

Consolidated Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Three-month periods ended March 31, 2007 and 2006
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	March 31, 2007	December 31, 2006
	(Unaudited)	(Audited)
Assets		
Properties (note 3)	\$ 1,740,821	\$ 1,510,209
Mezzanine loans receivable (note 4)	98,810	101,290
Management contracts, resident contracts, customer relationships and leasehold intangibles (note 5)	110,185	78,903
Cash and cash equivalents	16,397	125,939
Other assets (note 6)	122,090	112,266
Licenses	18,730	16,760
Goodwill	38,868	32,383
	\$ 2,145,901	\$ 1,977,750
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7)	\$ 1,129,534	\$ 987,046
Convertible debentures (note 8)	116,048	120,115
Loans payable (note 9)	2,901	2,303
Accounts payable and other liabilities (note 10)	148,793	98,995
Distributions payable	7,452	7,335
	1,404,728	1,215,794
Non-controlling interest (note 11)	60,445	54,453
Unitholders' equity	680,728	707,503
Commitments and contingencies (notes 17 and 18)		
Guarantees (note 22)		
Subsequent events (notes 2(b), 6, 15(a) and (b), 20 and 23)		
	\$ 2,145,901	\$ 1,977,750

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 and Comprehensive Loss
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

	Three-month periods ended March 31,	
	2007	2006
Revenue:		
Resident	\$ 128,868	\$ 65,688
Mezzanine loan interest (notes 4 and 15(a) and (b))	3,357	2,308
Fees (note 15(a) and (b))	3,866	3,974
Bank interest and other	2,251	1,199
	<u>138,342</u>	<u>73,169</u>
Expenses:		
Direct operating	89,266	46,100
Facility lease expense (note 14)	12,387	–
General, administrative and trust	4,934	3,357
	<u>106,587</u>	<u>49,457</u>
	<u>31,755</u>	<u>23,712</u>
Interest expense	17,142	9,198
Foreign exchange loss (gain) and losses (gains) on derivative financial instruments	626	(52)
	<u>17,768</u>	<u>9,146</u>
	<u>13,987</u>	<u>14,566</u>
Depreciation of properties	11,840	6,961
Amortization of management contracts, resident contracts, customer relationships and leasehold intangibles	12,007	8,965
Write-down in carrying value of assets (note 5)	–	440
	<u>23,847</u>	<u>16,366</u>
Loss before the undernoted	(9,860)	(1,800)
Non-controlling interest (note 11)	730	157
Loss for the period	(9,130)	(1,643)
Other comprehensive income (loss):		
Unrealized foreign currency translation loss on the translation of self-sustaining foreign operations	(1,210)	(132)
Net change in losses/gains on derivatives designated as cash flow hedges	59	–
Non-controlling interest	86	–
	<u>(1,065)</u>	<u>(132)</u>
Comprehensive loss	\$ (10,195)	\$ (1,775)
Loss per unit:		
Basic and diluted (note 13)	\$ (0.122)	\$ (0.033)

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, 2007	Units issued, net (note 12)	LTIP units under Subscription	LTIP instalment loan receivable	Losses	Accumulated other comprehensive income (loss) (note 1(b))	Distributions	Convertible debentures	Total
Unitholders' equity, January 1, 2007	\$ 874,165	\$ 27,667	\$ (23,343)	\$ (33,319)	\$ 587	\$ (142,968)	\$ 4,714	\$ 707,503
Cumulative impact of adopting new accounting standards for financial instruments (note 1(b))	—	—	—	14	—	—	—	14
Loss for the period from January 1, 2007 to March 31, 2007	—	—	—	(9,130)	—	—	—	(9,130)
Other comprehensive loss	—	—	—	—	(1,065)	—	—	(1,065)
Distributions to unitholders	—	—	—	—	—	(20,294)	—	(20,294)
Issuance of Trust Units under the Distribution Reinvestment Program	906	—	—	—	—	—	—	906
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	1,636	—	—	—	—	—	—	1,636
Trust Units issued under the Long-Term Incentive Program, net of units transferred to Treasury	—	6,341	(6,160)	—	—	—	—	181
Deposits received under the Long-Term Incentive Program	—	—	164	—	—	—	—	164
Disposition of Long-Term Incentive Program Units under Subscription	166	(86)	70	—	—	—	—	150
Disposition of Treasury Units	239	—	—	—	—	—	—	239
Interest on instalment loan receivable	—	—	(267)	—	—	—	—	(267)
Distributions applied against instalment loan receivable	—	—	622	—	—	—	—	622
Conversion of convertible debentures	72	—	—	—	—	—	(3)	69
Unitholders' equity, March 31, 2007	\$ 877,184	\$ 33,922	\$ (28,914)	\$ (42,435)	\$ (478)	\$ (163,262)	\$ 4,711	\$ 680,728

