

Consolidated Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Three-month and nine-month periods ended
September 30, 2006
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	September 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Properties (note 3)	\$ 1,271,635	\$ 957,244
Mezzanine loans receivable (note 4)	97,204	77,436
Management contracts, resident contracts and customer relationships (note 5)	69,031	64,208
Cash and cash equivalents	12,760	14,845
Other assets (note 6)	67,793	43,355
Licenses	16,760	11,935
Goodwill	22,621	22,621
	\$ 1,557,804	\$ 1,191,644

Liabilities and Unitholders' Equity

Liabilities:		
Mortgages payable (note 7)	\$ 840,999	\$ 613,654
Loans payable (note 8)	30,226	32,024
Accounts payable and other liabilities (note 9)	61,634	43,252
Distributions payable	6,247	4,981
	939,106	693,911
Non-controlling interest (note 10)	47,864	52,448
Unitholders' equity	570,834	445,285
Commitments and contingencies (notes 15 and 16)		
Guarantees (note 19)		
Subsequent events (notes 13 and 21)		
	\$ 1,557,804	\$ 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 September 30,		Nine-month periods ended September 30,	
	2006	2005	2006	2005
		(Restated - note 1(c))		(Restated - note 1(c))
Revenue:				
Resident	\$ 86,716	\$ 55,212	\$ 226,958	\$ 138,210
Mezzanine loan interest (notes 4, 13(a) and (b))	2,776	2,030	7,563	5,785
Management and financing fees (note 13(a) and (b))	3,252	1,638	10,654	5,641
Other	1,984	1,374	4,610	3,280
	94,728	60,254	249,785	152,916
Expenses:				
Direct operating	60,357	38,605	157,972	96,706
General, administrative and trust	4,629	2,525	12,228	6,975
	64,986	41,130	170,200	103,681
	29,742	19,124	79,585	49,235
Interest expense (note 13(d))	12,105	7,368	31,982	18,833
Foreign exchange losses (gains) and unrealized losses (gains) on derivative financial instruments	(157)	1,434	741	1,434
	11,948	8,802	32,723	20,267
	17,794	10,322	46,862	28,968
Depreciation of properties	9,007	5,579	23,544	14,488
Amortization of management contracts, resident contracts and customer relationships	11,960	7,313	31,487	20,176
Write-down in carrying value of property, management contracts and customer relationships (notes 3 and 5)	259	–	699	817
	21,226	12,892	55,730	35,481
Loss before the undernoted	(3,432)	(2,570)	(8,868)	(6,513)
Gain on sale of assets (note 3)	296	–	396	103
Non-controlling interest (note 10)	232	271	680	708
Loss for the period	\$ (2,904)	\$ (2,299)	\$ (7,792)	\$ (5,702)
Loss per unit - basic and diluted (note 12)	\$ (0.046)	\$ (0.052)	\$ (0.138)	\$ (0.150)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Nine-month periods ended September 30, 2006 and 2005
(Unaudited)

Nine-month period ended September 30, 2006	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Cumulative translation account	Distributions	Total
Unitholders' equity, January 1, 2006	\$ 539,780	\$ 19,138	\$ (16,391)	\$ (18,621)	\$ (1,031)	\$ (77,590)	\$ 445,285
Loss for the period from January 1, 2006 to September 30, 2006	—	—	—	(7,792)	—	—	(7,792)
Distributions to unitholders	—	—	—	—	—	(46,246)	(46,246)
Issuance of Trust Units pursuant to public offering	185,009	—	—	—	—	—	185,009
Issuance of Trust Units under the Distributions Reinvestment Program	1,704	—	—	—	—	—	1,704
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	—	9,348	(9,039)	—	—	—	309
Repayment of loan receivable under the Long-Term Incentive Program	—	—	120	—	—	—	120
Disposition of Long-Term Incentive Program Units under Subscription	427	(449)	414	—	—	—	392
Issue costs	(8,900)	—	—	—	—	—	(8,900)
Interest on instalment loan receivable	—	—	(558)	—	—	—	(558)
Distributions applied against instalment loan receivable	—	—	1,288	—	—	—	1,288
Cumulative translation account	—	—	—	—	(1,885)	—	(1,885)
Unitholders' equity, September 30, 2006	\$ 720,128	\$ 28,037	\$ (24,166)	\$ (26,413)	\$ (2,916)	\$ (123,836)	\$ 570,834

