

Consolidated Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
Assets		
Properties (note 3)	\$ 969,803	\$ 957,244
Mezzanine loans receivable (note 4)	83,347	77,436
Management contracts, resident contracts and customer relationships (note 5)	57,979	64,208
Cash and cash equivalents	4,038	14,845
Other assets (note 6)	44,919	43,355
Licenses	11,935	11,935
Goodwill	22,621	22,621
	\$ 1,194,642	\$ 1,191,644

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable (note 7)	\$ 631,966	\$ 613,654
Loans payable (note 8)	37,227	32,024
Accounts payable and other liabilities (note 9)	38,676	43,252
Distributions payable	4,986	4,981
	712,855	693,911
Non-controlling interest (note 10)	48,780	52,448
Unitholders' equity	433,007	445,285
Commitments and contingencies (note 15)		
Guarantees (note 18)		
Subsequent events (note 19)		
	\$ 1,194,642	\$ 1,191,644

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" _____ Trustee

"Sidney Robinson" _____ Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended	
	2006	March 31, 2005
		(Restated - notes 1(c) and 12)
Revenue:		
Resident	\$ 65,688	\$ 39,186
Mezzanine loan interest (notes 4 and 13(a) and (b))	2,308	1,791
Fees (note 13(a) and (b))	3,974	1,648
Other	1,199	722
	<u>73,169</u>	<u>43,347</u>
Expenses:		
Direct operating	46,100	27,863
General and administration	3,357	1,999
	<u>49,457</u>	<u>29,862</u>
	23,712	13,485
Interest expense	9,198	5,684
Foreign exchange gain	(52)	—
	<u>9,146</u>	<u>5,684</u>
	14,566	7,801
Depreciation of properties	6,961	4,289
Amortization of management contracts, resident contracts and customer relationships	8,965	6,480
Write-down in carrying value of assets (notes 3 and 5)	440	817
	<u>16,366</u>	<u>11,586</u>
Loss before the undernoted	(1,800)	(3,785)
Non-controlling interest (note 10)	157	448
Loss for the period	<u>\$ (1,643)</u>	<u>\$ (3,337)</u>
Loss per unit (note 12)	\$ (0.033)	\$ (0.104)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month period ended March 31, 2006	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Cumulative translation account	Distributions	Total
Unitholders' equity, December 31, 2005	\$ 539,780	\$ 19,138	\$ (16,391)	\$ (18,621)	\$ (1,031)	\$ (77,590)	\$ 445,285
Loss for the period from January 1, 2006 to March 31, 2006	–	–	–	(1,643)	–	–	(1,643)
Distributions to unit holders	–	–	–	–	–	(13,393)	(13,393)
Issuance of Trust Units under the Distributions Reinvestment Program	484	–	–	–	–	–	484
Trust units issued on exchange of Class B Units of Master LP	2,108	–	–	–	–	–	2,108
Trust units issued under the Long-term Incentive Program	–	32	–	–	–	–	32
Deposits received on issuance of Trust Units under the Long-term Incentive Program	–	–	40	–	–	–	40
Interest on instalment loan receivable	–	–	(166)	–	–	–	(166)
Distributions applied against instalment loan receivable	–	–	392	–	–	–	392
Cumulative translation account	–	–	–	–	(132)	–	(132)
Unitholders' equity, March 31, 2006	\$ 542,372	\$ 19,170	\$ (16,125)	\$ (20,264)	\$ (1,163)	\$ (90,983)	\$ 433,007

Three-month period ended March 31, 2005	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Distributions	Total
Unitholders' equity, December 31, 2004	\$ 297,475	\$ 9,176	\$ (7,671)	\$ (6,951)	\$ (32,734)	\$ 259,295
Loss for the period from January 1, 2005 to March 31, 2005	–	–	–	(3,337)	–	(3,337)
Distributions to unit holders	–	–	–	–	(8,980)	(8,980)
Issuance of Trust Units pursuant to public offering	90,313	–	–	–	–	90,313
Issuance of Trust Units under the Distributions Reinvestment Program	364	–	–	–	–	364
Issue costs	(5,113)	–	–	–	–	(5,113)
Interest on instalment loan receivable	–	–	(88)	–	–	(88)
Distributions applied against instalment loan receivable	–	–	220	–	–	220
Unitholders' equity, March 31, 2005	\$ 383,039	\$ 9,176	\$ (7,539)	\$ (10,288)	\$ (41,714)	\$ 332,674

