)</sup>	186,046	161,715	24,331	701,678	646,806	54,872
Weighted average occupancy rate - same property portfolio <sup>(2)</sup>	90.9%	90.7%	0.2pp	90.4%	90.6%	(0.2pp)

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

(2) Excludes discontinued operations.

Total property revenue grew 8.5% in 2010 compared to 2009, as increased revenue from our same property and acquisitions portfolios was partially offset by lower foreign exchange translation on U.S. dollar revenues.

Same property revenue increased approximately \$12.4 million or 2.4% in 2010 compared to 2009. We continue to drive revenue growth as follows:

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

**Fourth Quarter:** Total property revenue increased \$24.3 million or 15.0% in Q4 2010 compared to Q4 2009 due to contributions from acquisitions and same property revenue growth. These increases were offset by reduced foreign exchange translation of U.S. dollar revenue in Q4 2010 compared to Q4 2009.

Same property revenue increased approximately \$3.8 million or 2.8% in Q4 2010 compared to Q4 2009.

The weighted average occupancy rate in the same property portfolio was 90.9% in Q4 2010, an increase of 0.2 percentage points from 90.7% in Q4 2009. Occupancy grew 0.5 percentage points from Q3 2010 occupancy of 90.4%.

## Summary of Direct Operating Expenses

(\$000s)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Same property <sup>(1)</sup>	97,533	95,593	1,940	376,294	369,275	7,019
Acquisitions and other <sup>(1)</sup>	36,258	20,136	16,122	118,516	76,860	41,656
Eliminations	(1,058)	(1,632)	574	(5,107)	(7,002)	1,895
Foreign exchange on U.S. dollar expenses	455	1,408	(953)	3,494	14,782	(11,288)
Total direct operating expenses – properties	133,188	115,505	17,683	493,197	453,915	39,282
Direct operating expenses – management operations	998	1,024	(26)	4,006	4,099	(93)
Total direct operating expenses <sup>(2)</sup>	134,186	116,529	17,657	497,203	458,014	39,189

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

(2) Excludes discontinued operations.

Total direct operating expenses increased 8.6% in 2010 compared to 2009, primarily due to additional expenses for acquisitions and modest growth in same property direct operating expenses, partially offset by the impact of foreign exchange translation.

Same property direct operating expenses increased \$7.0 million or 1.9% in 2010 compared to 2009. Increased costs primarily relate to additional staffing to provide new services, combined with investments in targeted marketing initiatives designed to drive occupancy.

**Fourth Quarter:** Total direct operating expenses increased 15.2% in Q4 2010 compared to Q4 2009 due to additional expenses from acquisitions, offset by reduced foreign exchange translation of U.S. dollar direct operating expenses. Same property direct operating expenses increased \$1.9 million or 2.0% in Q4 2010 compared to Q4 2009.

## General, Administrative and Trust Expenses

(\$000s, except percentage of revenue)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
G&A expenses	5,946	4,680	1,266	20,577	19,031	1,546
Severance costs	-	261	(261)	-	1,977	(1,977)
Total G&A	5,946	4,941	1,005	20,577	21,008	(431)
As % of revenue:						
Excluding severance costs	3.1%	2.8%	0.3pp	2.9%	2.9%	-

In 2010, G&A expenses before severance costs increased \$1.5 million or 8.1% compared to 2009 partly due to higher consulting and professional fees related to IFRS implementation, SIFT and process efficiency reviews, which amounted to approximately \$1.5 million. In addition, the implementation of the HST on July 1, 2010 increased G&A expenses approximately \$0.2 million. G&A expenses, as a percentage of revenue, remained stable in 2010 compared to 2009.

**Fourth Quarter:** G&A expenses excluding severance costs, increased \$1.3 million or 27.1% in Q4 2010 compared to Q4 2009 primarily due to higher consulting and professional fees related to IFRS implementation, SIFT and process efficiency reviews and certain acquisition related costs. As a percentage of revenue, G&A expenses, excluding severance costs, increased to 3.1% in Q4 2010 from 2.8% in Q4 2009 for substantially the same reasons as discussed above.

## Interest and Property Lease Expense

(\$000s)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Mortgages and loans payable						
Same property <sup>(1)</sup>	17,329	17,496	(167)	68,361	70,108	(1,747)
Acquisitions	6,468	3,821	2,647	22,743	14,850	7,893
Foreign exchange on U.S. dollar expenses	178	499	(321)	1,229	4,848	(3,619)
	23,975	21,816	2,159	92,333	89,806	2,527
Convertible debentures	2,396	2,979	(583)	11,337	11,916	(579)
Credit Facility and other	160	89	71	160	475	(315)
Interest capitalized to properties under development	(294)	(425)	131	(1,277)	(1,872)	595
	26,237	24,459	1,778	102,553	100,325	2,228
Accretion of convertible debenture liability	758	780	(22)	3,200	3,021	179
Amortization of debt mark-to-market adjustments arising on acquisition	(381)	(454)	73	(1,511)	(1,388)	(123)
Amortization of financing costs	1,357	1,652	(295)	5,782	5,990	(208)
Total Interest Expense <sup>(2)</sup>	27,971	26,437	1,534	110,024	107,948	2,076
Property Lease Expense						
Contractual lease payments for the period <sup>(2)</sup>	809	599	210	2,452	2,598	(146)

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

(2) Excludes discontinued operations.

Interest expense on the same property portfolio decreased in 2010 compared to 2009 due to lower interest rates achieved on mortgage renewals as well as repayment of certain mortgages completed in 2009 and 2010.

During 2010, we capitalized interest of \$1.3 million which relates to our investment in development projects.

Contractual property lease expense slightly decreased in 2010 compared to 2009 primarily due to foreign exchange translation.

**Fourth Quarter:** During Q4 2010, we capitalized interest of \$0.3 million, which relates to our net investment in internal growth projects.

Contractual property lease expense increased \$0.2 million for Q4 2010 compared to Q4 2009.

## Mezzanine Loans and Mezzanine Loan Interest Income

The following table summarizes the changes in our investments in mezzanine loans for 2010 and 2009:

(\$millions)	2010	2009
Gross mezzanine loans outstanding (beginning of period)	89.8	108.1
Discharge of mezzanine loans on our acquisition of the related properties and land	(27.2)	(9.3)
Settlement of mezzanine loan on acquisition of land	-	(1.0)
Repayments of mezzanine loans in cash	(14.4)	(8.0)
Offset against impairment provision	(4.0)	-
Gross mezzanine loans outstanding (end of period)	44.2	89.8

In Q4 2010, we updated our assessment of the underlying value of the security for each mezzanine loan as well as the value of the corporate guarantees securing mezzanine loans where applicable. The process of determining fair value is subjective and requires us to exercise judgement in making valuation

assumptions including revenue and expense projections, lease-up expectations, capitalization and discount rates. Based on our updated assessment, we believe no changes are required to the overall cumulative impairment provisions at this time.

The following table summarizes reallocations in the impairment provision in 2010:

(\$millions)	Mezzanine Loans	Accounts Receivable	Total
Balance December 31, 2009	30.5	6.2	36.7
Settlement of mezzanine loans	(8.8)	-	(8.8)
Reallocated on collection of certain accounts receivable	3.6	(3.6)	-
Offset against principal amount of the loan	(3.8)	-	(3.8)
Balance December 31, 2010	21.5	2.6	24.1

In 2010, we collected certain accounts receivable against which an impairment provision was previously recorded. Accordingly, we reallocated \$3.6 million of the impairment provision from accounts receivable to mezzanine loans.

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

(\$millions)	Number of 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	10	17.7	(0.1)	(3.7)	13.9
Melior, Spectrum and Partners	6	23.9	(1.8)	(17.8)	4.3
Seasons and Partners	1	2.6	-	-	2.6
Total gross mezzanine loans outstanding	17	44.2	(1.9)	(21.5)	20.8

The following table summarizes interest income on our mezzanine loans:

(\$000s)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Mezzanine loan interest before effective yield adjustments	1,119	1,476	(357)	4,570	7,862	(3,292)
Effective yield adjustments for:						
Placement fees integral to lending activities	266	(79)	345	901	732	169
Legal costs integral to lending activities	-	(104)	104	(52)	(538)	486
Total mezzanine loan interest income	1,385	1,293	92	5,419	8,056	(2,637)

Mezzanine loan interest income decreased \$2.6 million in 2010 compared to 2009 due to lower balances of loans outstanding and due to the fact that interest revenue from Spectrum and Melior is only recognized when payments have been received. For 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 repayment dates of the loans and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate.

**Fourth Quarter:** Mezzanine loan interest income increased \$0.1 million in Q4 2010 compared to Q4 2009 primarily due to recognition of deferred placement fees on collection of certain loans.

## Discontinued Operations

The following table shows the results of discontinued operations:

(\$000s)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Revenue	1,013	1,704	(691)	5,487	84,963	(79,476)
Interest and other	-	-	-	1	81	(80)
Below-market lease amortization	-	-	-	-	112	(112)
Direct operating expense	585	1,054	(469)	3,182	50,306	(47,124)
Total Net Operating Income	428	650	(222)	2,306	34,850	(32,544)
Interest expense	192	353	(161)	1,064	1,542	(478)
Contractual lease expense	-	-	-	-	32,916	(32,916)
Adjustment to record lease expense on a straight-line basis over the lease term	-	-	-	-	4,979	(4,979)
Total Interest Expense	192	353	(161)	1,064	39,437	(38,373)
Depreciation of properties	-	271	(271)	572	2,927	(2,355)
Amortization of limited life intangible assets	-	214	(214)	214	2,786	(2,572)
Gain on sale of assets	(310)	-	(310)	(4,704)	-	(4,704)
Provision for asset impairment	-	-	-	4,500	-	4,500
Income/(loss) before income taxes	546	(188)	734	660	(10,300)	10,960
Income taxes – current	-	-	-	-	163	(163)
Income/(loss) before non-controlling interest	546	(188)	734	660	(10,463)	11,123
Non-controlling interest	(8)	2	(10)	(9)	219	(228)
Net income/(loss)	538	(186)	724	651	(10,244)	10,895

During Q4 2010, one of the communities that had previously been classified as held for sale and whose results of operations had been included in discontinued operations was reclassified to an operating property. Therefore, the results of operations for that property have been reclassified as income before discontinued operations for all periods presented.