Three-month period ended March 31, 2006	Units issued, net (note 12)	LTIP units under Subscription	LTIP instalment loan receivable	Losses	Accumulated other comprehensive income (loss) (note 1(b))	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 March 31, 2006	—	—	—	(1,643)	—	—	(1,643)
Other comprehensive loss	—	—	—	—	(132)	—	(132)
Distributions to unitholders	—	—	—	—	—	(13,393)	(13,393)
Issuance of Trust Units under the Distribution Reinvestment Program	484	—	—	—	—	—	484
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	2,108	—	—	—	—	—	2,108
Trust Units issued under the Long-Term Incentive Program	—	32	—	—	—	—	32
Deposits received under the Long-Term Incentive Program	—	—	40	—	—	—	40
Interest on instalment loan receivable	—	—	(166)	—	—	—	(166)
Distributions applied against instalment loan receivable	—	—	392	—	—	—	392
Unitholders' equity, March 31, 2006	\$ 542,372	\$ 19,170	\$ (16,125)	\$ (20,264)	\$ (1,163)	\$ (90,983)	\$ 433,007

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,	
	2007	2006
Cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (9,130)	\$ (1,643)
Items not affecting cash:		
Depreciation and amortization	23,847	15,926
Write-down in carrying value of assets	–	440
Amortization of below-market resident contracts	(413)	(405)
Option benefit granted under the Long-Term Incentive Program	253	32
Income from long-term investments	(68)	(57)
Unrealized losses (gains) on derivative financial instruments and foreign exchange loss (gain) on U.S. dollar-denominated balances	626	(197)
Non-controlling interest	(730)	(157)
Amortization of financing expenses	1,077	546
Amortization of debt discounts	(40)	73
Change in non-cash operating items	(27,590)	(5,096)
	(12,168)	9,462
Financing activities:		
Proceeds from mortgage financing	163,052	19,080
Mortgage principal repayments	(55,459)	(12,334)
Proceeds from loans payable	10	9,000
Repayment of loans payable	–	(3,600)
Deferred financing costs	(1,925)	(698)
Disposition of Treasury Units	239	–
Distributions paid	(20,011)	(13,022)
Distributions paid to non-controlling interest unitholders	(1,746)	(1,374)
Deposits received under Long-Term Incentive Program and repayment of instalment loan receivable	234	40
	84,394	(2,908)
Investing activities:		
Acquisition of assets, net of debt assumed and units issued (note 2)	(195,593)	(5,141)
Payment of deferred consideration on acquisitions of properties	(2,455)	(871)
Additions to properties	(6,089)	(2,356)
Mezzanine loans receivable	(3,944)	(8,669)
Distributions on long-term investments	700	–
Restricted cash and deposits in escrow	25,269	(254)
Capital funding receivable	147	68
	(181,965)	(17,223)
Foreign exchange gain (loss) on U.S. dollar-denominated cash	197	(138)
Decrease in cash and cash equivalents	(109,542)	(10,807)
Cash and cash equivalents, beginning of period	125,939	14,845
Cash and cash equivalents, end of period	\$ 16,397	\$ 4,038

Supplemental cash flow information (note 19)

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, 2007 and 2006
(Unaudited)

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 annual audited consolidated financial statements prepared as at and for the year ended December 31, 2006, except as disclosed in note 1(b).

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 annual audited consolidated financial statements.

(b) Impact of new accounting standards:

On January 1, 2007, Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT" or the "REIT") adopted the new accounting standards of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, Section 1530, Comprehensive Income, Section 3865, Hedges, Section 3251, Equity, and Section 3861, Financial Instruments - Disclosure and Presentation (collectively, the "New Standards").

Section 3855 prescribes when a financial asset, financial liability, non-financial derivative or embedded derivative is to be recognized on the consolidated balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. In accordance with Section 3855, Chartwell REIT has classified its financial instruments into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the consolidated balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost using the effective interest rate method.

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, 2007 and 2006
(Unaudited)

1. Significant accounting policies (continued):

Section 1530 establishes standards for reporting and presenting comprehensive income (loss), which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3251 establishes standards for the presentation of equity and changes in equity.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

Except as noted below with respect to other comprehensive income (loss), Chartwell REIT has adopted the New Standards retroactively without restatement and accordingly comparative amounts for prior periods have not been restated.