Nine-month period ended September 30, 2005	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Cumulative translation account	Distributions	Total
Unitholders' equity, January 1, 2005	\$ 297,475	\$ 9,176	\$ (7,671)	\$ (6,951)	\$ —	\$ (32,734)	\$ 259,295
Loss for the period from January 1, 2005 to September 30, 2005	—	—	—	(5,702)	—	—	(5,702)
Distributions to unitholders	—	—	—	—	—	(31,557)	(31,557)
Issuance of Trust Units pursuant to public offering	245,353	—	—	—	—	—	245,353
Issuance of Trust Units under the Distributions Reinvestment Program	1,193	—	—	—	—	—	1,193
Trust Units issued on exchange of Class B Units of Master LP	5,723	—	—	—	—	—	5,723
Repayment of loan receivable under the Long-Term Incentive Program	75	(75)	64	—	—	—	64
Issue costs	(12,814)	—	—	—	—	—	(12,814)
Interest on instalment loan receivable	—	—	(221)	—	—	—	(221)
Distributions applied against instalment loan receivable	—	—	676	—	—	—	676
Cumulative translation account	—	—	—	—	(1,508)	—	(1,508)
Unitholders' equity, September 30, 2005	\$ 537,005	\$ 9,101	\$ (7,152)	\$ (12,653)	\$ (1,508)	\$ (64,291)	\$ 460,502

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 September 30,		Nine-month periods ended September 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (2,904)	\$ (2,299)	\$ (7,792)	\$ (5,702)
Items not affecting cash:				
Depreciation and amortization	20,967	12,892	55,031	34,664
Write-down in carrying value of assets	259	–	699	817
Gain on sale of assets	(296)	–	(396)	(103)
Amortization of below-market resident contracts	(614)	(412)	(1,529)	(1,263)
Option benefit granted under the Long-Term Incentive Plan	242	–	306	–
Loss (income) from long-term investment	(256)	3	(38)	(48)
Unrealized gains	(153)	–	(12)	–
Non-controlling interest	(232)	(271)	(680)	(708)
	17,013	9,913	45,589	27,657
Amortization of deferred financing costs	626	383	1,823	1,098
Amortization of debt discounts	22	47	171	150
Change in non-cash operating items	964	10,170	(3,565)	13,360
	18,625	20,513	44,018	42,265
Financing activities:				
Proceeds from mortgage financing	30,595	120,074	211,404	163,319
Proceeds from (repayment of) bank loans payable	(261)	17,435	53	25,834
Mortgage principal repayments	(5,257)	(16,599)	(32,971)	(37,654)
Proceeds from (repayment of) loans payable	28,000	(23,201)	(1,450)	(61,402)
Deferred financing costs	(1,608)	(601)	(4,296)	(1,891)
Trust Units issued pursuant to:				
Public offering	–	155,040	185,009	245,353
Issue costs	–	(7,701)	(8,900)	(12,814)
Distributions paid	(17,178)	(11,067)	(46,786)	(29,274)
Distributions paid to non-controlling interest unitholders	(1,437)	(1,408)	(4,245)	(3,984)
Repayment of instalment loan receivable	418	–	534	64
	33,272	231,972	298,352	287,551
Investing activities:				
Acquisition of assets, net of debt assumed, deferred consideration and units issued (note 2)	(78,195)	(194,610)	(306,336)	(238,041)
Additions to properties	(7,755)	(10,695)	(18,057)	(20,990)
Proceeds on sale of property	1,280	1,130	1,907	1,648
Payment of deferred purchase consideration	–	–	(871)	–
Proceeds on sale of management contract	–	–	–	100
Distributions on long-term investments	789	–	789	–
Mezzanine loans advances	(2,583)	(14,398)	(22,526)	(31,490)
Restricted cash	(1,949)	(715)	(3,955)	(715)
Capital funding receivable	95	67	233	152
	(88,318)	(219,221)	(348,816)	(289,336)
Foreign exchange loss (gain) on U.S. denominated cash	678	(7)	4,361	(7)
Increase (decrease) in cash and cash equivalents	(35,743)	33,257	(2,085)	40,473
Cash and cash equivalents, beginning of period	48,503	7,511	14,845	295
Cash and cash equivalents, end of period	\$ 12,760	\$ 40,768	\$ 12,760	\$ 40,768

Supplemental cash flow information (note 17)

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 and nine-month periods ended September 30, 2006
(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 have been prepared in accordance with generally accepted accounting principles ("GAAP") and are consistent with those policies and methods of application as disclosed in the audited consolidated financial statements prepared as at and for the year ended December 31, 2005.

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to annual 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 and nine-month periods ended September 30, 2006
(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, fee revenue is recognized upon completion of submissions to the Municipality for a building permit. Previously, Chartwell REIT recognized fee revenue from development services upon 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 and nine-month periods ended September 30, 2005 resulting from this change.