## Other Items

(\$000s)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Bank interest and other income	1,189	1,058	131	4,540	3,236	1,304
Below-market lease amortization revenue	180	228	(48)	732	1,101	(369)
Write-down of assets	-	-	-	(4,100)	-	(4,100)
Realized foreign exchange gains and (losses)	-	(1,930)	1,930	(58)	3,113	(3,171)
Unrealized gains/(losses) on derivative financial instruments and unrealized foreign exchange gains/(losses)	(2,617)	1,110	(3,727)	(3,736)	(10,074)	6,338
Depreciation of properties	(21,805)	(18,493)	(3,312)	(79,642)	(74,253)	(5,389)
Amortization of limited life intangible assets	(5,256)	(7,881)	2,625	(17,692)	(36,977)	19,285
Accelerated accretion and amortization of financing costs on redemption of convertible debentures	(2,183)	-	(2,183)	(2,183)	-	(2,183)
Provision for impairment of mezzanine loans and accounts receivable	-	-	-	-	(30,684)	30,684
Current income tax (expense)/recovery	(35)	(80)	45	(281)	(85)	(196)
Future income tax (expense)/recovery	(5,682)	2,578	(8,260)	(6,464)	9,753	(16,217)
Non-controlling interest	228	68	160	380	1,228	(848)
Net loss	(16,099)	(7,236)	(8,863)	(26,337)	(71,245)	44,908

**Bank Interest and Other Income:** Bank interest and other income was higher in 2010 compared to 2009, primarily due to higher interest income earned on invested cash balances during the year and higher capital subsidy interest income as a result of the acquisition of ING's 50% interest in the Regency portfolio. Bank interest and other income in Q4 2010 was up slightly from Q4 2009 primarily due to the reasons discussed above.

**Write-down of Assets:** In Q2 2010, upon reclassification of one property as held for sale, we reduced its carrying value by \$4.1 million to estimated sale price less cost to sell, with this impairment provision reported under discontinued operations in our income statement. As we abandoned our plans to sell this property in Q4 2010, its results are now included in continuing operations in our income statement with a separate disclosure of the impairment provision

**Realized Gains (Losses):** We recorded a net realized foreign exchange gain of \$4.9 million in Q1 2009 primarily related to the settlement of a foreign exchange swap contract. There were no comparable amounts in 2010.

**Unrealized Gains (Losses):** The unrealized foreign exchange gains and losses primarily related to the intercompany cross-border U.S. dollar-denominated loans receivable and payable that we used to finance our operations in a tax-efficient manner. At December 31, 2010, we had net loans outstanding of approximately U.S.\$37.5 million from our U.S. subsidiaries. Although the principal amount of this debt is eliminated on consolidation, unrealized foreign exchange gains and losses are required to be recorded in income under CGAAP.

**Depreciation and Amortization:** The increase in depreciation of properties is primarily due to acquisitions completed in 2009 and 2010, offset by lower foreign exchange translation of our U.S. operations. Amortization of limited life intangible assets decreased in 2010 compared to 2009 and in Q4 2010 compared to Q4 2009, as certain intangible assets were fully amortized in 2010.

**Accelerated Accretion and Amortization of Financing Costs:** In Q4 2010, we recorded an expense of \$2.2 million for accumulated accretion and amortization of financing costs on redemption of convertible debentures as a result of the early redemption of our 6.0% Convertible Debentures at par.

**Current and Future Income Tax (Expense) Recovery:** The provision for future income tax expense relates to the temporary differences between the carrying amounts and the tax bases of assets and liabilities, including those that are expected to reverse after December 31, 2010. These temporary differences are tax-effected using the estimated tax rate applicable to undistributed income at the time that these differences are expected to reverse.

**Net Income/(Loss):** Net loss decreased \$44.9 million in 2010 compared to 2009. The reduction in net loss is primarily due to the improved operating results, lower amortization expenses and lower unrealized losses on derivative financial instruments and unrealized foreign exchange losses. In addition, 2009 net loss included a \$30.7 million provision for impairment of mezzanine loans and accounts receivable for which there is no comparable amount for 2010. For Q4 2010, net loss increased \$8.9 million primarily due to a charge for accelerated accretion and amortization of financing costs recorded upon early redemption of convertible debentures and future taxes.



## Non-CGAAP Measures

FFO and AFFO do not have a standardized meaning under CGAAP and should not be construed as an alternative to net earnings or cash flows from operating activities as defined by CGAAP.

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

### Funds from Operations (FFO)

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

(\$000s, except per unit amounts)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Net income/(loss)	(16,099)	(7,236)	(8,863)	(26,337)	(71,245)	44,908
Add (Subtract):						
Depreciation of properties <sup>(1)</sup>	21,805	18,765	3,040	80,214	77,181	3,033
Amortization of limited life intangible assets <sup>(1)</sup>	5,256	8,095	(2,839)	17,906	39,763	(21,857)
Depreciation of leasehold improvements included in depreciation of properties	(181)	(118)	(63)	(628)	(470)	(158)
Loss/(gain) on sale of assets	(310)	-	(310)	(4,704)	-	(4,704)
Write-down of carrying value of assets	-	-	-	8,600	-	8,600
Future income tax expense/ (recovery)	5,682	(2,578)	8,260	6,464	(9,753)	16,217
Non-controlling interest <sup>(1)</sup>	(220)	(70)	(150)	(371)	(1,447)	1,076
FFO <sup>(2)</sup>	15,933	16,858	(925)	81,144	34,029	47,155
Provision for impairment of mezzanine loans and accounts receivable	-	-	-	-	30,684	(30,684)
FFO excluding impairment provision	15,933	16,858	(925)	81,144	64,713	16,431
FFO per unit excluding impairment provision						
Basic	0.12	0.15	(0.03)	0.62	0.62	-
Diluted	0.11	0.14	(0.03)	0.61	0.61	-

(1) Includes depreciation, amortization and non-controlling interest that have 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.

FFO, increased \$16.4 million for 2010 compared to 2009 primarily due to increased contributions from the property portfolio, lower unrealized losses on derivative financial instruments and unrealized foreign exchange losses, offset by accelerated accretion and amortization of financing costs on early redemption of convertible debentures.

FFO decreased \$0.9 million or \$0.03 per unit diluted for Q4 2010 compared to Q4 2009 primarily due to unrealized losses on derivative financial instruments and unrealized foreign exchange losses and accelerated accretion and amortization of financing costs on early redemption of convertible debentures. These expense increases were partially offset by increased contributions from the property portfolio.

## Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

(\$000s, except per unit amounts)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
FFO <sup>(1)</sup>	15,933	16,858	(925)	81,144	34,029	47,115
<i>Add (Subtract):</i>						
Adjustment to record lease expense on a straight-line basis over the lease term <sup>(2)</sup>	-	-	-	-	4,979	(4,979)
Unrealized gains/(losses) on derivative financial instruments and unrealized foreign exchange gains/(losses)	2,617	(1,110)	3,727	3,736	10,074	(6,338)
Amortization of below-market leases <sup>(2)</sup>	(180)	(228)	48	(732)	(1,213)	481
Principal portion of capital subsidy receivable from Health Authorities	858	555	303	3,013	2,177	836
Amounts received under income guarantees	-	142	(142)	133	554	(421)
Amortization of financing costs <sup>(2)</sup>	1,382	1,672	(290)	5,847	6,168	(321)
Accretion adjustment to convertible debenture liability	758	780	(22)	3,200	3,021	179
Accelerated accretion and amortization of financing costs on redemption of convertible debentures	2,183	-	2,183	2,183	-	2,183
Amortization of debt mark-to-market adjustments arising on acquisition	(381)	(454)	73	(1,511)	(1,388)	(123)
Deferred financing fee reserve <sup>(3)</sup>	(346)	(280)	(66)	(1,381)	(1,147)	(234)
AFFO before capex reserve	22,824	17,935	4,889	95,632	57,254	38,378
Maintenance capex reserve - 2% of property revenue	(3,741)	(3,268)	(473)	(14,143)	(14,635)	492
AFFO <sup>(4)</sup>	19,083	14,667	4,416	81,489	42,619	38,870
Provision for impairment of mezzanine loans and accounts receivable	-	-	-	-	30,684	(30,684)
AFFO excluding impairment provision	19,083	14,667	4,416	81,489	73,303	8,186
AFFO per unit excluding impairment provision						
Basic	0.14	0.13	0.01	0.62	0.71	(0.09)
Diluted	0.14	0.13	0.01	0.61	0.69	(0.08)

(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) Includes amounts that have been reclassified as discontinued operations.

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

(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 "Highlights of Consolidated Results of Operations" section of this MD&A.

## Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

(\$000s, except per unit amounts)	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues <sup>(1)</sup>	189,625	186,893	175,106	165,420	166,084	164,083	166,837	169,542
Direct operating expenses <sup>(1)</sup>	(134,186)	(130,363)	(119,756)	(112,898)	(116,529)	(111,812)	(113,236)	(116,437)
General, administrative and trust expenses	(5,946)	(5,130)	(4,947)	(4,554)	(4,941)	(4,425)	(5,822)	(5,820)
	49,493	51,400	50,403	47,968	44,614	47,846	47,779	47,285
Interest expense <sup>(1)</sup>	(27,971)	(28,887)	(26,992)	(26,174)	(26,437)	(26,726)	(26,858)	(27,927)
Property lease expenses <sup>(1)</sup>	(809)	(548)	(516)	(579)	(599)	(588)	(703)	(708)
Foreign exchange gains/(losses)	(2,617)	(1,971)	2,689	(1,895)	(820)	(3,848)	(4,309)	2,016
Depreciation and amortization <sup>(1)</sup>	(27,061)	(22,881)	(23,123)	(24,269)	(26,374)	(26,406)	(28,332)	(30,118)
Accelerated accretion and amortization of financing costs on redemption of convertible debentures	(2,183)	-	-	-	-	-	-	-
Write-down of carrying value of assets	-	(2,500)	(1,600)	-	-	-	-	-
Provision for impairment of mezzanine loans and accounts receivable	-	-	-	-	-	-	(30,684)	-
Non-controlling interest <sup>(1)</sup>	228	61	(24)	115	68	133	797	230
Current income tax (expense)/recovery <sup>(1)</sup>	(35)	(84)	(82)	(80)	(80)	(92)	(81)	168
Future income tax (expense)/recovery	(5,682)	1,303	911	(2,996)	2,578	4,234	4,693	(1,752)
Income/(loss) from continuing operations	(16,637)	(4,107)	1,666	(7,910)	(7,050)	(5,447)	(37,698)	(10,806)
Income/(loss) from discontinued operations	538	262	(50)	(99)	(186)	(3,503)	(3,416)	(3,139)
Net income/(loss) for the period	(16,099)	(3,845)	1,616	(8,009)	(7,236)	(8,950)	(41,114)	(13,945)
Net income/(loss) per unit diluted	(0.12)	(0.03)	0.01	(0.06)	(0.06)	(0.09)	(0.42)	(0.14)
FFO <sup>(2)</sup>	15,933	20,013	25,712	19,486	16,858	14,552	13,994	19,309
FFO per unit diluted <sup>(2)</sup>	0.11	0.15	0.20	0.15	0.14	0.14	0.14	0.19
AFFO <sup>(2)</sup>	19,083	20,574	21,596	20,236	14,667	18,699	18,029	21,908
AFFO per unit diluted <sup>(2)</sup>	0.14	0.16	0.17	0.16	0.13	0.18	0.18	0.21

(1) Excludes discontinued operations.