As a result of adopting the above New Standards, Chartwell REIT recorded the following transition adjustments effective January 1, 2007:

Consolidated balance sheet	January 1, 2007
Increase (decrease):	
Mezzanine loans receivable (note 4)	\$ (5,295)
Other assets (note 6)	(17,825)
Mortgages payable (note 7)	(12,434)
Convertible debentures (note 8)	(4,415)
Deferred revenue (note 10)	(6,286)
Non-controlling interest (note 11)	1
Losses	(14)

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, 2007 and 2006
(Unaudited)

1. Significant accounting policies (continued):

There are no significant non-financial derivatives or embedded derivatives that require separate fair value recognition on the unaudited consolidated balance sheets on the transition date and at March 31, 2007.

(i) Deferred expenses:

Effective January 1, 2007, unamortized deferred financing fees and related costs previously included in other assets are recorded as a reduction of the applicable mortgage, convertible debenture or loan payable balances and are amortized to interest expense in the consolidated statements of operations using the effective interest rate method. Under the effective interest rate method, the amount recognized as interest expense varies over the life of the loan based on the principal outstanding. Previously, deferred financing fees and related costs were classified as other assets and were amortized on a straight-line basis over the terms of the related financing and the amortization was included in interest expense in the consolidated statements of operations.

Similarly effective January 1, 2007, deferred expenses related to mezzanine lending activities are recorded as an increase to the applicable mezzanine loan balances and are amortized to interest income in the consolidated statements of operations using the effective interest rate method. Previously, deferred expenses were amortized on a straight-line basis over the terms of the related mezzanine loans and the amortization was included in general, administrative and trust expenses in the consolidated statements of operations.

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, 2007 and 2006
(Unaudited)

1. Significant accounting policies (continued):

(ii) Deferred revenue:

Under the terms of various agreements with Le Groupe Melior ("Melior") and others, Chartwell REIT earns interest from mezzanine loans as well as mezzanine placement fees, structuring fees, development fees and service fees. Such agreements are evaluated on a case-by-case basis and, where related services are separable into individual units of accounting, revenue is recorded in accordance with the policies as disclosed in the year-end consolidated financial statements. Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell REIT's lending activities and effective January 1, 2007 the fees are recorded as a reduction of mezzanine loans receivable. The discount is accrued to income as interest income using the effective interest rate method. Previously, these fees had been recorded as deferred revenue and recognized as fee revenue over the estimated term of the related mezzanine loan using the effective interest method.

(iii) Other comprehensive income (loss):

The New Standards require presentation of a new consolidated statement of comprehensive income (loss). Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income (loss) which is a component of unitholders' equity.

Pursuant to the transitional provisions of Section 1530, Comprehensive Income, the comparative consolidated statement of unitholders' equity for the three-month period ended March 31, 2006 has been adjusted to present unrealized foreign currency translation gains and losses arising from self-sustaining foreign operations as a component of other comprehensive income (loss).

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, 2007 and 2006
(Unaudited)

1. Significant accounting policies (continued):

(c) Leasehold intangibles:

Leasehold intangibles consist of the allocated cost of operating leases of seniors housing facilities. The value of leasehold intangibles is amortized over the initial lease term of the underlying operating leases.

The carrying amounts of leasehold intangibles are reviewed for impairment when indicators of impairment are identified. If the carrying amount of the assets exceeds the undiscounted expected cash flows, an impairment charge would be recognized to the extent the carrying amount of the asset exceeds the fair value.

2. Acquisitions:

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

	March 31, 2007	March 31, 2006
Assets		
Properties	\$ 242,324	\$ 16,449
Management contracts, resident contracts, customer relationships and leasehold intangibles	43,952	3,161
Capital funding receivable	8,430	—
Other assets	919	—
Licenses	1,970	—
Goodwill	6,485	—
	304,080	19,610
Liabilities		
Mortgages and loans payable	52,552	11,711
Working capital	3,553	—
	56,105	11,711
Net assets acquired	\$ 247,975	\$ 7,899

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, 2007 and 2006
(Unaudited)

2. Acquisitions (continued):

	March 31, 2007	March 31, 2006
Settled by:		
Issuance of Class B Units of Chartwell Master Care LP ("Master LP") (note 11)	\$ 10,145	\$ –
Issuance of Class B Common Units of CSH Massapequa Inc. (note 9)	663	–
Deferred consideration on business combinations (note 10)	39,886	–
Discharge of mezzanine loans receivable (note 4)	1,688	2,758
Cash	195,593	5,141
	<u>\$ 247,975</u>	<u>\$ 7,899</u>