(c) Correction of an error:

At September 30, 2006, Chartwell REIT, through a holding company, holds variable interests in seven operating companies which are 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 \$60,516 and accumulated amortization of \$3,227 as at September 30, 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 \$879 at September 30, 2006 (December 31, 2005 - \$1,047), with the corresponding reduction in liabilities. Both revenue and expenses for the three-month and nine-month periods ended September 30, 2006 were reduced by \$1,774 (September 30, 2005 - \$1,579) and \$5,390 (September 30, 2005 - \$4,762), respectively.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

2. Acquisitions:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2006	2005	2006	2005
Assets				
Properties	\$ 99,218	\$ 221,818	\$ 320,666	\$ 296,996
Management contracts	–	4,519	–	4,519
Customer relationships	–	400	–	400
Resident contracts	8,402	20,653	37,507	29,474
Capital funding receivable	4,184	–	4,184	6,625
Inventory of real estate	–	7,121	–	7,121
Land held for development	–	8,074	2,357	8,599
Licenses	4,825	2,205	4,825	3,805
Goodwill	–	11,962	–	11,962
Other assets	–	2,926	–	3,126
	116,629	279,678	369,539	372,627
Liabilities				
Mortgages payable	37,041	64,363	53,582	86,600
Below-market resident contracts	213	–	2,539	–
Accounts payable and other liabilities	–	5,207	–	5,207
	37,254	69,570	56,121	91,807
Net assets acquired	\$ 79,375	\$ 210,108	\$ 313,418	\$ 280,820
Settled by:				
Issuance of Class B Units of Master LP	\$ –	\$ 10,247	\$ 2,624	\$ 26,435
Repayment of mezzanine loan receivable	–	5,251	2,758	16,344
Deferred consideration on acquisition of properties	1,180	–	1,700	–
Cash	78,195	194,610	306,336	238,041
	\$ 79,375	\$ 210,108	\$ 313,418	\$ 280,820

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

2. Acquisitions (continued):

Included in acquisitions for the nine-month period ended September 30, 2006 is one facility (2005 - three facilities) 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 - \$26,078).

3. Properties:

September 30, 2006	Cost	Accumulated depreciation	Net book value
Land	\$ 137,045	\$ –	\$ 137,045
Buildings	1,135,376	44,652	1,090,724
Furniture, fixtures and equipment	45,119	13,470	31,649
	1,317,540	58,122	1,259,418
Land held for development	12,217	–	12,217
	\$ 1,329,757	\$ 58,122	\$ 1,271,635

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 September 30, 2006, building costs included \$10,279 (December 31, 2005 - \$2,883) related to the development of additional units at existing facilities.

During the three-month period ended September 30, 2006, Chartwell REIT disposed of its 50% interest in the commercial section of a facility as part of its acquisition of the remaining 50% interest in a seniors' housing facility from its joint venture partner. A gain of \$296 was recognized on sale proceeds of \$1,280.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

3. Properties (continued):

During the three-month period ended June 30, 2006, Chartwell REIT disposed of land held for development with a carrying value of \$527. This land was sold at an appraised value to an entity partially owned by Spectrum and Melior. A gain of \$100 was recognized on this sale.

During the three-month period ended September 30, 2005, Chartwell REIT disposed of land held for development with carrying costs of \$1,091. This land was sold to an entity partially owned by Spectrum. Closing costs amounted to \$39 and no gain or loss was recognized on this sale.

Effective 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:

	September 30, 2006	December 31, 2005
Spectrum	\$ 47,068	\$ 38,423
Melior	38,023	31,859
Other	12,113	7,154
	<hr/>	<hr/>
	\$ 97,204	\$ 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 and nine-month periods ended September 30, 2006
(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 September 30, 2006 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 36 (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 and nine-month periods ended September 30, 2006
(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 23 mezzanine loans totalling \$50,136 (December 31, 2005 - \$39,013) to 6 of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling \$38,023 at September 30, 2006 (December 31, 2005 - \$31,859), advanced to 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 21 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 13 of these mezzanine loans can obligate Chartwell REIT to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

5. Management contracts, resident contracts and customer relationships:

September 30, 2006	Cost	Accumulated amortization	Net book value
Management contracts	\$ 6,699	\$ 2,697	\$ 4,002
Resident contracts	136,031	72,595	63,436
Customer relationships	3,742	2,149	1,593
	\$ 146,472	\$ 77,441	\$ 69,031

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 September 30, 2006, the termination of two management contracts resulted in a write-down of \$168 in the carrying value of management contracts and \$91 in the carrying value of customer relationships, respectively.

