



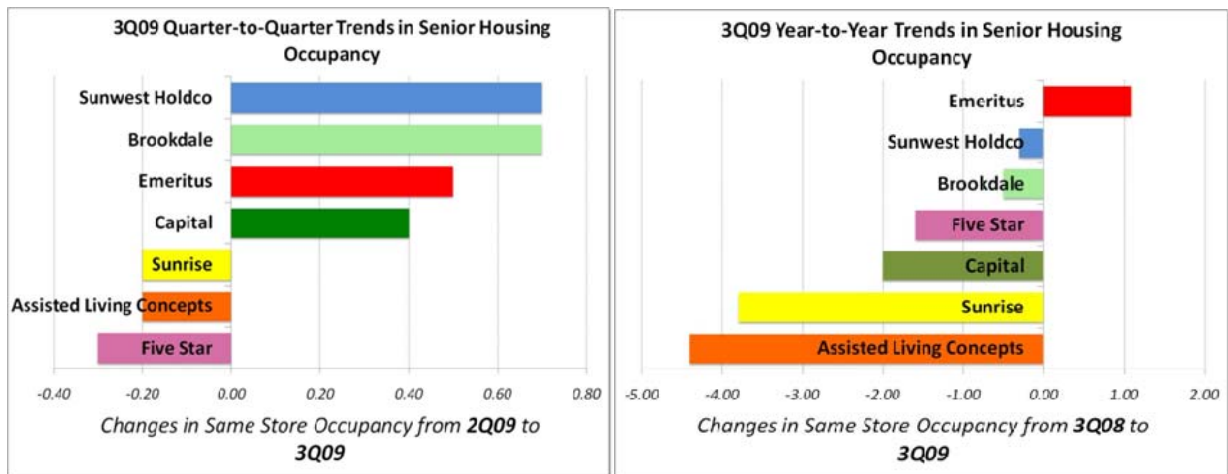
Sunwest Management CRO Report

December 4, 2009

I. Ordinary Course Business

A. Operations

Operating Results¹: Sunwest senior housing operations continued to improve its service and business performance in the third-quarter. The charts below present the occupancy results of Sunwest and the major publicly traded senior housing companies, comparing 3Q09 to 2Q09 and 3Q09 to 3Q08



On a same community basis, third quarter average occupancy was 80.5%. While this was down 31 basis points from the third quarter 2008, it represents a growth of 70 basis points against the second quarter 2009. For the nine months ending September 30, same community average occupancy was up 100 basis points over the same period last year.

Same community revenue increased 1.7% for the third quarter, while same community revenue grew 4.8% for the first nine months of 2009.

¹ Results are for the Holdco properties under SMI management. Divestco properties, the four Holdco properties under third-party management, and the four non-profit properties are excluded.

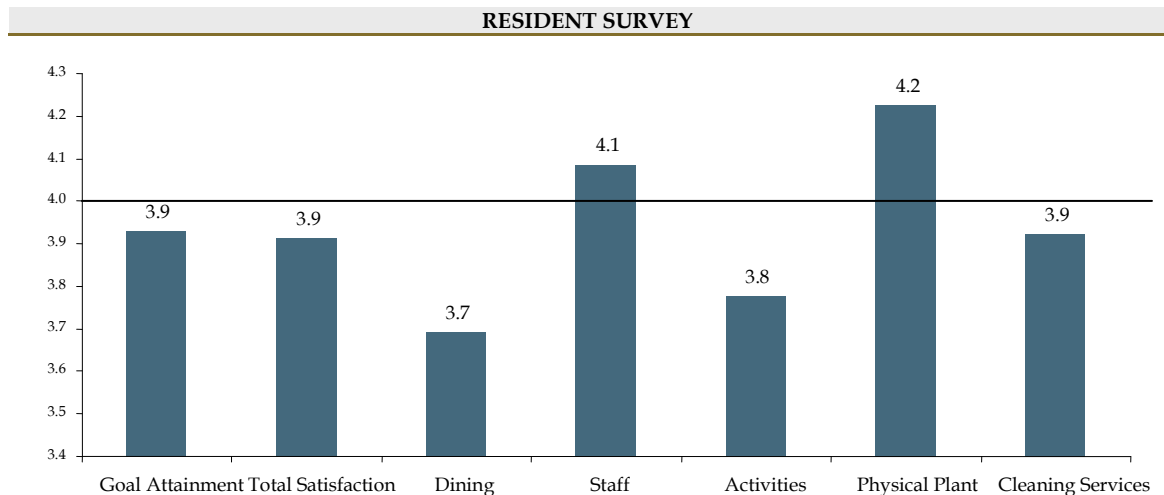
Same community operating income increased 2.6% for the quarter and 7.4% for the year to date.

