



Sunwest Management CRO Report

October 27, 2009 Amended

I. Ordinary Course Business

A. Operations

Operating Results: August results sustained the gradual improvements we have seen since the second quarter. For the Holdco communities, year-to-year August revenues grew 3.2%, while NOI grew faster, at 8.9%. This was accomplished with essentially flat occupancy, at 80.4%, down 7 basis points from August, 2008. Operating margin was 148 basis points higher, lifting NOI per occupied unit 9.6% to \$877.

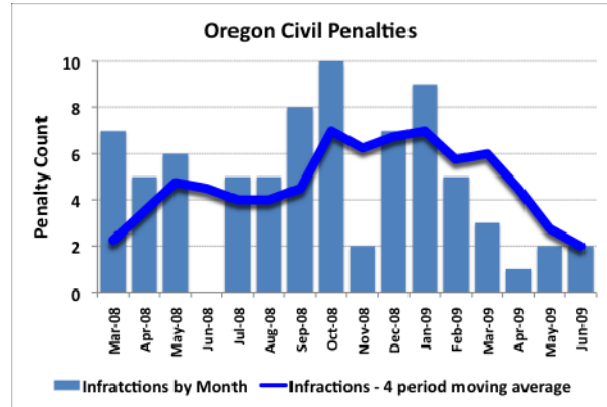
July's results (which were not available when the last CRO report went to press) came in similarly positive. The table below summarizes the change in key operating figures from the comparable period a year ago.

<i>Results for Holdco communities managed by Sunwest. Excludes third-party managed communities.</i>	<i>Change between Comparable Periods</i>		
	Jul-09 v. Jul-08	Aug-09 v. Aug-08	Trailing 3 months-09 v. Trailing 3 months-08
Occupancy	+ 10 bps	- 7 bps	+ 13 bps
Revenue	3.1%	3.2%	4.1%
NOI	7.2%	8.9%	9.6%
Margin	+ 75 bps	+ 148 bps	+ 140 bps
NOI per Occupied Unit	6.6%	9.6%	9.9%

On a month to month basis, Holdco average occupancy has now grown every month since May, from 79.04% to 79.79% in June, to 80.01% in July to 80.44% in August. While we do not yet have September's average occupancy, we ended the month up +12 from August. Week-to-week occupancy varied both down and up during the month, so we expect to see September's average occupancy up only slightly.

Quality Care: Our internal quality metrics (e.g., timely resident service planning) now run at their highest levels ever. More timely resident service plans mean more than improved resident care. An additional benefit accrues to Sunwest in the form of higher service plan revenue. From May to August, private pay service revenue is up 13.4%, or \$215,000 per month. Recent deficiency-free surveys from three communities (Moses Lake, Churchill and Plaza at Sun Mountain) and a noteworthy decline in civil penalties underscore our

improvements in quality. The graph to the right shows for the state of Oregon – by far the strictest state for penalties –the decline in our penalty infractions since late 2008 /early 2009.



Other Operational Activities: Current rent collections improved in September for the fifth consecutive month, to 98.8%. We completed our sales-to-operating division alignment with the recruitment of a sales support person in the South and Southeast.

The “Operations Improvement Projects” initiated in July and noted in the mid-August CRO report are now fully underway. Teams consisting of field and home office personnel teleconference regularly to jointly address the needs of our business.

Employee turnover for September YTD stood at 76.8% vs. 85.4% last year. While this improvement is not significantly better than last year, especially in light of the difficult job market, it reflects greater management-initiated turnover as we raise the level of accountability.

We recently kicked-off a resident satisfaction survey during mid-October. We expect to see results later in November or early December.

B. Finance

Financial Performance: Results continue to exceed the budgets prepared last spring for the purposes of debt restructuring. The table below presents financial results for Holdco facilities; in cases where Sunwest does not receive financial information from receivers, the information is excluded.

	Aug. 09		Aug. 08
	Actual	Budget	Actual
Revenue	27,302	27,427	26,421
NOI	7,752	7,680	7,230
Margin	28.4%	28.0%	27.4%

Cash: Since January cash has been siloed by loan group. Under the consolidated bankruptcy, the siloing of cash continues. Operating losses and professional fees continued to be funded from Lone Star proceeds and proceeds from the sale of other properties.

Capital Improvements and Deferred Maintenance: Approximately \$1.4 million in capex and deferred maintenance projects have been completed in recent months. We have

\$3.6 million of projects either in progress or soon to start. These projects are aimed at the highest priority issues in the communities.