During the six-month period ended June 30, 2006, the termination of three management contracts resulted in a write-down of \$270 in the carrying value of management contracts and \$170 in the carrying value of customer relationships.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

6. Other assets:

	September 30, 2006	December 31, 2005
Accounts receivable	\$ 12,746	\$ 7,405
Deferred financing costs, net of accumulated amortization of \$5,805 (December 31, 2005 - \$3,987)	9,887	7,410
Capital funding receivable	13,111	9,160
Deposits on acquisitions	7,767	664
Long-term investments	3,481	4,232
Due from Spectrum (note 13(a))	4,018	2,664
Prepaid expenses and deposits	7,738	7,076
Deposits in escrow	6,140	2,185
Other	2,905	2,559
	\$ 67,793	\$ 43,355

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 (remainder of year)	\$ 4,645	\$ 41,579	\$ 46,224
2007	18,594	29,818	48,412
2008	17,828	54,046	71,874
2009	15,503	117,202	132,705
2010	14,167	44,939	59,106
2011	13,337	21,480	34,817
2012	12,885	56,140	69,025
2013	11,038	42,905	53,943
2014	8,869	21,273	30,142
2015	8,218	87,511	95,729
Thereafter	15,810	183,212	199,022
	\$ 140,894	\$ 700,105	\$ 840,999

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

7. Mortgages payable (continued):

	September 30, 2006	December 31, 2005
Mortgages at fixed rates	\$814,813	\$590,777
Interest rates	3.50% - 10.00%	3.29% - 10.00%
Weighted average rate	5.39%	5.22%
Mortgages at variable rates	\$26,186	\$22,877
Interest rates	Prime plus 0.50% - prime plus 3.00%	Prime plus 0.50% - prime plus 3.00%
Weighted average rate	6.82%	5.03%

Interest on mortgages payable amounted to \$11,369 and \$29,165 for the three-month and nine-month periods ended September 30, 2006, respectively (2005 - \$6,745 and \$17,514, respectively), excluding the amortization of deferred financing costs.

8. Loans payable:

	September 30, 2006	December 31, 2005
Secured revolving operating facility (a)	\$ 28,000	\$ 21,000
Secured bridge loans	-	8,450
Redemption value of non-voting Series A preferred interests of CSH Master Care LLC (b)	1,923	2,324
Other loans	303	250
	\$ 30,226	\$ 32,024

(a) Chartwell REIT has arranged for a \$90,000 secured revolving operating facility. At September 30, 2006, the maximum available borrowing capacity was \$69,163 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

8. Loans payable (continued):

(b) Series A preferred 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.

9. Accounts payable and other liabilities:

	September 30, 2006	December 31, 2005
Accounts payable and accrued liabilities (note 18(b))	\$ 43,903	\$ 30,277
Below-market resident contracts, net of accumulated amortization of \$4,687 (December 31, 2005 - \$3,158)	2,832	1,817
Resident deposits	4,231	3,137
Deferred consideration on acquisition of properties	4,208	2,871
Deferred revenue	6,460	5,150
	\$ 61,634	\$ 43,252

Included in deferred consideration on acquisition of properties at September 30, 2006 are the following:

- (a) \$2,508 related to the acquisition of one property completed in 2003, which is due in 2007 (note 16(d)).
- (b) \$520 related to the acquisition of one property in 2006, which is due between the third and the seventh anniversary of the closing upon conversion of certain apartment units into seniors' housing units.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

9. Accounts payable and other liabilities (continued):

(c) \$1,180 related to the acquisition of one property in 2006, which is due each anniversary date starting on July 31, 2007 upon conversion of certain apartment units into seniors' housing units.

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.

The details of non-controlling interest are as follows:

	September 30, 2006	December 31, 2005
Balance, beginning of period	\$ 52,448	\$ 40,279
Issuance of Class B Units of Master LP (note 2)	2,624	27,204
Non-controlling interest's share of loss for the period	(680)	(1,391)
Distributions on Class B Units of Master LP	(4,248)	(5,602)
Exchange of Class B Units of Master LP for Trust Units	(2,108)	(7,915)
Cumulative translation account	(172)	(127)
Balance, end of period	\$ 47,864	\$ 52,448

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

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.