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended March 31,	
	2006	2005 (Restated - note 1(c))
Cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (1,643)	\$ (3,337)
Items not affecting cash:		
Depreciation and amortization	15,926	10,769
Write-down in carrying value of assets	440	817
Amortization of below-market resident contracts	(405)	(415)
Income from long-term investment	(57)	(23)
Option benefit granted under the Long-Term Incentive Plan	32	-
Unrealized gains	(197)	-
Non-controlling interest	(157)	(448)
	13,939	7,363
Amortization of deferred financing expenses	546	344
Amortization of debt discounts	73	48
Change in non-cash operating items	(5,096)	357
	9,462	8,112
Financing activities:		
Proceeds from mortgage financing	19,080	12,004
Proceeds from loans payable	9,000	5,133
Mortgage principal repayments	(12,334)	(9,791)
Repayments of loans payable	(3,600)	(34,277)
Deferred financing costs	(698)	(166)
Trust Units issued pursuant to public offering	-	90,313
Issue costs	-	(5,113)
Distributions paid	(13,022)	(8,311)
Distributions paid to non-controlling interest unitholders	(1,374)	(1,162)
Repayment of instalment loan receivable	40	-
	(2,908)	48,630
Investing activities:		
Acquisition of assets, net of debt assumed, repayment of loan receivable and units issued (note 2)	(5,141)	(7,703)
Additions to properties	(2,356)	(776)
Payment of deferred purchase consideration	(871)	-
Advances of mezzanine loans receivable	(8,669)	(3,785)
Restricted cash and deposits in escrow	(254)	-
Capital funding receivable	68	20
	(17,223)	(12,244)
Foreign exchange loss on U.S. dollar denominated cash	(138)	-
Increase (decrease) in cash and cash equivalents	(10,807)	44,498
Cash and cash equivalents, beginning of period	14,845	295
Cash and cash equivalents, end of period	\$ 4,038	\$ 44,793

Supplemental cash flow information (note 16)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

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

Chartwell REIT owns 100% of the outstanding Trust Units and Series 1 Trust Notes of CSH Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, which in turn owns 100% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba. Class B Units of Master LP are held by non-controlling investors.

The assets of Chartwell REIT are held by Master LP, which carries out the business of the REIT. Its activities are financed through equity contributed by CSH Trust, Class B Unitholders and third party debt, including mortgages.

The United States assets of Chartwell REIT are also owned indirectly by Master LP, through its wholly-owned United States subsidiary corporation, CSH Master Care USA Inc.

The Trust indenture for CSH Trust requires that it distribute amounts sufficient to ensure that it will not be liable to pay income taxes in any given year. The Trustees of the REIT are required to make cash distributions to all REIT unitholders equal to, on an annual basis, the greater of 80% of the Distributable income and its taxable income.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to financial statements and should be read in conjunction with the audited consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

1. Significant accounting policies (continued):

(b) Change in accounting policy:

Effective December 31, 2005, Chartwell REIT changed its accounting policy for recognition of fee revenue from development services. Fee revenue is recognized on a project-specific basis using the percentage of completion method based upon the level of effort expected to achieve predetermined project milestones. Under the new policy, no fee revenue is recognized prior to completion of submissions to the Municipality for a building permit. Previously, Chartwell REIT did not recognize fee revenue from development services prior to obtaining relevant permits or commencement of construction activities.

Chartwell REIT adopted this change in accounting policy on a retroactive basis. There was no material effect on the net loss for the three month period ended March 31, 2005 resulting from this change.

(c) Correction of an error:

At March 31, 2006, Chartwell REIT, through a holding company, holds variable interests in seven Variable Interest Entities ("VIEs"). These entities are structured to lease the respective facilities from Chartwell REIT and an entity controlled by Le Groupe Melior ("Melior"). These facilities are proportionately consolidated with a cost of \$51,027 and accumulated amortization of \$2,350 as at March 31, 2006. Under the terms of the operating lease, Chartwell REIT and an entity controlled by Melior will receive the net revenue of the facilities less \$1 per facility.

Previously Chartwell REIT accounted for its 50% interest in these entities using the proportionate consolidation method of accounting. Chartwell REIT is not considered to be the primary beneficiary and should have accounted for its interest in these entities using the equity method of accounting, effective January 1, 2005.

The correction of this error has resulted in the reduction of total assets by \$1,198 at March 31, 2006 (December 31, 2005 - \$1,047), with the corresponding reduction in liabilities. Revenue and expenses for the three-month period ended March 31, 2006 were reduced by \$1,892 (March 31, 2005 - \$1,631).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

2. Acquisitions:

The following table summarizes the acquired net assets, at fair value, for the three-month periods ended March 31, 2006 and 2005.