(2) Q2 2009 amounts exclude the provision for impairment of mezzanine loans and accounts receivable of \$30.7 million.

Our results for the past eight quarters have been affected by the contribution of acquisitions, changes in foreign exchange rates resulting in realized and unrealized gains and losses, the impact of the slow North American economy on occupancies, our decision in 2008 to reduce our exposure to third-party developers and related mezzanine loans, which resulted in declining mezzanine loan interest and management fee income, and the issuance of Trust Units.

## Selected Annual Financial Information

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

(\$000s, except per unit amounts)	2010	2009	2008
Property revenues <sup>(1)</sup>	701,678	646,806	592,476
Total revenues <sup>(1)</sup>	717,044	666,546	620,891
Direct operating expenses <sup>(1)</sup>	497,203	458,014	420,917
Net loss from continuing operations <sup>(2)</sup>	(26,988)	(61,001)	(104,839)
Net loss <sup>(2)</sup>	(26,337)	(71,245)	(107,428)
Total assets <sup>(2)</sup>	2,676,767	2,598,674	2,705,487
Total liabilities <sup>(2)</sup>	1,981,359	1,933,260	2,049,139
Net loss per unit diluted <sup>(2)</sup>	(0.20)	(0.70)	(1.14)
Distributions declared per unit	0.5400	0.6569	0.7930

(1) Excludes discontinued operations.

(2) 2008 amounts have been recast. Refer to "Correction of Immaterial Prior-Period Error" section of the 2009 MD&A for a discussion of the details of the correction.

Our annual results for the past three years have been primarily affected by the acquisitions of new seniors housing communities and the impact of the slow North American economy on occupancies in 2008, 2009 and 2010.

## Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments in 2010 compared to 2009 and in Q4 2010 compared to Q4 2009.

### Canadian Retirement Operations

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
<b>Same Property - Owned</b>					
100%	90	7,908	2,161	671	10,740
50%	1	121	-	-	121
Total same property owned	91	8,029	2,161	671	10,861
<b>Acquisitions &amp; Development</b>					
100% owned:					
Operating	12	1,134	5	186	1,325
Development	-	236	-	155	391
50% owned	6	705	37	-	742
Total acquisitions & development	18	2,075	42	341	2,458
Total	109	10,104	2,203	1,012	13,319

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

(\$000s, excluding occupancy rates)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
<b>Revenue</b>						
Same property	74,778	72,858	1,920	294,952	286,155	8,797
Acquisitions and development	12,279	8,843	3,436	47,411	31,217	16,194
Total revenue	87,057	81,701	5,356	342,363	317,372	24,991
<b>Direct Operating Expenses</b>						
Same property	48,883	48,867	16	187,852	185,192	2,660
Acquisitions and development	8,475	6,302	2,173	32,208	22,586	9,622
Total direct operating expenses	57,358	55,169	2,189	220,060	207,778	12,282
<b>Net Operating Income</b>						
Same property	25,895	23,991	1,904	107,100	100,963	6,137
Acquisitions and development	3,804	2,541	1,263	15,203	8,631	6,572
Total net operating income	29,699	26,532	3,167	122,303	109,594	12,709

Same property revenues increased 3.1% in 2010 compared to 2009 primarily due to regular annual rental rate increases, which ranged between 2.0% and 3.5% and additional programs to deliver new services in certain properties.

Same property direct operating expenses slightly increased 1.4% in 2010 compared to 2009 as normal inflationary increases in our payroll costs were offset by lower utilities, supplies and administrative costs. These reductions are also a result of our centralized supply chain management programs.

Same property NOI increased \$6.1 million or 6.1% in 2010 compared to 2009. Same property NOI in our Ontario retirement properties increased \$4.5 million or 8.2% in 2010 primarily due to regular annual rental rate increases, continued growth of ancillary revenue and an improvement in occupancy. Our Western Canadian platform same property NOI increased \$0.6 million or 3.0% in 2010 as lower occupancies in certain local markets were offset by regular annual rental rate increases and cost reduction initiatives. Our Quebec platform same property NOI increased \$1.0 million or 4.0% in 2010 primarily due to occupancy improvements.

The following table summarizes our annual weighted average occupancy rates in our Canadian retirement same property portfolio:

	2010	2009	Increase / (Decrease)
Canadian retirement same property portfolio:			
Ontario	92.2%	92.6%	(0.4pp)
Western Canada	90.1%	91.4%	(1.3pp)
Quebec	87.1%	85.9%	1.2pp
Total	89.7%	89.7%	-

**Fourth Quarter:** Same property revenues increased \$1.9 million or 2.6% in Q4 2010 compared to Q4 2009 primarily due to regular annual rental rate increases.

Same property NOI increased \$1.9 million or 7.9% in Q4 2010 compared to Q4 2009 primarily due to revenue growth as described above and lower administrative costs and higher volume incentives received in Q4 2010, which offset normal inflationary increases in payroll, taxes and other expense categories.

The following table summarizes our quarterly weighted average occupancy rates in our Canadian retirement same property portfolio:

	Q4 2010	Q3 2010	Increase / (Decrease)	Q4 2009	Increase / (Decrease)
Canadian retirement same property portfolio:					
Ontario retirement	91.8%	92.1%	(0.3pp)	92.9%	(1.1pp)
Western Canada	91.4%	89.9%	1.5pp	90.1%	1.3pp
Quebec	87.6%	87.4%	0.2pp	86.9%	0.7pp
Total	90.0%	89.8%	0.2pp	90.0%	-

## Canadian Long-Term Care Operations

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same property - 100% owned	16	64	99	1,616	1,779
Acquisitions - 100% owned	8	-	-	1,385	1,385
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, excluding occupancy rates)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
<b>Revenue</b>						
Same property	27,485	26,456	1,029	105,133	102,286	2,847
Acquisitions	23,709	11,213	12,496	71,430	43,339	28,091
Total revenue	51,194	37,669	13,525	176,563	145,625	30,938
<b>Direct Operating Expenses</b>						
Same property	23,636	23,487	149	91,734	90,164	1,570
Acquisitions	20,481	9,917	10,564	61,117	37,122	23,995
Total direct operating expenses	44,117	33,404	10,713	152,851	127,286	25,565
<b>Net Operating Income</b>						
Same property	3,849	2,969	880	13,399	12,122	1,277
Acquisitions	3,228	1,296	1,932	10,313	6,217	4,096
Total net operating income	7,077	4,265	2,812	23,712	18,339	5,373
<b>Same property statistics:</b>						
Weighted average occupancy rate	97.3%	97.7%	(0.4pp)	97.8%	97.9%	(0.1pp)

Same property revenues increased 2.8% in 2010 compared to 2009. The increases are primarily due to higher government funding provided for direct resident care services which are mainly staffing related. Direct operating expenses increased 1.7% in 2010 compared to 2009 primarily due to higher compensation expenses offset by lower administration and realty tax expenses. As a result, same property NOI increased \$1.3 million or 10.5% in 2010 compared to 2009.

Weighted average occupancies in the same property portfolio were at 97.8% in 2010, a decrease of 0.1 percentage points from 2009. Occupancy in all of our Ontario LTC communities exceeded 97% in 2010, and as a result, these communities received government funding as though fully occupied.

In Q2 2010, we completed the previously announced acquisition of ING's 50% interest in the Regency portfolio of eight Class A LTC communities in Ontario. The operating results of these properties are reported under Acquisitions in the previous table.

**Fourth Quarter:** Same property NOI increased \$0.9 million or 29.6% in Q4 2010 compared to Q4 2009 primarily due to an adjustment of our estimates for vacation and sick-time cost accruals which accounted for approximately \$0.8 million of the quarter over quarter increases.

Weighted average occupancies in the same property portfolio were at 97.3% for Q4 2010 compared to 97.7% for Q4 2009.

## U.S. Operations

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

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
<b>Same Property - Owned</b>					
100%	23	711	1,600	-	2,311
50%	19	2,026	1,483	-	3,509
Total same property owned	42	2,737	3,083	-	5,820
<b>Properties under Operating Lease</b>					
100% Interest	2	78	159	-	237
Total same property owned and leased	44	2,815	3,242	-	6,057
<b>Acquisitions - 100% owned</b>	6	865	-	190	1,055
<b>Development - 50% owned</b>	1	161	35	-	196
<b>Total</b>	<b>51</b>	<b>3,841</b>	<b>3,277</b>	<b>190</b>	<b>7,308</b>

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

(U.S.\$000s, except as noted otherwise)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
<b>Revenue</b>						
Same property	35,034	34,203	831	138,421	137,617	804
Acquisitions, development and other <sup>(1)</sup>	13,144	7,488	5,656	44,123	30,332	13,791
Intercompany eliminations	(1,058)	(1,632)	574	(5,107)	(7,002)	1,895
Total revenue	47,120	40,059	7,061	177,437	160,947	16,490
<b>Direct Operating Expenses</b>						
Same property	25,014	23,239	1,775	96,706	93,919	2,787
Acquisitions, development and other <sup>(1)</sup>	7,302	3,917	3,385	25,190	17,159	8,031
Intercompany eliminations	(1,058)	(1,632)	574	(5,107)	(7,002)	1,895
Total direct operating expenses	31,258	25,524	5,734	116,789	104,076	12,713
<b>Net Operating Income</b>						
Same property	10,020	10,964	(944)	41,715	43,698	(1,983)
Acquisitions, development and other <sup>(1)</sup>	5,842	3,571	2,271	18,933	13,173	5,760
Total net operating income	15,862	14,535	1,327	60,648	56,871	3,777
Foreign exchange in CDN	220	872	(652)	1,818	8,087	(6,269)
Total net operating income in CDN	16,082	15,407	675	62,466	64,958	(2,492)
<b>Same property statistics:</b>						
Weighted average occupancy rate	90.4%	89.8%	0.6pp	89.0%	89.7%	(0.7pp)

(1) Includes the results of the Meridian portfolio acquired in Q2 2010, one property at which we are completing an addition, as well as the results of our U.S. management operations excluding discontinued management operations.