The table below summarizes key operating performance indicators.

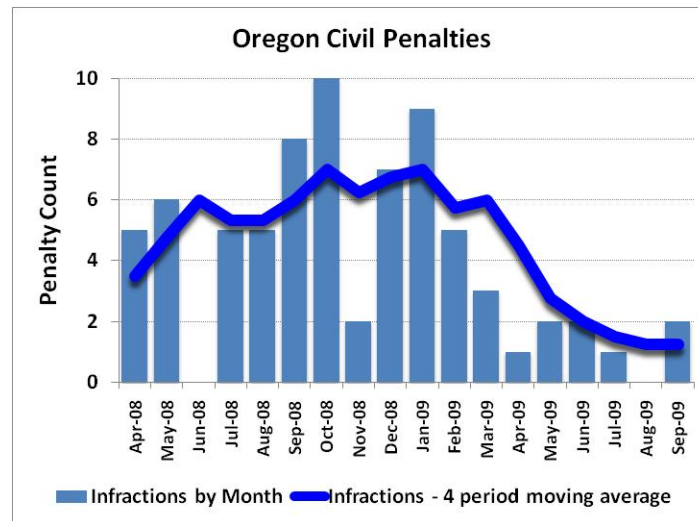
	<i>Change between Comparable Periods</i>	
	3Q-09 to 3Q-08	YTD-09 to YTD-08
Occupancy	- 31 bps	+ 101 bps
Revenue	1.7%	4.8%
NOI	2.6%	7.4%
Margin	+ 24 bps	+ 69 bps
NOI per Occupied Unit	3.0%	6.1%

Results for Holdco communities managed by Sunwest. Excludes operational receiver and third-party managed communities.

Quality Care: Two important indices of quality care show that Sunwest serves its residents well and continues to improve in the realm of quality and safety. A recent resident survey conducted by LTC Research returned very positive results. A total of 1,848 surveys from 145 Sunwest communities were received. On a scale of 1 to 5, scores of 4.0 reflect a high level of satisfaction. Sunwest rated highest in the realms of staff (4.1) and physical plants (4.2), and received a rating of 3.9 in overall satisfaction and goal attainment.



Since the last CRO report, six more Sunwest communities have completed deficiency-free state surveys. These communities were Canyonview (Amarillo, TX), Cottage Village (Lubbock, TX), Plaza on the River (Kerrville, TX), Palm Meadows Court (Hilton Head, SC), Peach Tree Village (Commerce, GA), and Sandia Springs (Rio Rancho, NM). Additionally, Sunwest's regulatory record in Oregon continued to improve as civil penalty incidents have declined dramatically since January 2009.



Other Operational Activities:

In late July, based on feedback from the employee opinion survey, we created four cross-departmental teams to develop ways to improve our business operations. These “Operations Improvement Projects” are now bearing fruit as many sub-projects are being piloted and/or implemented. Key examples include:

- Dining with the Stars: a new training program for care staff to improve residents’ dining experience.
- Payment Authority Review: simplification of expense authorization and elevation of field personnel ability to authorize expenses.
- Filed Computer System Standardization: a plan to standardize computing platforms across our senior living communities in 2010.
- Care Staff Training: a peer training program to increase the proficiency and knowledge of healthcare staff.
- Leadership Training: a plan to roll-out leadership training for all managers in 2010.
- Payroll Improvements: a pilot program for direct deposits and improved assurance that employees are paid early when pay days fall on a holiday.