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

11. Unitholders' capital (continued):

The following Units are issued and outstanding:

	Number of voting units	Amount
Units outstanding, January 1, 2006	49,218,102	\$ 539,780
May 9, 2006:		
Issuance of Trust Units pursuant to public offering	13,310,000	185,009
Trust Units issued pursuant to the Distributions Reinvestment Program	123,441	1,704
Trust Units issued on exchange of Class B Units of Master LP	209,361	2,108
Trust Units issued on dispositions of Long-Term Incentive Program Units under Subscription	30,000	427
Issue costs	–	(8,900)
Units outstanding, September 30, 2006	62,890,904	\$ 720,128

	Number of voting units	Amount
Units outstanding, January 1, 2005	31,913,005	\$ 297,475
March 30, 2005:		
Trust Units issued pursuant to public offering	6,250,000	90,313
Trust Units issued pursuant to the Distributions Reinvestment Program	54,091	756
Trust Units issued on exchange of Class B Units of Master LP	48,943	583
Trust Units issued on disposition of Long-Term Incentive Program Units under subscription	7,500	75
Issue costs	–	(5,113)
August 4, 2005:		
Trust Units issued pursuant to public offering	10,200,000	155,040
Trust Units issued pursuant to the Distributions Reinvestment Program	29,851	437
Trust Units issued on exchange of Class B Units of Master LP	406,295	5,140
Issue costs	–	(7,701)
Units outstanding, September 30, 2005	48,909,685	\$ 537,005

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

12. Loss per unit calculation:

	Three-month periods ended September 30,				Nine-month periods ended September 30,			
	2006		2005		2006		2005	
	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount
Loss for the period	62,849,747	\$ (2,904)	43,882,912	\$ (2,299)	56,499,574	\$ (7,792)	38,140,269	\$ (5,702)
Long-Term Incentive Program Units under Subscription	2,017,995	-	852,500	-	1,657,799	-	859,231	-
	<u>64,867,742</u>	<u>\$ (2,904)</u>	<u>44,735,412</u>	<u>\$ (2,299)</u>	<u>58,157,373</u>	<u>\$ (7,792)</u>	<u>38,999,500</u>	<u>\$ (5,702)</u>
Loss per unit - basic and diluted		\$ (0.046)		\$ (0.052)		\$ (0.138)		\$ (0.150)

13. Related party transactions and balances:

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

(a) Spectrum:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2006	2005	2006	2005
Mezzanine loan interest (note 4(a))	\$ 1,379	\$ 1,247	\$ 3,785	\$ 4,061
Development fees	1,248	809	4,152	2,544
Operations management fees	280	92	558	348
Financing fees	240	77	627	398
Other fees	44	-	628	-

Other assets as of September 30, 2006 include \$4,018 (December 31, 2005 - \$2,664) due from Spectrum. Subsequent to September 30, 2006, \$924 of this balance was paid.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

13. Related party transactions and balances (continued):

Included in development fees for the nine-month period ended September 30, 2006 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 for the nine-month period ended September 30, 2006 are fees of \$500 charged to Spectrum for assistance in the raising of \$17,500 of equity in December 2005.

Included in distributions payable at September 30, 2006 is \$241 (December 31, 2005 - \$205) due to Spectrum.

(b) Melior:

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Mezzanine loan interest (note 4(a))	\$ 1,085	\$ 712	\$ 3,018	\$ 1,514
Fees accrued	644	149	1,744	863
Referral and due diligence fees paid (note 16(g))	427	–	2,101	–
Fees paid for net increased economic value created (note 16(g))	216	–	216	–

At September 30, 2006, accounts receivable and other assets includes \$1,141 (December 31, 2005 - \$1,693) due from Melior and deferred revenue includes \$3,756 (December 31, 2005 - \$4,592) received from Melior. Subsequent to September 30, 2006, \$758 of amounts due from Melior were collected.

(c) Included in accounts receivable is \$50 (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)

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

13. Related party transactions and balances (continued):

- (d) Included in mortgages payable at September 30, 2006 is a vendor-take back mortgage of \$2,659 due to an officer of Chartwell REIT. During the three-month and nine-month periods ended September 30, 2006, the REIT incurred interest expense of \$45 and \$149, respectively, 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 January 1, 2005, Chartwell REIT corrected the reporting of its interests in seven VIEs (note 1(c)). As a result, revenue and expenses for the retirement home segment were reduced for the three months ended September 30, 2005 by \$2,421 and \$1,579, respectively, and for the nine months ended September 30, 2005 by \$7,050 and \$4,762, respectively.