Same property revenue remained relatively flat in 2010 compared to 2009. Same property revenues have been impacted by occupancy declines in 2010. In addition, in order to successfully compete in these challenging market conditions, in select markets we implemented rental incentive programs which reduced revenue growth.

Same property direct operating expenses increased \$2.8 million or 3.0% in 2010 compared to 2009. The increase in operating costs is primarily due to expiry of the 18-month compensation freeze program in the U.S. properties in June 2010, higher marketing and advertising costs and commissions targeted to improve occupancies.

As a result, same property NOI decreased U.S.\$2.0 million or 4.5% in 2010 compared to 2009.

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

	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	1.01	1.06	(0.05)	1.03	1.14	(0.11)

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

**Fourth Quarter:** Same property NOI decreased U.S.\$0.9 million or 8.6% in Q4 2010 compared to Q4 2009.

Same property revenue was increased \$0.8 million or 2.4% in Q4 2010 compared to Q4 2009 due to improved occupancies.

Same property direct operating expenses increased \$1.8 million or 7.6% in Q4 2010 compared to Q4 2009 primarily due to higher compensation costs as discussed above. In addition, in Q4 2010, we incurred higher sales bonuses, commissions and referral costs as a result of improved occupancies.

## Canadian Management Operations

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

	Properties <sup>(1)</sup>	Composition of Suites			Total
		ISL	AL	LTC	
Managed properties	14	841	213	864	1,918

(1) In Q2 2010, we changed presentation of this table to only include operating properties under management.



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

(\$000s)	Q4 2010	Q4 2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
<b>Management and Other Fee Revenue</b>						
Spectrum:						
Development management	-	-	-	-	321	(321)
Operations management	240	418	(178)	1,188	1,878	(690)
Other	5	30	(25)	25	81	(56)
Total Spectrum	245	448	(203)	1,213	2,280	(1,067)
ING	66	569	(503)	941	2,321	(1,380)
Other	514	774	(260)	2,521	2,746	(225)
Total management and other fee revenue:	825	1,791	(966)	4,675	7,347	(2,672)
Direct operating expenses	998	1,024	(26)	4,006	4,099	(93)
Income/(loss) from management operations	(173)	767	(940)	669	3,248	(2,579)

Management operations revenue decreased primarily due to lower fees from Spectrum as the number of Spectrum properties under management declined as a result of the completion of a majority of development projects and the sales of certain operating projects in 2009 and 2010.

Asset management fees from ING declined primarily as a result of our acquisition of ING's interest in the Meridian and Regency portfolios in Q2 2010.

Direct operating expenses represent an allocation of corporate costs, including fixed costs, required to support management operations.

As of January 1, 2011, Seasons fully internalized management of four of the five properties we managed for them during 2010. Management fees from these four properties amounted to \$0.3 million in 2010.

**Fourth Quarter:** Management operations revenue decreased \$1.0 million in Q4 2010 compared to Q4 2009 primarily due to lower fees from Spectrum, ING and other third parties as discussed above.

## Financial Position

### Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity for December 31, 2010 compared to December 31, 2009:

	Increase / (Decrease) (\$millions)	Explanation
Properties	208.4	Properties increased primarily as follows: properties acquired during 2010 added \$290.8 million; internal growth developments, building improvements and other capital expenditures added \$42.0 million. These increases were offset by depreciation of \$79.6 million, write-down of assets of \$4.1 million and foreign exchange translation of \$40.7 million.
Mezzanine loans	(34.5)	Mezzanine loans outstanding decreased primarily due to the discharge of \$17.4 million of mezzanine loans on the acquisition of the related properties, repayment of mezzanine loans totalling \$14.4 million and reallocation of impairment provision of \$3.6 million, offset by amortization of fees of \$0.9 million.
Limited life intangible assets	4.5	Limited life intangible assets increased \$23.0 million due to acquisitions. This increase was offset by amortization and foreign exchange translation adjustments of \$18.5 million.
Capital funding receivable	20.0	Capital funding increased \$23.1 million due to acquisitions. During 2010, we received capital funding of \$6.0 million, of which \$2.9 million was recorded as interest income and \$3.1 million recorded as a reduction of the receivable.
Licences	12.9	Licences increased \$12.9 million due to acquisitions.
Total assets	78.1	The increase in total assets is primarily due to acquisitions of properties completed in 2010 which was offset by decreases in mezzanine loans and cash balances.
Mortgages payable	134.1	Mortgages payable increased as a result of new mortgage financings of \$16.4 million, assumed mortgages on acquired properties of \$261.1 million and additional financing costs, net of amortization, of \$1.1 million. These increases were offset by regular amortizing principal repayments of \$42.9 million, other mortgage repayments of \$69.2 million and foreign exchange translation of \$32.4 million.
Convertible debentures	(118.1)	Convertible debentures decreased due to redemption of the 6.0% Convertible Debentures of \$124.9 million which was offset by accretion and amortization of financing costs of \$6.8 million.
Total liabilities	48.1	The increase in total liabilities is primarily due to increases in mortgages payable and Credit Facility, offset by a reduction in convertible debentures.
Non-controlling interest	(2.4)	Non-controlling interest decreased primarily due to exchanges of Class B Units of Chartwell Master Care LP ("Master LP") for Trust Units of \$1.0 million, distributions to the holders of the Class B Units of Master LP of \$1.0 million and non-controlling interests share of net loss of \$0.4 million.
Unitholders' equity	32.4	The increase in Unitholders' equity is primarily due to Trust Units issued during the year, offset by cash distributions, the allocation of net loss to the Trust's Unitholders and foreign exchange translation in other comprehensive income.

## Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2010:

	Trust Units	Trust Units issued under LTIP	Class B Units of Master LP	Deferred Trust Units	Total
Balance December 31, 2009	125,762,133	2,436,895	1,976,859	120,592	130,296,479
Trust Units issued pursuant to public offering	13,775,000				13,775,000
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	628,792	-	-	-	628,792
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	146,882	-	-	146,882
Trust Units transferred to Treasury	-	(168,919)	-	-	(168,919)
Trust Units released on settlement of LTIP receivable	170,000	(170,000)	-	-	-
Deferred Trust Units issued <sup>(1)</sup>	-	-	-	78,306	78,306
Deferred Trust Unit distributions	-	-	-	9,936	9,936
Exchange of Class B Units of Master LP	262,207	-	(262,207)	-	-
Balance December 31, 2010	140,598,132	2,244,858	1,714,652	208,834	144,766,476

(1) Effective July 1, 2010, the Deferred Trust Unit Plan was amended, to provide that director fees elected to be earned in deferred units would be matched on a one-for-one basis by Chartwell.

## Liquidity and Capital Commitments

### Liquidity

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

Our principal source of liquidity is cash flow from operations. At December 31, 2010 we had cash on hand in the amount of \$14.7 million. In order to provide for our operating and capital requirements, we also raise funds through the capital markets, arrange mortgage debt financing and have arranged for a Credit Facility with a committed capacity of \$75 million.

In Q2 2010 we extended the term of our Credit Facility for an additional 364-day period until June 24, 2011. Under the renewal terms the amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.75% or at the applicable bankers' acceptance rate plus 2.75%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to Unitholders. The Credit Facility is secured by first and second charges on 20 seniors housing communities. At December 31, 2010, the maximum available borrowing capacity under the Credit Facility was \$75.0 million, of which \$2.1 million was utilized to support outstanding letters of credit and \$51.0 million was drawn leaving available borrowing capacity at \$21.9 million.

In Q4 2010, we repaid high-interest rate mortgages on two of our properties. We expect to complete long-term financing of these properties in the amount of \$45.5 million in the spring of 2011 and use the proceeds to repay amounts outstanding on our Credit Facility.

## Debt Strategy

At the present time we employ the following sources of debt financing: property-specific secured mortgages; unsecured convertible debentures and Credit Facility. Our debt management objectives are to:

- access low-cost, long-term, fixed-rate debt and variable-rate construction financing on flexible terms; and
- manage interest rate risk by spreading debt maturities over time with the target of no more than 10% of total debt maturing in any given year.

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 60% of GBV, excluding convertible debentures; and to 65% of GBV including convertible debentures (“Indebtedness Ratio”).

Under the Declaration of Trust, total indebtedness includes any obligation for the borrowed money, any obligation incurred in connection with the acquisition of property, assets or business, other than future income tax liability, any capital lease obligation and any guaranteed obligations of third parties to the extent included in our consolidated balance sheet.

At December 31, 2010, our Indebtedness Ratio was 55.3% and 57.7% excluding and including convertible debentures, respectively.

As discussed under the “Changes to Significant Accounting Policies” section of this MD&A, we elected to measure our PP&E at fair value at the transition date, which will result in a decrease in the GBV of our assets. To maintain comparability of the Indebtedness Ratios reported under CGAAP and IFRS, effective January 1, 2011 Chartwell’s Trustees approved, in compliance with the Declaration of Trust, an amendment to the GBV definition in the Declaration of Trust to add back the difference between the GBV of assets under CGAAP and IFRS on Transition Date and to add back related costs in respect of completed property acquisitions that were expensed in the period incurred.

**Indebtedness Ratio:** The following table presents the calculation of our Indebtedness Ratio as at December 31:

(\$000s)	2010
Mortgages payable	1,736,057
Credit Facility	51,000
Convertible debentures (face value)	75,000
Total Indebtedness	1,862,057
Total assets	2,676,767
Accumulated depreciation and amortization <sup>(1)</sup>	560,588
GBV of assets	3,237,355
Less: Assets financed by deferred purchase consideration on acquisition properties	7,512
GBV of assets (net of deferred consideration)	3,229,843
Indebtedness Ratio before convertible debentures	55.3%
Indebtedness Ratio including convertible debentures	57.7%

(1) Includes accumulated depreciation and amortization related to fully amortized properties, intangible assets of \$210,474.