Sunwest continues to implement quality and systems enhancements as well as property maintenance and capital improvements as a part of its restructuring plan. The company is now well into its 2010 budgeting process for the communities, both for field operations and for maintenance/capital improvements.

II. Restructuring Update

A. Consolidated Chapter 11 Case

The CRO and Receiver filed their joint Plan of Reorganization (“POR”) and Disclosure Statement on Monday, November 30, in the Stayton bankruptcy case, which now holds all the assets and liabilities of the Sunwest enterprise. The POR presents an “either-or” plan, i.e., it provides for a Sale Plan or a Stand-Alone Plan, depending on the outcome of the Blackstone negotiations and (if those negotiations result in a purchase and sale agreement) the Court hearing on the sale terms and bid procedures.

Stayton is preparing to sell ten divestco properties free and clear of encumbrances. If no objections or overbids are received, the first group of three properties will become eligible for sale as of December 7, with the second group of seven properties eligible for sale after December 15. Objections or overbids would require a trial on the 7th or 15th as appropriate. In addition, a hearing is set for December 16 on the U.S. Trustee’s motion to dismiss the chapter 11 case and the Debtor’s motion for substantive consolidation.

The joint claims process is now underway in the SEC and chapter 11 cases. Packets consisting of a legal notice, proof of claim form, and investor election form were mailed to investors and several thousand other potential claimants by the BMC Group on November 9, 2009. The deadline for filing proofs of claim is January 15, 2010.

B. Sale Negotiations and Procedure

Negotiations with Blackstone have continued constructively and the parties are close to reaching an agreement. A decision one way or the other is expected by Tuesday, December 8. If an agreement is reached, it will be promptly filed with the Court. Thereafter, the Court will hold a hearing on the sale terms and bid procedures. That hearing is tentatively slated for December 16, but may have to be re-scheduled due to a later-than-anticipated completion of the sale agreement. If the Court approves the sale terms and bid rules, a public bidding period will follow during which Sunwest will seek superior bidders.

In addition to the CRO and Al Kennedy of Tonkon Torp, Matt Marcos of Alvarez & Marsal and Ken Stephens of Tonkon Torp have been leading the negotiation team on the business and legal sides respectively. The CRO has engaged the investment bank, Moelis & Company, to assist with the negotiation and bidding process.

C. Lender Negotiations

At this time, Sunwest has agreements with 14 lenders—including a signed deal with GE Capital—representing 53 facilities and nearly \$390 million in debt, or about 39% of the total indebtedness. We anticipate a signed term sheet with Columbia Pacific, covering another 47 facilities and 30% of the total indebtedness, in the near future. We are halting discussions with other lenders pending resolution of the Blackstone negotiations. In cases of lenders with whom we do not have signed term sheets by the time of plan confirmation,

we intend to pursue non-consensual restructurings in accordance with the terms presented in the Plan of Reorganization filed this week. At this time we anticipate needing to cram down about 21 lenders representing 40 facilities and approximately \$260 million in debt.

D. Investor Relations

Investors received a restructuring update just before Thanksgiving. The main purpose of the communication was to update the general investor body about the alternative sale and stand-alone plans that are likely to come before Judge Hogan at the hearing on the Blackstone sale contract and bid procedures (if a purchase agreement is signed). The memo outlined certain implications of each plan for various investor elections, and addressed several other frequently asked questions about the adversary proceeding and claims processes.

TIC investors subject to adversary proceedings to compel the sale or transfer of their TIC interests have also received informational memos explaining the purpose, options, and deadlines related to those lawsuits. TICs whose properties are involved in the trial on December 15 have been invited to participate in an informational teleconference on December 4.

In general, investors looking for up-to-date information about the Stayton and SEC cases are invited to visit Sunwest's website, where key plan documents and informational memos are posted: www.sunwestmanagement.com.