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

14. Segmented information (continued):

	Three-month period ended September 30, 2006					Total
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	Consolidated United States operations		
Revenue	\$ 46,850	\$ 23,178	\$ 3,252	\$ 16,688	\$	89,968
Direct operating expenses	28,848	20,135	961	10,413		60,357
Income before the undernoted	18,002	3,043	2,291	6,275		29,611
Interest expense	6,995	1,189	–	3,921		12,105
Income before the undernoted	11,007	1,854	2,291	2,354		17,506
Depreciation and amortization	13,290	1,447	846	5,384		20,967
Write-down in carrying value of assets	–	–	259	–		259
Gain on sale of assets	(296)	–	–	–		(296)
	<u>\$ (1,987)</u>	<u>\$ 407</u>	<u>\$ 1,186</u>	<u>\$ (3,030)</u>		(3,424)
Items not allocated to operating segments:						
Mezzanine loan interest and other income						4,760
General, administrative and trust						(4,629)
Foreign exchange gains						157
Non-controlling interest						232
						520
Loss for the period					\$	(2,904)
Expenditures for assets by segment:						
Acquisitions - properties, licenses and resident contracts	\$ 70,610	\$ 31,014	\$ –	\$ 10,821	\$	112,445
Capital improvements	6,880	349	–	526		7,755

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

14. Segmented information (continued):

Three-month period ended September 30, 2005 (Restated - note 1(c))					
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	Consolidated United States operations	Total
Revenue	\$ 36,305	\$ 16,145	\$ 1,638	\$ 2,762	\$ 56,850
Direct operating expenses	21,981	14,166	875	1,583	38,605
Income before the undernoted	14,324	1,979	763	1,179	18,245
Interest expense	6,024	734	–	610	7,368
Income before the undernoted	8,300	1,245	763	569	10,877
Depreciation and amortization	10,746	818	435	893	12,892
	<u>\$ (2,446)</u>	<u>\$ 427</u>	<u>\$ 328</u>	<u>\$ (324)</u>	(2,015)
Items not allocated to operating segments:					
Mezzanine loan interest and other income					3,404
General, administrative and trust					(2,525)
Foreign exchange losses					(1,434)
Non-controlling interest					271
					(284)
Loss for the period					\$ (2,299)
Expenditures for assets by segment:					
Acquisitions - properties, licenses and resident contracts	\$ 81,553	\$ 23,086	\$ –	\$ 140,037	\$ 244,676
Capital improvements	9,821	874	–	–	10,695

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

14. Segmented information (continued):

	Nine-month period ended September 30, 2006					Total
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	Consolidated United States operations		
Revenue	\$ 130,668	\$ 59,994	\$ 10,654	\$ 36,296	\$ 237,612	
Direct operating expenses	81,159	51,971	2,959	21,883	157,972	
Income before the undernoted	49,509	8,023	7,695	14,413	79,640	
Interest expense	20,119	3,150	–	8,713	31,982	
Income before the undernoted	29,390	4,873	7,695	5,700	47,658	
Depreciation and amortization	37,978	3,498	1,885	11,670	55,031	
Write-down in carrying value of assets	–	–	699	–	699	
Gain on sale of assets	(396)	–	–	–	(396)	
	<u>\$ (8,192)</u>	<u>\$ 1,375</u>	<u>\$ 5,111</u>	<u>\$ (5,970)</u>	<u>(7,676)</u>	
Items not allocated to operating segments:						
Mezzanine loan interest and other income					12,173	
General, administrative and trust					(12,228)	
Foreign exchange losses					(741)	
Non-controlling interest					680	
					(116)	
Loss for the period					\$ (7,792)	
Expenditures for assets by segment:						
Acquisitions - properties, licenses and resident contracts	\$ 133,314	\$ 43,669	\$ –	\$ 188,372	\$ 365,355	
Capital improvements	16,262	977	–	818	18,057	

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

14. Segmented information (continued):

	Nine-month period ended September 30, 2005 (Restated - note 1(c))					
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	Consolidated United States operations		Total
Revenue	\$ 96,786	\$ 38,662	\$ 5,641	\$ 2,762		\$ 143,851
Direct operating expenses	58,183	33,931	3,009	1,583		96,706
Income before the undernoted	38,603	4,731	2,632	1,179		47,145
Interest expense	16,004	2,219	–	610		18,833
Income before the undernoted	22,599	2,512	2,632	569		28,312
Depreciation and amortization	30,278	2,470	1,023	893		34,664
Gain on sale of assets	(103)	–	–	–		(103)
Write-down in carrying value of assets	817	–	–	–		817
	<u>\$ (8,393)</u>	<u>\$ 42</u>	<u>\$ 1,609</u>	<u>\$ (324)</u>		(7,066)
Items not allocated to operating segments:						
Mezzanine loan interest and other income						9,065
General, administrative and trust						(6,975)
Foreign exchange losses						(1,434)
Non-controlling interest						708
						1,364
Loss for the period						\$ (5,702)
Expenditures for assets by segment:						
Acquisitions - properties, licenses and resident contracts	\$ 154,148	\$ 36,090	\$ –	\$ 140,037		\$ 330,275
Capital improvements	17,872	3,118	–	–		20,990