In addition to the Indebtedness test under our Declaration of Trust, we adopted a supplemental operating target for managing our debt portfolio and will be monitoring our Interest Coverage Ratio.

**Interest Coverage Ratios:** In addition to the Indebtedness Ratio covenant, effective December 31, 2010, we also adopted an interest coverage guideline. The interest coverage guidelines provide an indication of an entity's ability to service or pay the interest charges relating to the underlying debt and have generally been used by debt rating agencies to test an entity's ability to service its debt. Generally, the higher the ratio, the lower the risk of default on debt. We will target to maintain our Interest Coverage Ratio above 1.65 times.

The following table summarizes our Interest Coverage Ratio for December 31:

(\$000s, except Interest Coverage Ratio)	2010	2009
Interest expense per financial statements	110,024	107,948
Capitalized interest	1,277	1,872
Property lease expense	111,301	109,820
	2,452	2,598
	113,753	112,418
Earnings before interest, taxes, depreciation and amortization ("EBITDA") <sup>(1)</sup>	198,532	186,423
Interest Coverage Ratio	1.75x	1.66x
Target Interest Coverage Ratio	1.65x	

(1) Refer to the "Key Performance Indicators – EBITDA" section of this MD&A for a discussion of EBITDA.

The following table presents the calculation of EBITDA:

(\$000s)	2010	2009
Net loss before discontinued operations	(26,988)	(61,001)
<i>Add back:</i>		
Interest expense	110,024	107,948
Property lease expense	2,452	2,598
Accelerated accretion adjustment and amortization of deferred financing charges on retirement of convertible debentures	2,183	-
Depreciation of properties	79,642	74,253
Amortization of management contracts, resident contracts and customer relationships	17,692	36,977
Write-down of carrying value of assets	4,100	-
Future income tax expense/(recovery)	6,464	(9,753)
Current income tax expense/(recovery)	281	85
Non-controlling interest	(380)	(1,228)
Write-down of mezzanine loans	-	30,684
Unrealized gains/(losses) on derivative financial instruments and unrealized foreign exchange gains/(losses)	3,736	10,074
Realized foreign exchange loss/(gain)	58	(3,113)
Below-market lease amortization	(732)	(1,101)
EBITDA	198,532	186,423

## Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2010.

(\$000s)	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Year					
2011	36,267	82,778	119,045	6.35%	4.52%
2012	36,904	157,135	194,039	12.05%	5.01%
2013	36,993	103,494	140,487	7.94%	5.11%
2014	32,560	132,203	164,763	10.14%	4.36%
2015	29,969	174,441	204,410	13.38%	5.14%
2016	26,891	170,267	197,158	13.06%	6.01%
2017	19,733	237,041	256,774	18.18%	5.70%
2018	20,828	32,625	53,453	2.50%	5.55%
2019	19,684	95,462	115,146	7.32%	6.18%
2020	19,628	30,038	49,666	2.30%	4.51%
2021-2025	74,158	58,118	132,276	4.46%	5.83%
Thereafter	78,426	30,414	108,840	2.32%	4.91%
Total	432,041	1,304,016	1,736,057	100.00%	
Mark-to-market adjustments arising on acquisition			15,068		
Less: Financing costs			(18,687)		
Total Mortgage Debt			1,732,438		

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

	As at December 31, 2010	As at December 31, 2009
Average term to maturity	7.5 years	7.9 years
Weighted average contractual interest rate	5.44%	5.42%
Variable-rate mortgage debt	\$85.8 million	\$53.7 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 primarily relate to recently acquired communities in lease-up and our development projects. Variable-rate loans are expected to be refinanced with fixed-rate, CMHC-insured debt upon completion and stabilization of the internal growth projects and properties in lease-up.

Debt maturing through 2012 relates exclusively to mortgages on properties in our Canadian portfolio of assets. In Canada, we have access to low-cost, CMHC-insured debt. All our Canadian properties are eligible for CMHC financing and as of December 31, 2010, approximately 65% of our total Canadian mortgage debt was CMHC insured. We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt on renewal.

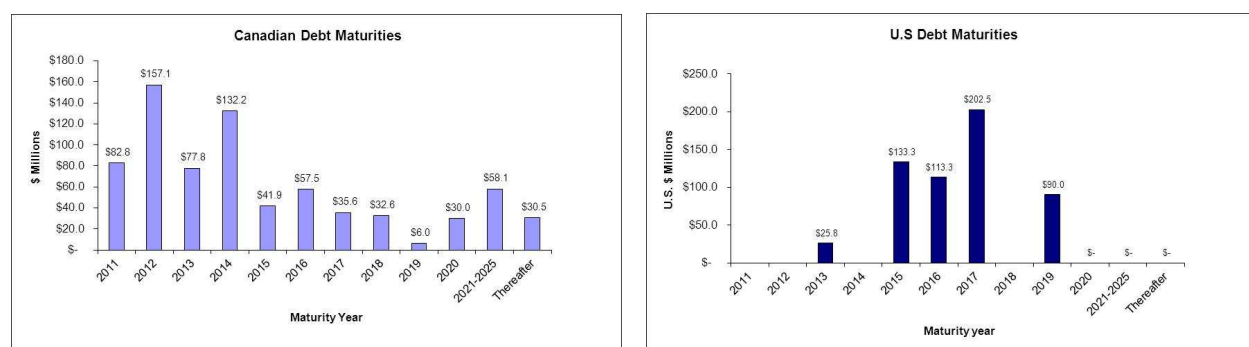
In the U.S. over 70% of our mortgages are with the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae"). Both of these entities are government-sponsored enterprises which provide access to competitive financing of seniors housing properties. We have no U.S. debt maturities until 2013, when U.S.\$25.8 million of mortgages come due. The remaining U.S. loans mature between 2015 and 2019.

In 2010 we refinanced maturing mortgages and completed new financings on seven properties in the amount of \$52.0 million, bearing a weighted average interest rate at 4.07% with a weighted average term to maturity of 9.3 years. We also repaid mortgages totalling \$69.2 million on nine properties. We expect to refinance these properties, as required, with approximately two refinancings in the amount of

approximately \$45.5 million, scheduled in the spring of 2011.

We own a 50% interest in a group of properties in the U.S. which is financed through a mortgage pool in the amount of U.S.\$69.4 million. We are required to perform covenant testing on this pool on March 31, 2011 and do not expect to meet two of the covenant requirements at that time. Under the terms of the loan agreement, the lenders' recourse is limited to a corporate guarantee provided by CSH-INGRE LLC ("CSH-INGRE") in the amount of U.S.\$4.5 million.

The following charts provide the breakdown of our debt maturities in Canada (excluding discontinued operations) and the U.S.:



## Convertible Debentures

At December 31, 2010, we had \$75 million of 5.9% Convertible Debentures outstanding. 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. The 5.9% Convertible Debentures can be called by us at par on or after May 1, 2011.

On December 3, 2010, we redeemed the full amount of 6% Convertible Debentures at par, utilizing the net proceeds from our \$130 million offering of Trust Units completed on October 29, 2010.

## Capital Expenditures

We classify our capital expenditures in the following main categories:

- Development-related – capital expenditures in respect of our development projects as described in the "Significant Events" section of this MD&A.
- Acquisition-related – capital expenditures which were identified during the acquisition due diligence process for newly acquired assets.
- Building improvements – include capital expenditures that improve the revenue generating potential of our properties.
- Furniture, fixtures and equipment purchases.

The following table summarizes additions to properties during 2010:

(\$000s)	2010
Development-related	12,054
Acquisition-related	1,902
Building improvements	19,766
Furniture, fixtures and equipment	8,321
<b>Total</b>	<b>42,043</b>

## ***Contractual Obligations and Guarantees***

### **Contractual Obligations**

The following table summarizes the major contractual obligations as at December 31, 2010:

(\$000s)	Total	2011	2012	2013	2014	2015	Thereafter
Mortgages payable	1,736,057	119,045	194,039	140,487	164,763	204,410	913,313
Convertible debentures	75,000	-	75,000	-	-	-	-
Credit Facility	51,000	51,000	-	-	-	-	-
Purchase obligations	38,104	33,104	5,000	-	-	-	-
Property operating leases	11,122	1,589	1,589	1,589	1,589	1,589	3,177
Other operating leases	5,282	1,166	1,166	1,166	1,166	583	35
Land leases	16,454	395	395	395	395	395	14,479
Total contractual obligations	1,933,019	206,299	277,189	143,637	167,913	206,977	931,004

Purchase obligations relate to the following:

- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately \$7.5 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.
- Commitments with respect to various construction contracts of approximately \$29.1 million.

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

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

Land leases relates to an obligation we assumed in respect of the three leases which expire between 2044 and 2061 with annual payments of approximately \$0.4 million

### **Other Contracts**

CSH-INGRE's properties and six of our wholly-owned properties in the U.S. are managed by Horizon Bay Chartwell LLC ("HBC"). The property management agreements are for a term of 20 years (the remaining terms are between 14 and 16 years) and call for payment of management fees between 4% and 5% of gross revenues. We own a 50% interest in HBC.

The majority of our wholly-owned and leased properties in the U.S. are managed by HBCII Manager LLC ("HBCII"). The management agreements are for terms of 20 and 30 years (the remaining terms are between 16 and 26 years) and call for payment of management fees of 5.5% of gross revenues. We own an 80% interest in HBCII.

Horizon Bay Partners LLC ("HBP") indirectly owns the other 50% interest in HBC and 20% interest in HBCII. In 2010, HBP notified us that certain of its subsidiaries have defaulted on their lease agreements with HCP Inc., the landlord of 25 properties leased by such subsidiaries, and that such defaults trigger certain rights of HCP Inc. HBP has informed us that it is currently in discussions with HCP Inc. regarding such defaults.

### **Guarantees**

We remain a guarantor on the debt of one property to a maximum of \$6.1 million. The owners of this property posted an irrevocable letter of credit in favour of Chartwell for the full amount of the guarantee.



During 2010, together with our joint venture partners, we have jointly and severally guaranteed CMHC-insured loans on three properties totalling \$48.3 million.

## Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between 2010 and 2009:

Cash Provided by (Used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	31.6	Cash flows from operating activities increased primarily due to increased contributions from property operations.
Financing activities	(185.0)	Cash flows from financing activities decreased primarily due to a decrease in mortgage proceeds, net of repayments, of \$85.3 million, a decrease in proceeds from public offerings and redemption of the 6% Convertible Debentures of \$124.9 million. This decrease was offset by an increase in proceeds from our Credit Facility.
Investing activities	(36.0)	Cash flows from investing activities decreased primarily due to increased acquisition activity.

## Distributions

The declaration and payment of future distributions is subject to the discretion of the Board of Trustees. The Trustees rely upon forward-looking cash flow information including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors deemed relevant by them in setting the distribution rate. In Q3 2009, cash distributions per unit were reduced to \$0.0450 per month, or \$0.54 on an annualized basis from \$0.0617 per unit, or \$0.74 on an annualized basis.

In 2010, 95.162% of our distributions were characterized as tax-deferred returns of capital with the remaining 4.838% being characterized as foreign-source interest income for tax purposes. In both 2009 and 2008, 100% of our distributions were characterized as tax-deferred returns of capital.

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

The following table summarizes distributions made in 2010, 2009 and 2008:

(\$000s)	Q4 2010	2010	2009	2008
Distributions declared on Trust Units	19,231	71,144	67,711	75,670
Distributions on Class B Units of Master LP	230	989	1,395	3,595
Distributions reinvested under DRIP	(2,061)	(4,795)	(5,074)	(9,230)
Distributions applied against LTIP installment receivable	(311)	(1,235)	(1,771)	(2,144)
Distributions paid or payable in cash	17,089	66,103	62,261	67,891

The following table summarizes cash distributions made in 2010, 2009 and 2008 in relation to net loss and cash flows from operating activities:

(\$000s)	Q4 2010	2010	2009	2008
Cash flows from operating activities	17,022	96,437	64,810	101,525
Loss before non-controlling interest	(16,319)	(26,708)	(72,692)	(111,660)
Cash distributions declared <sup>(1)</sup>	17,089	66,103	62,261	67,891
Excess (shortfall) of cash flows from operating activities over cash distributions paid	(67)	30,334	2,549	33,634
Excess (shortfall) of net loss before non-controlling interest over cash distributions paid	(33,408)	(92,811)	(134,953)	(179,551)

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

Cash flow from operating activities is affected by changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period. Changes in non-cash working capital reduced cash flows from operating activities by \$0.7 million in 2010. For 2009, changes in non-cash working capital reduced cash flows from operating activities by \$25.2 million.

Our distributions exceeded net income/loss in 2010, 2009 and 2008. We anticipate that this will continue. We do not use net loss in accordance with CGAAP as the basis to establish the level of distributions to Unitholders as net loss includes, among other items, non-cash depreciation and amortization and impairment provisions related to our property portfolio. We do not consider non-cash depreciation and amortization and impairment provisions in establishing our distribution levels as we believe that the value of our real estate investments generally does not diminish over time and as we give consideration to maintenance capital expenditures in establishing the level of annual distributions to Unitholders. We believe our current distribution level is sustainable.

## Key Performance Indicators

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

### ***Funds from Operations***

FFO does not have a standardized meaning prescribed by CGAAP and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by CGAAP. FFO is defined as net income computed in accordance with CGAAP, excluding gains or losses from sales of depreciable real estate and extraordinary items, and adds back the following: depreciation and amortization; future income taxes; and adjustments for equity-accounted-for entities and non-controlling interests. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO consistent with the definition adopted by the Real Property Association of Canada (“REALpac”). In June 2010, REALpac issued a White Paper on FFO for IFRS, which is effective upon adoption of IFRS. It includes certain additional adjustments to FFO for IFRS from the current definition of FFO under CGAAP. Some of these adjustments are discussed under the “Changes to Significant Accounting Policies” section of this MD&A.

In our opinion, the use of FFO, combined with the required primary CGAAP presentations, has been fundamentally beneficial to the users of the financial information, improving their understanding of our

operating results. We generally consider FFO to be a useful measure for reviewing our operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

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

## ***Adjusted Funds from Operations***

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

***Straight-line adjustment to lease expense:*** CGAAP 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 CGAAP revenue and is commonly adjusted in AFFO calculations. On acquisition of a property, as required by CGAAP, management records a liability for below-market leases that exist on acquisition. This liability is amortized to revenue, as required by CGAAP, 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-CGAAP Measures" section of this MD&A provide details of AFFO calculations.

## ***Per Unit Amounts***

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

## ***Net Operating Income***

NOI is calculated as revenue, excluding below-market lease amortization, less direct operating expenses and is reported for each operating segment. Management uses this measure to evaluate individual and divisional property performance.

## ***Same Property Performance***

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

The following table summarizes the same property portfolio for 2010:

	<b>Properties</b>	<b>Suites/Beds</b>
Canadian Retirement Operations	91	10,861
Canadian Long-Term Care Operations	16	1,779
U.S. Operations (owned and leased)	44	6,057
<b>Total Same Property Portfolio</b>	<b>151</b>	<b>18,697</b>

## ***Occupancy Percentage***

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

## ***G&A as a Percentage of Revenue***

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

## ***EBITDA***

EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense and excludes gains/losses on disposition of properties and non-recurring items such as asset impairment provisions or unrealized gains and losses.

## ***Interest Coverage Ratio***

Interest Coverage Ratio is defined as a ratio of EBITDA to total interest expense incurred in the period, including capitalized interest, and is generally used by rating agencies to test an entity's stability to service its debt. We believe it is a useful supplemental measure to monitor our interest costs in relation to operating earnings.

## Changes to Significant Accounting Policies

We prepare our financial statements in Canadian dollars in accordance with CGAAP. Our significant accounting policies are summarized in note 1 of the 2009 Financial Statements.

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

### ***International Financial Reporting Standards***

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed its strategic plan that will result in CGAAP, as used by publicly accountable enterprises, being fully converged with IFRS as issued by the International Accounting Standards Board ("IASB") over a transitional period to be completed by January 1, 2011. We are 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. Comparative IFRS information for 2010 fiscal year will also have to be reported.

We are in the process of transitioning our financial results from CGAAP to IFRS. This is an ongoing process as the IASB and the AcSB issue new standards and recommendations and as the Canadian accounting profession interprets those standards and recommendations. The full impact of this transition on our consolidated financial statements and KPIs has not yet been completely quantified.

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

The IFRS implementation project consists of four phases. The following provides a summary of the different phases and their status.

<b>Phase</b>	<b>Description and Status</b>
Initial Assessment Phase	<p>This phase identifies the significant differences between existing CGAAP and IFRS at a high level as relevant to Chartwell.</p> <p>Based upon the current state of IFRS, this phase identified a number of topics that will impact our financial results and the necessary effort to make the transition to IFRS. Targeted training and communication activities, leveraging both internal and external resources, occurred during this phase.</p> <p>We have completed our initial assessment phase.</p>
Detailed Assessment Phase	<p>Building upon the assessment performed in the initial assessment phase, this phase included:</p> <ul style="list-style-type: none"> <li>• Identification, evaluation and selection of accounting policies necessary for us to change over to IFRS;</li> <li>• Identification of the business impacts resulting from the identified accounting differences. Business impacts considered in our project plan are: business units, internal controls over financial reporting processes, information technology, stakeholders, regulatory matters, and others as identified during this phase;</li> <li>• Assessment of IFRS 1 exemptions and elections. This aspect of the project plan has followed the detailed assessment of the financial statement items and was revisited periodically throughout the project;</li> </ul>

	<ul style="list-style-type: none"> <li>• An initial training analysis and information systems impact analysis were also components of this phase.</li> </ul> <p>We have completed the detailed assessment phase.</p>
Design Phase	<p>This phase integrates the solutions from the detailed assessment phase into our underlying financial system and processes that are necessary for us to change over to IFRS.</p> <p>In addition, we will have designed business process changes and developed detailed training programs.</p> <p>The design phase is complete; however, we expect to continue refining our business processes based on discoveries in the implementation phase.</p>
Testing, Implementation and Review Phase	<p>This phase of the project implementation is in progress with the status of key elements as follows:</p> <ol style="list-style-type: none"> <li><b>Accounting Policies:</b> The evaluation and selection of accounting policy alternatives is substantially complete, however, we continue to assess our choices until the transition date.</li> <li><b>Financial Reporting:</b> The preparation of the IFRS financial statements, including notes disclosures, for interim and annual periods is underway and is progressing according to plan.</li> <li><b>Information Technology and Data Systems:</b> We have identified areas where transition to IFRS has a significant impact on our information technology systems. The development and implementation of the required IT solutions is substantially complete. The change to our information systems has been significantly impacted by the requirement to componentize our Property, Plant and Equipment ("PP&amp;E").</li> <li><b>KPIs:</b> The IFRS impact on key performance indicators is assessed as each IFRS standard is reviewed. We monitor and report to the Audit Committee on any potential major impact so that decisions can be made as to whether any of our current KPIs or ratio definitions need to be amended. Please refer below for the discussion of the expected changes to our KPIs as a result of IFRS conversion.</li> <li><b>Training and Development:</b> <ul style="list-style-type: none"> <li>• The in-depth training of key finance and operational staff has been completed. The ongoing training will continue throughout 2011.</li> <li>• We continually provide quarterly updates to the Audit Committee and a full training session has been held in November 2010.</li> <li>• A full update and training session has been held with the Board of Directors in February 2011.</li> </ul> </li> <li><b>Internal controls over financial reporting and disclosure controls and procedures:</b> This is an on-going process whereby we have identified additional controls and procedures under IFRS that are currently being reviewed. Internal control test plans and management certificates are being updated so that the CEO/CFO certification process will be compliant with IFRS. Testing of key elements of the opening balance sheet conversion is in process.</li> </ol>

## Impact of Adoption of IFRS

The IFRS framework is, for the most part, consistent with the framework of CGAAP, but there are significant differences in the resulting standards derived from their application. Set out below are the key changes in accounting policies due to the adoption of IFRS that are expected to impact our consolidated financial statements. It is important to note that several IFRS standards are in the process of being amended by the IASB. This is expected to continue up to and beyond the first IFRS reporting period of March 31, 2011. We are monitoring the IASB's schedule of projects, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and CGAAP. Therefore, at this stage, the quantitative impact of the significant differences outlined below is preliminary and may be subject to change at a later date.