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

During the three-month period ended March 31, 2007, Chartwell REIT completed the acquisitions of 10 seniors housing facilities, one long-term care facility and a 49% interest in 25 leased properties and related lease agreement contracts for total net consideration of \$247,975. Included in these acquisitions are the following:

(a) Acquisition of a 49% interest in WHSLH Realty, L.L.C. ("WHSLH"):

On January 1, 2007, CSH Master Care LLC, an indirect, wholly owned subsidiary of the REIT ("CSH Master Care") acquired a 49% interest in WHSLH, which through its subsidiaries owns leased interests in 25 seniors housing communities in the United States. In addition, WHSLH owns 100% of Horizon Bay Management LLC ("HBM"), which currently manages these seniors housing facilities and has a 50% interest in Horizon Bay Chartwell LLC ("HBC"), which was formed by HBM and Chartwell REIT as a 50/50 joint venture arrangement to manage certain of the REIT's properties in the United States. The value of the 49% interest in WHSLH's assets net of cash acquired was \$29,988 (U.S. \$25,744), which was satisfied by the assumption of accounts payable and other liabilities of \$3,553 (U.S. \$3,047), deferred purchase consideration of \$4,077 (U.S. \$3,500) and cash of \$22,358 (U.S. \$19,194). Under certain circumstances the deferred purchase consideration may first be applied to fund any cash shortfalls under the lease arrangements in the first two years following the closing.

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, 2007 and 2006
(Unaudited)

2. Acquisitions (continued):

(b) Acquisition of Bristol Portfolio:

On February 21, 2007, CSH-INGRE LLC, a joint venture between Chartwell REIT and ING Real Estate Investment Management Australia PTY Limited ("ING"), acquired five seniors housing facilities in the United States ("Bristol Portfolio") for an aggregate purchase price of approximately \$340,056 (U.S. \$291,618). Chartwell REIT's share of the purchase price amounted to \$170,028 (U.S. \$145,809) and was settled by the issuance of \$663 (U.S. \$569) of Class B Common Units of a subsidiary of CSH-INGRE LLC, deferred purchase consideration of \$35,809 (U.S. \$30,708) and cash of \$133,556 (U.S. \$114,532). To finance this acquisition, CSH-INGRE LLC arranged new mortgage financing in the amount of \$202,202 (U.S. \$173,400). Chartwell REIT financed 100% of the cash requirements totalling U.S. \$57,867 by CSH-INGRE LLC to close this acquisition through two loans to the joint venture. Subsequent to March 31, 2007, these loans were settled through Chartwell REIT's conversion of U.S. \$28,934 of such loans to equity of CSH-INGRE LLC and the repayment of the remaining U.S. \$28,933 of such loans from the proceeds of an equity contribution by Chartwell REIT's joint venture partner.

(c) Other acquisitions:

In addition, in the three-month period ended March 31, 2007, Chartwell REIT acquired a portfolio of four seniors housing facilities and one single long-term care facility in Canada for a total purchase price of \$55,434 and \$30,676, respectively, from two different vendors and one seniors housing facility from Spectrum Seniors Housing Development LP ("Spectrum") for consideration of \$17,954. Chartwell REIT assumed mortgages and loans payable totalling \$52,552 on these acquisitions.

Included in the acquisitions for the three-month period ended March 31, 2006 is one facility acquired from Spectrum for a total purchase price of \$6,955.

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 periods.

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, 2007 and 2006
(Unaudited)

3. Properties:

	March 31, 2007			December 31, 2006		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 182,882	\$ –	\$ 182,882	\$ 162,465	\$ –	\$ 162,465
Buildings	1,559,788	61,556	1,498,232	1,344,944	52,575	1,292,369
Furniture, fixtures and equipment	60,193	18,659	41,534	53,143	15,917	37,226
	1,802,863	80,215	1,722,648	1,560,552	68,492	1,492,060
Land held for development	18,173	–	18,173	18,149	–	18,149
	\$ 1,821,036	\$ 80,215	\$ 1,740,821	\$ 1,578,701	\$ 68,492	\$ 1,510,209

At March 31, 2007, building costs included \$3,189 (December 31, 2006 - \$3,222) related to the development of additional units at existing facilities.