	2006	March 31, 2005
Assets		
Properties	\$ 16,449	\$ 26,728
Management contracts, resident contracts and customer relationships	3,161	3,948
	19,610	30,676
Liabilities		
Mortgages and loans payable	11,711	5,004
Net assets acquired	\$ 7,899	\$ 25,672
Settled by:		
Issuance of Class B Units of Master LP	\$ -	\$ 13,893
Discharge of mezzanine loans receivable (note 4(a))	2,758	4,076
Cash	5,141	7,703
	\$ 7,899	\$ 25,672

The acquisitions have been recorded by the purchase method, with the results of operations included in these financial statements from the date of acquisition.

Chartwell REIT is in the process of completing the valuation of the net assets acquired and, based on this valuation, the purchase price allocation for accounting purposes may be adjusted in future years.

Included in 2006 acquisitions is one facility (2005 - one facility) acquired from Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management, for a purchase price of \$6,955 (2005 - \$10,921).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

3. Properties:

March 31, 2006	Cost	Accumulated depreciation	Net book value
Land	\$ 109,540	\$ –	\$ 109,540
Buildings	855,400	31,812	823,588
Furniture, fixtures and equipment	34,411	9,529	24,882
	999,351	41,341	958,010
Land held for development	11,793	–	11,793
	\$ 1,011,144	\$ 41,341	\$ 969,803

December 31, 2005	Cost	Accumulated depreciation	Net book value
Land	\$ 107,548	\$ –	\$ 107,548
Buildings	841,831	26,468	815,363
Furniture, fixtures and equipment	32,513	7,877	24,636
	981,892	34,345	947,547
Land held for development	9,697	–	9,697
	\$ 991,589	\$ 34,345	\$ 957,244

At March 31, 2006, building costs included \$2,509 (December 31, 2005 - \$2,883) related to the development of additional units at existing facilities.

During the three-month period ended March 31, 2005, Chartwell REIT recorded a write-down in the carrying value of one property in the amount of \$817.

4. Mezzanine loans receivable:

	March 31, 2006	December 31, 2005
Spectrum	\$ 39,732	\$ 38,423
Melior	35,231	31,859
Other	8,384	7,154
Total mezzanine loans	\$ 83,347	\$ 77,436

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

4. Mezzanine loans receivable (continued):

(a) Spectrum:

In addition to providing development services, operations management services and financing services in relation to arranging construction loans, in accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT provides mezzanine loans to Spectrum. In accordance with the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Canada bonds plus 5% and the annualized Chartwell REIT's cash distribution yield for the most recent quarter, subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum and is payable monthly. The loans outstanding as at March 31, 2006 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 31 (December 31, 2005 - 29) seniors' housing development properties.

Under the terms of the Development Agreement, Chartwell REIT has the first right to purchase Spectrum's interest in each development property provided that Spectrum must offer Chartwell REIT the opportunity to purchase any development property within one year of such property reaching a stabilized occupancy. If Chartwell REIT elects to purchase a development property, Chartwell REIT will acquire the property at an amount equal to 95%, 92.5% or 90% of appraised fair market value, depending upon the amount of mezzanine financing provided on the development property or at 100% of the appraised fair market value if no mezzanine financing had been advanced.

Chartwell REIT has the first option to provide mezzanine financing to Spectrum for future development properties under the terms and conditions specified in the Development Agreement.

Effective December 24, 2004, the Development Agreement was amended to provide Spectrum with a right to terminate the agreement upon providing six months' notice. Under such circumstances, certain rights of Chartwell REIT in respect of existing mezzanine loans and options on related projects will continue.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

4. Mezzanine loans receivable (continued):

(b) Melior and Spectrum's joint venture partners:

In addition to providing development services, structuring services, operations management services and financing services in relation to arranging construction loans, Chartwell REIT has advanced 20 mezzanine loans totalling \$43,615 (December 31, 2005 - \$39,013) to six of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling \$35,231 at March 31, 2006 (December 31, 2005 - \$31,859), advanced to the entities controlled by Melior. These loans bear interest at rates ranging from 10% to 14% per annum payable monthly and are secured by second charges or pledges of the Borrowers' interests over 18 development projects.

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

Chartwell REIT has the first right to purchase the Borrowers' interests in these projects at fair market value upon properties reaching a stabilized occupancy.