Our adoption of IFRS will require the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. Certain adoptive relief mechanisms are available under IFRS to assist with difficulties associated with reformulating historical accounting information. The general relief mechanism is to allow for prospective, rather than retrospective treatment, under certain conditions as prescribed by IFRS 1. The standard specifies that adjustments arising on the conversion of IFRS from CGAAP should be recognized in opening retained earnings. The following are the significant optional exemptions available under IFRS 1 that we expect to apply, as well as other items that are expected to have an impact on our first financial statements under IFRS:

***Fair Value as Deemed Cost for PP&E:*** Under IFRS 1, an item of PP&E can be initially measured upon transition to IFRS at fair value as deemed cost as opposed to the historical cost model. If fair value as deemed cost is used, this will become the new cost amount for qualifying assets at transition. This election is available on an asset by asset basis.

We have elected to use the cost model to account for PP&E and have also elected to use fair value as deemed cost at January 1, 2010 to report the asset values of PP&E as part of the first time adoption of IFRS.

Our opening balance sheet will reflect a one-time revaluation of substantially all of our PP&E as at January 1, 2010. This revaluation is expected to result in a carrying value of total assets approximately \$73 million higher than the net book value reported under CGAAP. This amount represents the sum of individual property fair values and excludes any portfolio premium and the value of the management platform. As a result of this revaluation, GBV of total assets is expected to decrease by approximately \$394 million from \$3,069 million to \$2,675 million.

Due to this change in GBV of our assets, the Indebtedness Ratio would have increased to approximately 61.2%, excluding convertible debentures and to 68.7% including convertible debentures based on IFRS carrying values, from 53.2% excluding convertible debentures and 59.9% including convertible debentures based on CGAAP historical cost as at January 1, 2010. Effective January 1, 2011 Chartwell's Trustees approved, in compliance with the Declaration of Trust, an amendment to the GBV definition in the Declaration of Trust to add back the difference between the GBV of assets under CGAAP and IFRS on Transition Date and to add back related costs in respect of completed property acquisitions that were expensed in the period incurred. Chartwell's Trustees determined that this change is required in order to maintain comparability of the Indebtedness Ratio upon conversion to IFRS with the ratios calculated under CGAAP in prior periods.

***PP&E Valuation process:*** In the valuation process of our property, plant and equipment assets, we received external appraisals for approximately 30% of our properties with the remaining 70% being valued internally.

The internal valuation process included a combination of the direct capitalization income approach and discounted cash flow calculations.

- The direct capitalization income approach determined fair value by applying a capitalized rate to the stabilized NOI, which incorporates allowances for vacancies and management fees. The resulting capitalized value was further adjusted, where appropriate, for extraordinary costs to stabilize the income and capital expenditures.
- The discounted cash flow approach was used to determine the fair value of Ontario Class B and Class C LTC properties due to the redevelopment requirements under the new LTC legislation; certain properties subject to realty tax abatement contracts and properties in lease up. The discounted cash flow methodology was also used to derive the value of the capital funding subsidy related to our Class A LTC properties in Ontario.

Qualified independent valuers were used for the external valuation process. Property values were based on:

- available market evidence of prices of similar properties within similar market areas,
- rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet date, less future cash outflows in respect of such leases.

Overall, the capitalization rates ranged from 7.5% to 12.3% with an average rate for the portfolio of approximately 8.9%.

The table below provides details of the average capitalization rates for Retirement and Long-Term Care segments as at January 1, 2010:

	Internal Valuations	External Valuations
<b>Canadian Retirement Operations</b>		
Weighted average capitalization rate	9.2%	8.8%
Range	8.2% - 12.3%	7.5% - 10.3%
<b>Canadian Long-Term Care Operations</b>		
Weighted average capitalization rate	8.5%	8.4%
Range	8.5%	8.3% - 8.5%
<b>United States</b>		
Weighted average capitalization rate	8.6%	8.7%
Range	7.5% - 9.3%	8.5% - 9.3%

We believe that subsequent to January 1, 2010 market capitalization rates have declined, which would likely result in higher current valuation of our properties than that at January 1, 2010.

**Impairment of Assets:** CGAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IFRS uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). IFRS also allows the reversals of any impairment losses when the recoverable amount of the asset is higher than the carrying amount. Reversals of impairment losses are disallowed under CGAAP. This difference in methodology will likely result in more volatility in the reported net income under IFRS. In 2010 REALpac published its white paper on changes to the FFO definition as a result of convergence of CGAAP and IFRS. The REALpac FFO definition adjusts for asset impairment provisions and reversals of asset impairment charges and therefore this accounting change will have no impact on our FFO or AFFO.



**PP&E Componentization:** IAS 16 Property Plant and Equipment, requires an entity to identify the significant component parts of its items of PP&E and depreciate those parts over their respective useful lives. CGAAP only requires componentization to the extent practicable. The objective of component accounting is to match the consumption of the asset to its amortization period. When a significant component of an asset is replaced, its carrying value is written off under IFRS. We completed a detailed review of our property plant and equipment with our asset and project management teams and identified six major components as listed in the table below. We believe that the remaining building components are either immaterial in value (to the total cost of the building) or have the same useful life as the building's structure.

Component Name	Items Included	Estimated Useful Life (yrs)
Structure	Steel cladding, landscaping	40
Roof	Shingles, roof truss	20
Elevators	Elevator motors, cab, pulleys	30
Mechanical/Electrical	HVAC system-boiler, chillers, ptac & rooftop units	30
Windows/Doors	Windows, door frames	20
Interior upgrades	Resident room upgrades & common area upgrades - carpeting, painting, tile flooring, etc.	3
Resident contracts	Acquisition value of in-place leases	3
Below-market land lease	Value of below-market land lease	Lease term

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

IFRS 3 establishes the acquisition date as the single measurement date for all assets acquired and liabilities assumed. A significant difference in the application of IFRS 3 relates to step acquisitions whereby the acquirer also re-measures its previously held equity interest at the acquisition date fair value and recognizes any resulting gain or loss in profit or loss. Under CGAAP the carrying amounts of previously acquired interests were carried forward in consolidating the acquiree for the first time.

In addition to the application of IFRS 3, transaction costs (including cost of appraisals, legal fees, land transfer tax, commissions, etc.) arising from the acquisition of the business, are expensed immediately. Under CGAAP, these amounts were included in the purchase price of the acquired business. In 2010 we incurred and included in the purchase price of the acquired assets approximately \$3.3 million of transaction costs. Expensing these costs under IFRS will result in a reduction of the reported net income. Under the REALpac FFO definition, transaction costs arising from the acquisition of the business are added back in FFO calculations. Therefore, this change in accounting will have no impact on our FFO and AFFO.

**Trust Units – Liability vs. Equity:** Due to the open-ended nature of our Trust, Unitholders can require the Trust to redeem their units using the mechanism described in our Declaration of Trust. As a result our Trust Units are considered to be “puttable” financial instruments. Generally such instruments are classified as a liability under IFRS, except when they meet certain exemption criteria under IAS 32.16. Our Trust Units satisfy these exemption criteria and therefore, will continue to be presented as equity in the IFRS financial statements.

**Convertible debentures:** Under CGAAP the conversion option of our convertible debentures was valued separately and recorded as equity in our financial statements with the remaining portion of the debentures recorded as liability. Under IFRS the full outstanding amount of our convertible debentures will be

reported as liability. Therefore, on conversion the approximately \$15 million equity component of the convertible debentures will be transferred to liabilities.

We have elected to designate the convertible debentures at fair value through profit or loss under IAS 39.11A. As we will fair value our convertible debentures every reporting period, there will be increased volatility in our reported IFRS net income. We expect that this volatility is not going to be significant as the amount of outstanding convertible debentures was reduced from \$200 million to \$75 million as we redeemed the \$125 million 6% convertible debentures on December 3, 2010. There will be no impact on our FFO or AFFO as these valuation adjustments are added back in the REALpac FFO calculations.

**Non-Controlling Interest (Class B Units of Master LP).** Under CGAAP, our Class B Units of Master LP are presented as non-controlling interest. Class B units of Master LP are exchangeable into Trust Units at the option of the holder. Such exchangeable instruments are presented as liability under IFRS.

We have elected to designate this liability at fair value through profit or loss. To reflect the fair value of the Class B Units of Master LP on transition we expect to record an increase in liability and a corresponding decrease in retained earnings of approximately \$6 million. We also expect the increased volatility in reported net income under IFRS due to the changes in fair value of the Class B Units of Master LP. There will be no impact on our FFO and AFFO as these valuation adjustments are added back in REALpac FFO calculations.

**Borrowing Costs and Lease up losses:** Under our current CGAAP policy and consistent with the real estate industry standards we capitalized borrowing costs and the lease-up losses on development properties until such time as the property is designated as operating property which is the earlier of the attainment of breakeven cash flows after debt service or 24 months after substantial completion of construction.

Under IFRS, the development period for the property ceases and no costs can be capitalized when property becomes available for use. In addition, certain expenses related to pre-opening period are required to be expensed under IFRS, whereas under CGAAP, such costs were capitalized.

Subsequent to January 1, 2010 we increased our development activities and currently have three projects in construction and four in pre-development. As a result, we expect that this change in accounting will result in lower reported property NOI, Net Income, FFO and AFFO. We expect to expand our MD&A disclosure in the future to include the quantified impact of this accounting change on our quarterly and annual results.

**Income Taxes:** We have not identified any difference in the recognition and measurement of deferred income taxes under IFRS; however, we have determined the deferred tax impact of each of the above accounting changes. Under both IFRS and CGAAP, future income taxes are recorded for the temporary differences arising in respect of its assets and liabilities at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted by the reporting date. The future income tax liability at January 1, 2010 is expected to increase due to the increase in the carrying value of properties from the fair value adjustment at the Transition Date.

**Cumulative Translation Differences:** At the date of transition, we have elected to deem the cumulative translation differences existing at January 1, 2010 to be zero and recognize these differences in retained earnings. This will result in any gains and losses on subsequent disposals of U.S. operations to exclude translation differences that arose before the date of transition to IFRS. As a result of this election we expect to reclassify approximately \$14 million from Accumulated Other Comprehensive Income to Retained Earnings in our Statement of Unitholders' Equity on January 1, 2010.