II. Restructuring Update

A. Distribution Plan and Bankruptcy Filing

The Receiver and CRO jointly filed their proposed Distribution Plan ("Plan") on August 25. On October 2, after a hearing and review of the evidence, Judge Hogan entered findings of fact and an order approving the Plan with certain revisions. The Judge's findings recognize that the Sunwest Enterprise was and is a unitary enterprise, and that Sunwest did not respect the separateness of its various affiliates and related entities, nor the restricted purposes of invested funds that were intended to be limited for use of specific facilities. The Court concluded that the commingling of funds was so extensive and pervasive, and the impact of commingling so significant, that in order to make an equitable distribution to, and limit the losses of, investors and creditors, the related entities must be considered a unitary enterprise for the purposes set forth in the Plan, and reorganized under the Bankruptcy Code.

In his approval of the Plan, Judge Hogan reserved certain issues for further consideration and mediation. These include the handling of third party claims, the treatment of bare land TIC investors, the HFG settlement, the interest rate applying to the LLC member election, and the resolution of claims made by parties who believe their asset was not involved in the commingling.

Certain parties, primarily consisting of some secured lenders, have appealed the Distribution Plan order.

B. Consolidated Chapter 11 Case

Immediately following entry of the order approving the Plan, the Debtor-in-Possession in In re Stayton SW Assisted Living (a Sunwest affiliate already in Chapter 11) filed amended schedules and an amended statement of financial affairs, including essentially all of the assets, claims, and liabilities of the Sunwest enterprise in the Stayton estate. The case number in the District Court is 09-cv-06082-HO.

The United States Trustee and certain other parties, consisting primarily of some secured lenders, have moved to dismiss the bankruptcy case. Hearing on this matter is set for December 16, 2009.

On October 9, Judge Hogan approved orders including interim use of cash collateral, use of existing bank accounts, payments to vendors in the ordinary course, payment of prepetition wages, and adequate payment of utility deposits. Subsequently we received an order for receivers and custodians to turn over records and other information.

The Debtor intends to file its plan of reorganization ("POR") and disclosure statement by mid November.

C. Blackstone Negotiations

Early in September, a joint venture including Blackstone Real Estate Advisors and Emeritus Corporation approached the CRO with an offer to purchase substantially all of Sunwest's Holdco assets. On September 15, a term sheet was signed and due diligence began in connection with this potential sale. Sunwest granted Blackstone/ Emeritus an exclusivity period until October 16, subsequently extended to November 2, pending due diligence and negotiation of definitive transaction documents. As of October 27, no definitive agreement has yet been reached, but negotiations are continuing.

If a purchase and sale agreement is reached, Blackstone/Emeritus will become the stalking horse bidder at an auction to be conducted under the auspices of the court in the Stayton bankruptcy case. Bidding procedures will be filed and approved by the court, and qualified bidders will have at least six weeks for due diligence and submission of bids.

Meanwhile, the Sunwest unitary enterprise is also proceeding with preparations for a stand-alone plan in the event no sale transaction occurs. We expect a decision to be made during the second week of November as to which plan—i.e., sale or stand-alone—the enterprise will pursue as its highest priority.

D. Lender Negotiations

The CRO and his team continue to work toward a consensual restructure of the secured debt. Term sheets are signed or in process with many lenders; to date we have reached agreements to restructure approximately 40% of the Holdco debt. A conference call has been scheduled for Wednesday, October 28th, at 11:00 AM (PST) to ensure that lenders have the most complete and up to date information, and to promote the restructuring process with those lenders with whom we have not yet reached consensual terms.

Lenders, loan participants, and counsel are invited to attend. If you would like to participate, please email kclarkson@hamstreet.net or ask for Kelsey at (503) 223-6222 to receive a copy of the presentation and telephone instructions.

For lenders who have not reached consensual deals by October 30th, mediation sessions will be held in Portland on November 3 and 4. The time of each lender's mediation session will be set during the week of November 2. Business people with decision-making authority, as well as their counsel, will be expected to attend the mediation.

E. Investor Relations

Tenants in common in Holdco and Trustco properties, and some Divestco properties, have been or will be named as defendants in adversary proceedings seeking to authorize the CRO to transfer their TIC interests in accordance with the Plan. The CRO has filed a motion with the court requesting that the due date for responses to these lawsuits be extended to November 25. Even if the order is not entered, however, the CRO will not seek default judgments until after November 25. This later response date will provide an opportunity

for defendants to review the POR and disclosure statement expected to be filed with the court by the second week of November. The disclosure statement will be subject to amendment and must ultimately be approved by the court.

The claims process is not yet underway. As soon as the court has approved a motion establishing joint claims and election procedures and approving the notice and claim form, investors will receive formal notice in the mail about how to file their claims in both the SEC and the bankruptcy cases. The intention is that only one claim will have to be filed, and will be valid in both cases. Presently the anticipated deadline for claims and election filings is January 15, 2010. The official date, whether it remains as January 15 or is set for some later time, will be clearly indicated in the formal notice.