In addition, the Borrowers of nine of these mezzanine loans can obligate Chartwell REIT to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

5. Management contracts, resident contracts and customer relationships:

March 31, 2006	Cost	Accumulated amortization	Net book value
Management contracts	\$ 8,020	\$ 2,428	\$ 5,592
Resident contracts	102,375	52,055	50,320
Customer relationships	3,956	1,889	2,067
	\$ 114,351	\$ 56,372	\$ 57,979

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

5. Management contracts, resident contracts and customer relationships (continued):

December 31, 2005	Cost	Accumulated amortization	Net book value
Management contracts	\$ 8,563	\$ 2,308	\$ 6,255
Resident contracts	99,234	43,732	55,502
Customer relationships	4,279	1,828	2,451
	\$ 112,076	\$ 47,868	\$ 64,208

Management contracts and customer relationships represent the value of contractual agreements to provide management and advisory services for the operations of seniors' residences owned by third parties. Resident contracts represent in-place resident contracts valued at acquisition.

During the three-month period ended March 31, 2006, the termination of three management contracts resulted in a write-down of \$270 and \$170 in the carrying value of management contracts and customer relationships, respectively.

6. Other assets:

	March 31, 2006	December 31, 2005
Accounts receivable	\$ 5,203	\$ 7,405
Deferred financing costs, net of accumulated amortization of \$4,533 (December 31, 2005 - \$3,987)	7,562	7,410
Capital funding receivable	9,092	9,160
Deposits on acquisitions	2,117	664
Long-term investments	4,389	4,232
Due from Spectrum (note 13(a))	3,327	2,664
Prepaid expenses and deposits	7,570	7,076
Deposits in escrow	2,439	2,185
Other	3,220	2,559
	\$ 44,919	\$ 43,355

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

7. Mortgages payable:

Mortgages payable are secured by first and second charges on specific facilities and are repayable as follows for the years ending December 31:

	Regular principal payments	Principal due on maturity	Total
2006	\$ 11,602	\$ 55,988	\$ 67,590
2007	15,401	30,420	45,821
2008	14,464	49,087	63,551
2009	10,996	115,296	126,292
2010	9,098	44,938	54,036
	61,561	295,729	357,290
Thereafter	43,242	231,434	274,676
	\$ 104,803	\$ 527,163	\$ 631,966

	March 31, 2006	December 31, 2005
Mortgages at fixed rates	\$604,915	\$590,777
Interest rates	3.28% - 8.95%	3.29% - 10.00%
Weighted average rate	5.24%	5.22%
Mortgages at variable rates	\$27,051	\$22,877
Interest rates	Prime plus 0.5% - prime plus 3.00%	Prime plus 0.5% - prime plus 3.00%
Weighted average rate	6.29%	5.03%

Interest on mortgages payable amounted to \$8,546 (March 31, 2005 - \$4,835), excluding the amortization of deferred financing costs.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

8. Loans payable:

	March 31, 2006	December 31, 2005
Secured revolving operating facility (a)	\$ 30,000	\$ 21,000
Secured bridge loans (b)	5,100	8,450
Redemption value of non-voting Series A preferred interests of CSH Master Care LLC (c)	2,127	2,324
Other loans	–	250
	\$ 37,227	\$ 32,024

(a) Chartwell REIT has arranged for a \$70,000 secured revolving operating facility. At March 31, 2006, the maximum available borrowing capacity was \$55,090 based on the security provided.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific facilities. The credit facility is due on June 27, 2007. The term may be extended with the consent of the lenders for an additional 364-day period.

(b) The secured bridge loans bear interest at prime plus 1%, are secured by second charges over three seniors' housing facilities and are repayable on demand. During the three-months ended March 31, 2006, one bridge loan in the amount of \$3,350 was repaid from the proceeds of refinancing of the property.

(c) Series A Interests become redeemable at the option of the holders at specific points in time over three years ending September 30, 2008. The redemption price is payable in Canadian dollars and will be based on the closing price of Chartwell REIT Trust Units. Series A Interests receive monthly distributions equal to distributions on Chartwell REIT Trust Units, which are recorded as interest expense in the consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

9. Accounts payable and other liabilities:

	March 31, 2006	December 31, 2005
Accounts payable and accrued liabilities	\$ 27,133	\$ 30,277
Below-market resident contracts, net of accumulated amortization of \$3,563 (December 31, 2005 - \$3,158)	1,412	1,817
Resident deposits	3,299	3,137
Deferred consideration on acquisition of properties	2,000	2,871
Deferred revenue	4,832	5,150
	\$ 38,676	\$ 43,252

Included in deferred consideration on acquisition of properties is \$2,000 related to the acquisition of one property completed during 2004 which is due on the earlier of the property achieving certain operating results and September 14, 2006.