**Share-based Payments:** Under CGAAP transactions settled in equity instruments (such as LTIP and DTU) are classified as equity settled awards and therefore recorded as equity. Under IFRS the option value of LTIP and DTU will be classified as liability. As a result of this accounting change we expect to

reclassify approximately \$7 million related to cumulative LTIP compensation expenses and the value of DTU from equity to liability. We also expect to record approximately \$3 million of additional liability with the corresponding decrease to retained earnings, related to re-valuation of LTIP compensation costs on transition.

We expect that this accounting change will result in increased volatility in IFRS reported net income and FFO due to changes in fair values of LTIP and DTU. We expect to adjust for these unrealized gains and losses arising from these valuations in our AFFO calculation.

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

**Discontinued Operations:** Under IFRS a discontinued operation represents a separate major line of business or geographical area of operations or subsidiaries acquired exclusively with a view to resale. Thus, the disposal of an individual property or a group of properties would not meet the IFRS definition of a significant operation of the business and would not be classified as discontinued. This is different under CGAAP. As a result of this accounting change there will be some reclassifications in our 2010 IFRS Income Statement, affecting income from continuing operations; however, there will be no impact to net income (loss).

**Joint Ventures:** The IASB is currently considering Exposure Draft 9, Joint Arrangements ("ED 9"), that is intended to modify the current IAS 31, Interest in Joint Ventures. The IASB has indicated that it expects to issue a new standard in 2011. ED 9 proposes to eliminate the option to proportionately consolidate such interests that exist in IAS 31 and requires an entity to recognize its interest in a joint venture, using the equity method. The final IFRS will not require an entity to adjust the differences between the proportionate consolidation method and the equity method retrospectively, when an entity transitions from accounting for its joint arrangements from proportionate consolidation to the equity method. Instead, it will require an entity to aggregate the previously proportionate consolidated balances into a single investment line at the opening balance of the earliest period presented. At the present time, we proportionally consolidate our interests in 27 jointly-held properties. This change will not have an impact on Net Income, FFO or AFFO going forward and will only have a presentation impact on our Financial Statements.

**Leases:** In August 2010, the IASB issued Exposure Draft, Leases ("ED/2010/09") to replace the current IAS 17, Leases. ED/2010/09 may significantly impact the accounting for leases under IFRS and was open for public comment until December 2010. There is currently no estimated date for adoption. We will continue to monitor the progress of this Exposure Draft.

## Critical Accounting Estimates

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

### ***Valuation of properties***

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

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

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

### ***Useful life of properties***

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

### ***Valuation of mezzanine loans receivable***

We regularly evaluate our mezzanine loans receivable for impairment. Impairment is recognized when the carrying value of mezzanine loans receivable may not be recovered due to the inability of the underlying assets' performance to support a fair value that would exceed our net investment in these assets (with consideration given to third party guarantees and pledges of security). In making this determination, our

estimates of future cash flow and the effects of other factors could vary and result in a significantly different assessment of impairment. Mezzanine loans, net of impairment provisions, comprise approximately 0.8% of our total assets.

### ***Variable interest entities***

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

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

### ***Guarantees***

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

### ***Income taxes***

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

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

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

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

## ***Fair value***

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

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

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

- Upon acquisition of properties we estimate the fair value of acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (above and below-market leases representing the value of the differential between contractual and market rents, in-place leases, customer relationships, and licenses) and the value of the differential between stated and market interest rates on long term liabilities assumed at acquisition.
- Included in revenue is the adjustment for the differential between contractual and market rents on our resident leases in place at the acquisition of our properties.
- In addition, fair value forms the basis for allocating consideration to each unit of accounting for revenues from contracts with multiple deliverables that meet the criteria for separate unit of accounting revenue recognition.
- As discussed in valuation of properties above, an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of carrying value over fair value.
- Impairment testing of goodwill is required at least annually and requires comparing the fair value of the reporting unit to its carrying value and if carrying value is higher than fair value, potentially recognizing an impairment loss on goodwill.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing fair value to carrying value to determine if an impairment loss is required to be recognized.

- In assessing our potential exposure relating to third party guarantees we evaluate the fair value of the borrower's interests in the underlying real estate investments compared to the liability for which we have provided a guarantee.
- On January 1, 2007, we adopted the new accounting standard Section 3855, Financial Instruments – Recognition and Measurement. This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods may be at fair value depending on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.
- We disclose in our financial statements the fair value of our mortgages and debentures payable, which amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

## ***Revenue***

### **Property Revenue**

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

### **Fee Revenue**

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

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

## Controls and Procedures

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. We continue making significant investments in improvements to our information systems and financial processes to further strengthen our internal controls. 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 Control 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 control over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2010. Based on this evaluation, we have concluded that we have a) designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to Chartwell is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared and (ii) information required to be disclosed by Chartwell in its various reports filed or submitted under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation; and b) designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with CGAAP. There were no changes in the Trust's internal control over financial reporting that occurred during the year ended December 31, 2010 that have significantly affected, or are reasonably likely to significantly affect the Trust's internal control over financial reporting.

## Forward-Looking Information and Risks and Uncertainties

### ***Forward-Looking Information***

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



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

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

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 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 AIF.

## ***Risks and Uncertainties*** ♦

- (a) **Business Risks:** Chartwell is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.
- (b) **Taxation:** We currently qualify as a mutual fund trust for Canadian income tax purposes. For a description of the recent tax developments relating to the SIFT Rules, please refer to the “2011 Outlook” section of this MD&A.

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

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder’s units. In 2010, 95.162% of our distributions were characterized as tax-deferred return of capital with the remaining 4.838% characterized as foreign-source interest income which is not subject to SIFT tax. In both 2009 and 2008, 100% of our distributions were characterized as tax-deferred return of capital. We believe it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

- (c) **Geographic Concentration:** Our business and operations are conducted in the United States and Canada, and within Canada primarily in Ontario and Quebec. A geographic concentration of our owned and leased suites, at our percentage share of ownership or leasehold interest, is described under the “Business Overview” section of this MD&A. 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 Assets:** We are committed to keep our communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio, the annual capital maintenance requirements are approximately 2% of annual gross property revenues. In addition to recurring capital maintenance projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the capital maintenance requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in capital maintenance requirements of our communities could adversely impact cash available to us. The details of our actual capital asset spending for 2010 can be found in the “Capital Expenditures” section of this MD&A.

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♦ For a complete description of the Risks and Uncertainties, please refer to our most recent AIF

- (e) **Acquisition and Development:** Our external growth prospects depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. We have significantly reduced our focus on external growth over the past year. If we are unable to manage our growth and integrate our acquisitions effectively, our business, operating results and financial condition could be adversely affected.
- (f) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with us in seeking residents. The existence of competing owners, managers and developers and competition for our residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect our revenues and, consequently, cash available to us. The supply of long-term care suites in the regions in which we own seniors housing may have an impact on the demand for retirement community suites.
- (g) **Government Regulation:** Healthcare in Canada and in the U.S. is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect us. In addition, new regulatory standards and requirements are being considered in a number of jurisdictions which may affect all types of seniors housing communities. Further, new legislation that is expected to be in force in early 2010 will have a significant effect on our LTC communities including new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of replacement licenses to be based on a home's structural classification that will be issued for a maximum of 25 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of community staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes.
- (h) **Personnel Costs:** We compete with other healthcare providers with respect to attracting and retaining qualified personnel. We are also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.
- (i) **Labour Relations:** We, directly and indirectly, employ or supervise over 14,000 persons, of whom approximately 47% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that we will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on our business, operating results and financial condition. Most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

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

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

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

The U.S. financial crisis and subsequent global recession has adversely affected U.S. property values and mortgage lending to a significant degree and Canadian mortgage lending to a lesser degree. In the U.S., commercial mortgage-backed security lending was the dominant source of commercial mortgage lending, and this market is still thin, leaving the remaining direct lenders with excess product and the ability to obtain significantly increased spread pricing over treasury yields. In Canada, lenders have been influenced by the U.S. experience and many lenders are seeking increased margins. As in the U.S., the remaining lenders have been able to obtain moderately increased spread pricing over bond yields for both CMHC-insured and conventional loans. This increased spread pricing has been mitigated by historically low U.S. treasury yields and low Canadian bond yields, leaving the interest rates obtained by us on our 2010 financings generally consistent with interest rates of 2009. As the global economy recovers, and as governments have increased borrowing dramatically, it can be expected that interest rates may rise and rise significantly. Although the U.S. financial crisis and fall out therefrom has not had a significant impact on our cost of debt or our ability to finance properties to date, this may change in the future.

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

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

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

- (l) **U.S./Canadian Exchange Rate Fluctuations:** We have interests in seniors housing communities located in the U.S. We will, therefore, be subject to foreign currency fluctuations which may, from time to time, have an impact upon our financial position and results. We may

enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging agreements, if any, would be sufficient to protect against currency exchange rate losses that could adversely affect cash available to us.

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

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

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

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

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

be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or entitle it to receive a majority of the VIE's expected residual returns or both.

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

At December 31, 2010, we hold, directly or indirectly, variable interests in nine VIEs. Although these entities were identified as VIEs, it was determined that we are not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

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

- (q) **Economic and Financial Conditions:** Adverse changes to the economic and financial conditions in Canada, the U.S. and globally could impact our ability to execute upon our operating, investing and financing strategies which, in turn, could have a material adverse impact on our business, sales, profitability and financial position. General uncertainty on the timing of a recovery from recent financial market volatility may continue to create a challenging operating environment for us.
- (r) **Growth:** The ability to grow may require the issuance of additional units and the ability to do so may not always be a viable capital-raising option. Furthermore, timing differences may occur between the issuance of additional units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive. Additionally, growth may be limited by the properties being owned in a different structure (i.e., a real estate investment trust compared with a corporation) and possibly a different economic environment. We expect that we will have opportunities to acquire properties which will be accretive and enable us to increase cash flow through improved management, but there can be no assurance that will be the case.
- (s) **Distributions:** Currently, our distributions are determined in relation to AFFO. While we intend for such distributions to be at least equal to 70% of our AFFO for a specified year, items such as principal repayments, capital expenditures, variances in operating results and redemption of units, if any, or the failure of CSH Trust or Master LP to make distributions may affect AFFO and, therefore, distributions. We may be required to decrease our distributions in order to accommodate such items. Under the terms of our Credit Facility, distributions to Unitholders are limited to 100% of our AFFO.