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

14. Segmented information (continued):

As at September 30, 2006						
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	Consolidated United States operations	Other	Total
Total assets	\$ 924,935	\$ 154,901	\$ 20,101	\$ 347,903	\$ 109,964	\$ 1,557,804
Total liabilities	553,751	112,490	5,096	261,522	6,247	939,106

As at December 31, 2005						
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	Consolidated 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

15. Joint venture operations:

The following amounts included in the consolidated financial statements are Chartwell REIT's proportionate interest in its joint ventures:

	September 30, 2006	December 31, 2005
Assets	\$ 410,813	\$ 259,016
Liabilities	296,540	174,531

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

15. Joint venture operations (continued):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2006	2005 (Restated - note 1(c))	2006	2005 (Restated - note 1(c))
Revenue	\$ 13,087	\$ 7,207	\$ 39,341	\$ 9,216
Expenses	15,783	7,296	45,552	10,240
Depreciation and amortization included in expense above	4,908	1,770	13,205	3,236
Cash provided by (used in):				
Operating activities	6,121	23,753	24,242	24,572
Financing activities	9,074	154,054	166,327	158,109
Investing activities	(15,107)	(177,442)	(190,806)	(177,932)

At September 30, 2006, Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to \$296,540, including \$244,873 relating to Chartwell REIT's joint venture partners in the United States. The total assets of these joint ventures are available to satisfy these liabilities.

16. 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 \$931 to \$1,003 over the term of the lease.

(b) Acquisitions:

As at September 30, 2006, Chartwell REIT has agreed to acquire varying interests in 20 seniors' housing facilities and a 49% leased interest in 26 other facilities for a purchase price of approximately \$538,793.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

16. Commitments and contingencies (continued):

(c) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As at September 30, 2006, the remaining commitments under these contracts amounted to approximately \$18,177.

(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. At September 30, 2006, \$2,508 of this amount was payable and recorded as an adjustment to the purchase price.
- (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.
- (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 September 30, 2006, Chartwell REIT's obligation with respect to the remaining combined consideration was \$2,182 (U.S. \$1,957).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

16. Commitments and contingencies (continued):

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 September 30, 2006, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of \$26,026 (note 4).

(f) Letters of credit:

As of September 30, 2006, Chartwell REIT was contingently liable for letters of credit in the amount of \$649.

(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.

(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 at September 30, 2006, Chartwell REIT has entered into fixed gas contracts with a third-party gas supplier for \$984 to provide gas to its facilities.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

16. Commitments and contingencies (continued):

(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 wholly owned internal growth projects in the Province of Quebec, as determined by independent appraisals.

(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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

17. Supplemental cash flow information:

- (a) At September 30, 2006, distributions of \$6,247, including \$479 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 in the three-month and nine-month periods ended September 30, 2006 (note 2) was partially financed through the issuance of nil and \$2,624 of Class B Units of Master LP, respectively (three-month and nine-month periods ended September 30, 2005 - \$10,247 and \$26,435, respectively), and the discharge of nil and \$2,758 of mezzanine loan receivable, respectively (three-month and nine-month periods ended September 30, 2005 - \$5,251 and \$16,344, respectively). These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.
- (c) During the three-month and nine-month periods ended September 30, 2006, distributions of \$505 and \$1,288, respectively (three-month and nine-month periods ended September 30, 2005 - \$228 and \$676, respectively), and interest of \$233 and \$558, respectively (three-month and nine-month periods ended September 30, 2005 - \$75 and \$221, respectively), 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

17. Supplemental cash flow information (continued):

- (d) During the three-month and nine-month periods ended September 30, 2006, Trust Units valued at \$695 and \$1,704, respectively (three-month and nine-month periods ended September 30, 2005 - \$437 and \$1,193, respectively), were issued pursuant to the Dividend Reinvestment Program. These amounts have been excluded from financing activities on the consolidated statements of cash flows.
- (e) During the three-month and nine-month periods ended September 30, 2006, interest paid amounted to \$13,592 and \$31,182, respectively (three-month and nine-month periods ended September 30, 2005 - \$7,096 and \$18,403, respectively).