Deferred revenue relates to fees collected on certain development projects which will be recorded as revenue over the estimated terms of Chartwell REIT's involvement in these projects.

10. Non-controlling interest:

Non-controlling interest represents the interest of the holders of the Class B Units of Master LP, which is consolidated in these financial statements. Class B Units of Master LP are exchangeable, at the option of the holder, into Trust Units. Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Class B Units are transferable to third parties with Chartwell REIT's consent.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

10. Non-controlling interest (continued):

The details of non-controlling interests are as follows:

	March 31, 2006	December 31, 2005
Balance, beginning of period	\$ 52,448	\$ 40,279
Issuance of Class B Units of Master LP	–	27,204
Non-controlling interest's share of loss for the period	(157)	(1,391)
Distributions on Class B Units of Master LP	(1,390)	(5,602)
Exchange of Class B Units of Master LP for Trust Units	(2,108)	(7,915)
Cumulative translation account	(13)	(127)
Balance, end of period	\$ 48,780	\$ 52,448

11. Unitholders' capital:

Chartwell REIT is authorized to issue unlimited Trust Units.

Trust Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Chartwell REIT, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

- (a) 90% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period ending immediately prior to the date on which the Units were surrendered for redemption; and
- (b) 100% of the "closing market price" on the principal market on which the Units are listed for trading on the Redemption Date.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

11. Unitholders' capital (continued):

The aggregate Redemption Price payable by Chartwell REIT in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed \$50,000 unless waived at the discretion of the REIT Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price payable in respect of Trust Units surrendered for redemption exceeds \$50,000 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell REIT.

The following units are issued and outstanding:

	Number of voting units	Amount
Units outstanding, December 31, 2005	49,218,102	\$ 539,780
Trust Units issued pursuant to the Distribution Reinvestment Program	33,236	484
Trust Units issued on exchange for Class B Units of Master LP	209,339	2,108
Units outstanding, March 31, 2006	49,460,677	\$ 542,372
	Number of voting units	Amount
Units outstanding, December 31, 2004	31,913,005	\$ 297,475
March 30, 2005:		
Units issued pursuant to secondary public offering	6,250,000	90,313
Units issued pursuant to the Distribution Reinvestment Program	25,878	364
Issue costs	–	(5,113)
Units outstanding, March 31, 2005	38,188,883	\$ 383,039

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

12. Loss per unit calculation:

	Three-month periods ended March 31,			
	2006		2005	
	Weighted average units	Amount	Weighted average units	Amount
				(Restated)
Loss for the period	49,416,294	\$ (1,643)	31,995,180	\$ (3,337)
LTIP units under subscription	1,475,000	–	860,000	–
	50,891,294	\$ (1,643)	32,855,180	\$ (3,337)
Loss per unit (basic and diluted)		\$ (0.033)		\$ (0.104)

The March 31, 2005, weighted average units and loss per unit have been restated from 37,405,050 units to 32,855,180 units and \$(0.091) loss per unit to \$(0.104) loss per unit respectively, as the result of a correction of a clerical error.

13. Related party transactions:

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

(a) Spectrum:

	Three-month periods ended March 31,	
	2006	2005
Mezzanine loan interest (note 4(a))	\$ 1,187	\$ 1,469
Development fees	1,918	746
Operations management fees	129	142
Financing fees	171	121
Other fees	551	–

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

13. Related party transactions (continued):

Included in development fees are \$1,001 of fees resulting from increases in the projected costs of the underlying projects and revisions to the development fees charged to conform with the requirements of the Development Agreement between Spectrum and Chartwell REIT.

Included in other fees are fees of \$500 charged to Spectrum for assistance in the raising of \$17,500 of equity in December 2005.

Other assets as of March 31, 2006 include \$3,327 (December 31, 2005 - \$2,664) due from Spectrum. Subsequent to March 31, 2006, \$2,818 of this balance was paid.

Included in distributions payable at March 31, 2006 is \$243 (December 31, 2005 - \$205) due to Spectrum.

(b) Melior:

	Three-months ended	
	2006	March 31, 2005
Mezzanine loan interest earned	\$ 914	\$ 256
Development fees earned	563	153
Referral fees paid (note 15(g))	343	—

At March 31, 2006, accounts receivable and other assets includes \$800 (December 31, 2005 - \$1,693) due from Melior and deferred revenue includes \$4,832 (December 31, 2005 - \$4,592) received from Melior.

(c) Included in accounts receivable is \$117 (December 31, 2005 - \$117) due from an officer of Chartwell REIT related to the previous sale of a facility to the REIT.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

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(Unaudited)

13. Related party transactions (continued):

(d) Included in mortgages payable at March 31, 2006 is a vendor-take back mortgage of \$3,130 due to an officer of Chartwell REIT. During the three-month period ended March 31, 2006, the REIT incurred interest expense of \$55 related to this mortgage.

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

14. Segmented information:

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

Effective June 30, 2005, Chartwell REIT changed the composition of its reportable segments to classify seniors' housing facilities containing both retirement and long-term care beds as retirement homes or long-term care facilities based on the primary level of care provided. Previously, revenue, expenses, assets and liabilities of these facilities were allocated to both operating segments based on the number of retirement and long-term care beds. The financial information for the comparative periods has been restated to conform with the current classification. As a result, the net loss of the retirement operations segment was increased by \$67 for the three months ended March 31, 2005 and the net loss of long-term care operations segment was decreased by the same amount.

Effective January 1, 2005, Chartwell REIT corrected the reporting of its interests in seven VIEs (note 1(c)). As a result, revenues and expenses for the retirement home segment were reduced for the three months ending March 31, 2005 by \$2,253 and \$1,631, respectively.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

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(Unaudited)

14. Segmented information (continued):

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

	For the three-month period ended March 31, 2006				
	Retirement operations	Long-term care operations	Management operations	United States operations	Total
Revenue	\$ 40,760	\$ 17,432	\$ 3,974	\$ 7,496	\$ 69,662
Direct operating expenses	25,799	14,991	999	4,311	46,100
Income before the undernoted	14,961	2,441	2,975	3,185	23,562
Interest expense	6,316	963	–	1,919	9,198
Income before depreciation and amortization	8,645	1,478	2,975	1,266	14,364
Depreciation and amortization	11,941	909	600	2,476	15,926
Write-down in carrying value of assets	–	–	440	–	440
	<u>\$ (3,296)</u>	<u>\$ 569</u>	<u>\$ 1,935</u>	<u>\$ (1,210)</u>	(2,002)
Items not allocated to operating segments:					
Mezzanine loan interest and other income					3,507
General and administration expenses					(3,357)
Foreign exchange gain and gain on derivative financial instruments					52
Non-controlling interest					157
Loss for the period					\$ (1,643)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Three-month periods ended March 31, 2006 and 2005
(Unaudited)

14. Segmented information (continued):

As at and for the three-month period ended March 31, 2006						
	Retirement operations	Long-term care operations	Management operations	United States operations	Other	Total
Total assets	\$ 800,162	\$ 117,530	\$ 20,536	\$ 169,029	\$ 87,385	\$ 1,194,642
Total liabilities	500,930	78,165	4,832	123,942	4,986	712,855
Expenditures for assets by segment:						
Acquisitions - properties and resident contracts	6,955	12,655	–	–	–	19,610
Capital improvements	2,001	294	–	61	–	2,356
As at December 31, 2005						
	Retirement operations	Long-term care operations	Management operations	United States operations	Other	Total
Total assets	\$ 791,023	\$ 114,709	\$ 21,320	\$ 172,311	\$ 92,281	\$ 1,191,644
Total liabilities	487,481	71,278	5,150	125,021	4,981	693,911

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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(Unaudited)

14. Segmented information (continued):

	For the three-month period ended March 31, 2005			
	Retirement operations	Long-term care operations	Management operations	Total
Revenue	\$ 28,955	\$ 10,231	\$ 1,648	\$ 40,834
Direct operating expenses	17,535	9,266	1,062	27,863
Income before the undernoted	11,420	965	586	12,971
Interest expense	5,063	621	–	5,684
Income before depreciation and amortization	6,357	344	586	7,287
Depreciation and amortization	9,088	1,231	450	10,769
Write-down in carrying value of assets	–	–	817	817
	<u>\$ (2,731)</u>	<u>\$ (887)</u>	<u>\$ (681)</u>	(4,299)
Items not allocated to operating segments:				
Mezzanine loan interest and other income				2,513
General and administration expenses				(1,999)
Non-controlling interest				448
Loss for the period				\$ (3,337)
Expenditures for assets by segment:				
Acquisitions - properties and resident contracts	\$ 30,676	\$ –	\$ –	\$ 30,676
Capital improvements	550	226	–	776

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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(Unaudited)

15. Commitments and contingencies:

(a) Operating leases:

Chartwell REIT has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of \$126. In addition, Chartwell REIT has operating leases on office space which expire on various dates up to May 31, 2015. Annual payments on these leases vary from \$1,053 to \$1,469 over the term of the lease.