18. 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:

At September 30, 2006, through its self-sustaining United States operations, 22% (December 31, 2005 - 14%) of the Trust's assets were held in the United States and for the three-month and nine-month periods ended September 30, 2006, 18% and 15%, respectively, of its revenue was generated in the United States. Foreign currency exchange risk results from changes in exchange rates between Chartwell REIT's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. denominated financial instruments which are not a component of the self-sustaining U.S. operations.

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 United States dollar debt which serves to mitigate foreign exchange risk.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

18. Financial instruments and financial risk management (continued):

(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 September 30, 2006, \$56,412 (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 5 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.

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 September 30, 2006 is a negative value of \$962, which is included in accrued liabilities on the balance sheet (note 9).

(c) Credit and collection risk:

Chartwell REIT has four significant categories of revenue: mezzanine borrowers, governments, resident clients and retirement homes and long-term care facilities to which it provides management services. Chartwell REIT is exposed to credit risk in the collection of its mezzanine loans receivable and the normal credit risk from residents. 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

18. Financial instruments and financial risk management (continued):

(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 September 30, 2006 were \$849,906 as compared to their carrying values of \$840,999.

As of September 30, 2006, the fair values of mezzanine loans receivable and capital funding receivable and loans payable approximate their carrying values.

19. Guarantees:

At September 30, 2006, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of \$22,850. As at September 30, 2006, \$20,013 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 and pays an annual guarantee fee.

At September 30, 2006, Chartwell REIT remains as a guarantor of the debt of one managed property with the balance of \$3,100. The borrower has indemnified Chartwell REIT for this guarantee. At September 30, 2006, Chartwell REIT and its joint venture partners provided joint and several guarantees of the debt of the co-owned properties. Effectively, Chartwell REIT guarantees its partners' 50% share of this debt to a maximum amount of \$49,993 of which \$45,999 was outstanding at September 30, 2006. In the opinion of management, at September 30, 2006, the value of each of these properties exceeds the respective total amount of debt outstanding.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

20. Comparative figures:

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

21. Subsequent events:

- (a) Subsequent to September 30, 2006, Chartwell REIT advanced mezzanine loans of \$1,049 to Spectrum and its joint venture partners for development of one seniors' housing facility.
- (b) Subsequent to September 30, 2006, Chartwell REIT completed the acquisition of one seniors' housing facility for a purchase price of \$52,400.
- (c) In order to fund the equity requirements of committed acquisitions (note 16(b)), internal growth projects, committed mezzanine loan advances (note 16(e)) and other corporate cash requirements subsequent to September 30, 2006, Chartwell REIT issued a Prospectus in which it agreed to issue 10,750,000 Trust Units at \$14.00 per unit and \$125,000 of 5.75% unsecured convertible debentures maturing on December 1, 2011 to a syndicate of underwriters on a bought-deal basis (the "Offering").

On October 31, 2006, after Chartwell REIT filed the Prospectus, the Minister of Finance (Canada) announced proposed changes to the taxation of income trusts for Canadian federal income tax purposes (the "Proposals"). Under the Proposals, certain income trusts would pay tax on certain distributions to unitholders (not including "returns of capital") at a rate equal to the current federal corporate tax rate, plus an additional 13%. The Proposals provide that certain distributions will be taxed in the hands of unitholders as though they were dividends from a taxable Canadian corporation. Income trusts whose units were publicly traded prior to November 1, 2006 will be provided a transition period under the Proposals until 2011, subject to meeting certain conditions. During the transition period, existing income trusts will generally not be subject to the taxes that are proposed, subject to certain conditions.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2006
(Unaudited)

21. Subsequent events (continued):

Chartwell REIT has reviewed the Proposals and determined that as it is currently structured and based on its present location of assets and sources of income, it may be subject to the new tax on distributions in 2011.

As a result of the announcement by the Minister of Finance (Canada), Chartwell REIT amended its Offering effective November 6, 2006 resulting in a delay in the expected closing of the Offering.

Should there be further delays in the closing of the Offering, or should the Offering not proceed, management will pursue alternative sources of financing in order for Chartwell REIT to meet its funding commitments (note 16).

- (d) The Government of Ontario, on October 3, 2006, introduced new legislation which if passed, will consolidate the three pieces of existing legislation currently governing the long-term care Facilities (the "Proposed Act"). The Government has indicated that it intends for the Proposed Act to become law by the end of 2006 or early 2007. Aspects of the Proposed Act which could affect Chartwell REIT's long-term care Facilities include the granting of licenses for fixed terms of up to 25 years, depending on bed classifications and the granting of temporary licenses to be based on a home's structural classification that will be issued for a maximum of 15 years. In addition, there will be a notice given three years before the end of the term of a license as to whether a new license will be issued.