(b) Acquisitions:

As at March 31, 2006, Chartwell REIT is committed to acquire twenty-one seniors housing facilities for a purchase price of approximately \$225,389.

(c) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As of March 31, 2006, the remaining commitments under these contracts amounted to approximately \$19,801.

(d) Contingent consideration on acquisitions:

- (i) The vendor of one property is entitled to receive an additional \$4,250 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually commencing on December 31, 2005.
- (ii) Spectrum is entitled to receive additional consideration of \$900 with respect to one property sold to Chartwell REIT in 2006, contingent upon the property achieving certain earnings targets within three years following the close on the acquisition.
- (iii) The purchase and sale agreement related to one property acquired commits Chartwell REIT to the payment of up to \$5,000 in respect of certain suites that are being added to the property. The first \$1,000 instalment was paid in 2005 and recorded as an adjustment to the purchase price.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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15. Commitments and contingencies (continued):

- (iv) The purchase and sale agreement related to two properties acquired provides the vendor with a right to receive an additional \$675 over a three-year period subject to the properties achieving certain earnings targets.
- (v) The vendors of two properties are entitled to receive an additional \$7,008 (U.S. \$6,000), 50% payable by Chartwell REIT and 50% payable by Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on invested equity, measured quarterly. At March 31, 2006, Chartwell REIT's share of this combined consideration was \$2,630 (U.S. \$2,254).

Any payments made by Chartwell REIT in respect of contingent consideration will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due.

(e) Mezzanine loans receivable:

As at March 31, 2006, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of \$22,675 (note 4).

(f) Letters of credit:

As of March 31, 2006, Chartwell REIT was contingently liable for letters of credit in the amount of \$665.

(g) Other contracts:

- (i) Chartwell REIT's properties in the Province of Quebec are managed by CM Management Limited Partnership ("CM"), a joint venture between Chartwell REIT and Melior. The properties' management agreements are for a term of five years and call for payment of management fees between 4% and 5% of gross revenues. Chartwell REIT owns 50% interest in CM.

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Notes to Consolidated Financial Statements (continued)
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15. Commitments and contingencies (continued):

- (ii) Chartwell REIT's properties in the United States are managed by Horizon Bay Chartwell LLC. The properties' management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenues plus incentive fee based on certain operating targets. Chartwell REIT owns 50% interest in Horizon Bay Chartwell LLC.
- (iii) As of March 31, 2006, Chartwell REIT has entered into fixed gas contracts with a third-party gas supplier for \$534 to provide gas to its facilities.
- (iv) In accordance with contracts between Chartwell REIT and Melior, Chartwell REIT has committed to the following:
 - (a) For a period of 10 years, expiring February 5, 2016, payment of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell REIT in the Province of Quebec whether or not such acquisition is introduced, presented or referred by Melior and 2.0% of the purchase amount of each and every acquisition by Chartwell REIT of properties in Canada, excluding the Province of Quebec, which is introduced, presented or referred by Melior.
 - (b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of \$50,000 and 3% of total budgeted development costs for the related project.
 - (c) For as long as Chartwell REIT and Melior are co-owners of at least one property in the Province of Quebec, payment of 25% of net increased economic value created on Chartwell REIT's internal growth projects in the Province of Quebec, as determined by independent appraisals.

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Notes to Consolidated Financial Statements (continued)
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15. Commitments and contingencies (continued):

(h) Litigation and claims:

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

16. Supplemental cash flow information:

- (a) At March 31, 2006, distributions of \$4,986, including \$466 applicable to non-controlling interests (December 31, 2005 - \$4,981, including \$482 applicable to non-controlling interests) remained payable to unitholders. These amounts have been excluded from operating and financing activities in the consolidated statements of cash flows.
- (b) The acquisition of net assets (note 2) was partially financed through the discharge of \$2,758 of mezzanine loan receivable. This amount has been excluded from financing and investing activities in the consolidated statements of cash flows.
- (c) During the three-month period ended March 31, 2006, distributions of \$392 (March 31, 2005 - \$220) and interest of \$166 (March 31, 2005 - \$88) were applied against instalment loans receivable related to the LTIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.
- (d) During the three-month period ended March 31, 2006, Trust Units valued at \$484 (March 31, 2005 - \$364) were issued pursuant to the DRIP. This amount has been excluded from financing activities on the consolidated statements of cash flows.
- (e) During the three-month period ended March 31, 2006, interest paid amounted to \$9,057 (2005 - \$6,124).

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Notes to Consolidated Financial Statements (continued)
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17. Financial instruments and financial risk management:

In the normal course of business, Chartwell REIT is exposed to various financial risks, including changes in interest rates, changes in foreign currency exchange rates, and government regulatory controls. The following describes these financial risks and how they are managed by Chartwell REIT and the fair values of these financial instruments:

(a) Foreign currency exchange risk:

Foreign currency exchange risk results from changes in exchange rates between Chartwell REIT's reporting currency (Canadian dollar) and the U.S. dollar. At March 31, 2006, 14% (December 31, 2005 - 14%) of the Trust's assets were held in the United States and for the three-month period ended March 31, 2006, 12% of its net operating income was generated in the United States.

Chartwell REIT may use derivative financial instruments to hedge its foreign currency exposures. Chartwell REIT's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the financial statements. The U.S. operations are primarily funded through U.S. dollar debt which serves to mitigate foreign exchange risk.

(b) Interest rate risk:

Interest rate risk arises with changes in interest costs, which affect Chartwell REIT's floating rate debt on an ongoing basis and its fixed-rate debt upon renewal. At March 31, 2006, \$64,278 (December 31, 2005 - \$54,901) of Chartwell REIT's mortgages and loans payable, excluding hedged loans bear interest at floating rates. To mitigate interest rate risk, Chartwell REIT fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell REIT fixes the term of long-term debt within a range from five to 15 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell REIT spreads the maturities of its fixed rate long-term debt over time.

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Notes to Consolidated Financial Statements (continued)
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17. Financial instruments and financial risk management (continued):

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell REIT entered into an interest rate swap contract with a notional principal amount of \$13,836 that entitles Chartwell REIT to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.95% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on cash settlement requirements as of March 31, 2006 is a negative value of \$828.

(c) Credit and collection risk:

Chartwell REIT is exposed to credit risk in the collection of its mezzanine loans receivable and the normal credit risk from residents. Chartwell REIT has four significant categories of residents: governments, mezzanine borrowers, resident clients and retirement homes and long-term care facilities to which it provides management services. Government customers are composed of various provincial governments. Collection risk associated with these residents relates to their ability to potentially challenge certain charges. Chartwell REIT provides management and other services to the borrowers of mezzanine loans and through such activities, monitors the status of the underlying development projects securing these loans for signs of possible impairment.

(d) Fair value:

Fair value represents management's estimates of the market value at a given point in time. The fair values of Chartwell REIT's financial assets and financial liabilities, except as noted, approximate their carrying values due to their short-term nature.

The fair values of mortgages payable as at March 31, 2006 were \$624,552 as compared to their carrying values of \$631,966.

As of March 31, 2006, the fair values of mezzanine loans receivable and capital funding receivable and loans payable approximate their carrying values.

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Notes to Consolidated Financial Statements (continued)
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18. Guarantees:

At March 31, 2006, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of \$21,800. As at March 31, 2006, \$13,300 of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for \$3,865. Spectrum has indemnified Chartwell REIT for these guarantees.

At March 31, 2006, Chartwell REIT remains as a guarantor of the debt of one managed property with the balance of \$5,400. The borrower has indemnified Chartwell for this guarantee. In the opinion of management, these properties have a value in excess of these guarantees.

19. Subsequent events:

Including commitments described in note 15(b), Chartwell REIT has agreed to acquire, in two separate transactions, a 50% interest in 12 seniors housing facilities in the United States for an aggregate purchase price of approximately \$176,500 (U.S. \$154,100). In five separate transactions, Chartwell REIT has also agreed to acquire an interest in 13 seniors housing facilities in Canada for an aggregate purchase price of approximately \$117,600. The acquisition of one of these properties with a purchase price of \$40,000 closed on April 28, 2006.

Subsequent to the quarter end, the REIT agreed to issue 13,310,000 of Trust Units at \$13.90 per unit to a syndicate of underwriters on a bought deal basis.

Subsequent to March 31, 2006, the REIT advanced a mezzanine loan of \$600 to Spectrum.

20. Comparative figures:

Certain 2005 figures have been reclassified to conform with the financial statement presentation adopted in 2006.