4. Mezzanine loans receivable:

	March 31, 2007			December 31, 2006
	Face value	Upfront fees net of lending expenses (note 1(b))	Net balance	Net balance
Spectrum	\$ 45,423	\$ 77	\$ 45,500	\$ 45,277
Melior	43,433	(3,773)	39,660	42,182
Others	14,690	(1,040)	13,650	13,831
	\$ 103,546	\$ (4,736)	\$ 98,810	\$ 101,290

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)

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 as amended ("Development Agreement"), Chartwell REIT provides mezzanine loans to Spectrum. At March 31, 2007, mezzanine loans due from Spectrum amounted to \$45,423 (December 31, 2006 - \$45,277). 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, 2007 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 34 (December 31, 2006 - 35) seniors housing development properties.

Under the terms of the Development Agreement, Chartwell REIT has an option 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.

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, 2007 and 2006
(Unaudited)

4. Mezzanine loans receivable (continued):

(b) Melior and other 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 25 (December 31, 2006 - 25) mezzanine loans totalling \$58,123 (December 31, 2006 - \$56,013) to seven of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling \$43,433 at March 31, 2007 (December 31, 2006 - \$42,182), 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 23 (December 31, 2006 - 23) seniors housing development projects.

Each mezzanine loan matures on the earliest 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 periods ended March 31, 2007 and 2006
(Unaudited)

5. Management contracts, resident contracts, customer relationships and leasehold intangibles and other:

	March 31, 2007			December 31, 2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	\$ 6,238	\$ 3,009	\$ 3,229	\$ 6,277	\$ 2,714	\$ 3,563
Resident contracts	168,938	87,340	81,598	150,668	76,642	74,026
Customer relationships	3,498	2,358	1,140	3,497	2,183	1,314
Leasehold intangibles and other	24,824	606	24,218	–	–	–
	<u>\$ 203,498</u>	<u>\$ 93,313</u>	<u>\$ 110,185</u>	<u>\$ 160,442</u>	<u>\$ 81,539</u>	<u>\$ 78,903</u>

Management contracts and customer relationships represent the acquired 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. Leasehold intangibles represent the acquired value of operating leases.

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.

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, 2007 and 2006
(Unaudited)

6. Other assets:

	March 31, 2007	December 31, 2006
Accounts receivable	\$ 23,407	\$ 15,183
Deferred financing costs, net of accumulated amortization of nil (December 31, 2006 - \$7,086) (note 1(b))	—	16,834
Capital funding receivable	21,283	13,000
Deposits on acquisitions	17,465	11,683
Long-term investments	1,902	2,518
Due from Spectrum (note 15(a))	2,542	2,515
Due from ING	33,203	1,458
Prepaid expenses and deposits	9,296	8,974
Deposits in escrow	9,039	34,308
Other	3,953	5,793
	\$ 122,090	\$ 112,266

Amounts due from ING are primarily related to the acquisition of the Bristol Portfolio by CSH-INGRE LLC and have been settled subsequent to March 31, 2007.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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7. Mortgages payable:

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

	Regular principal payments	Principal due on maturity	Total
2007	\$ 17,565	\$ 37,602	\$ 55,167
2008	23,249	50,571	73,820
2009	21,232	103,176	124,408
2010	20,601	57,413	78,014
2011	20,760	26,808	47,568
2012	20,237	69,044	89,281
2013	18,590	58,388	76,978
2014	15,963	35,152	51,115
2015	15,357	89,893	105,250
2016	11,976	177,356	189,332
Thereafter	65,937	186,850	252,787
	<u>\$ 251,467</u>	<u>\$ 892,253</u>	1,143,720
Financing costs (note 1(b))			(14,186)
			<u>\$ 1,129,534</u>

The following table excludes the impact of financing costs:

	March 31, 2007	December 31, 2006
Mortgages at fixed rates	\$1,118,510	\$908,483
Interest rates	3.50% - 10.00%	3.50% - 10.00%
Weighted average interest rate	5.43%	5.38%
Mortgages at variable rates	\$25,210	\$78,563
Interest rates	Bankers' acceptance plus 0.65% - prime plus 3.00%	Bankers' acceptance plus 0.65% - prime plus 3.00%
Weighted average interest rate	5.91%	5.58%

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7. Mortgages payable (continued):

In the three-month period ended March 31, 2007, interest paid on mortgages payable amounted to \$13,900 (March 31, 2006 - \$8,546).

8. Convertible debentures:

	March 31, 2007	December 31, 2006
Principal amount of 6.0% convertible debenture due December 1, 2011	\$ 124,925	\$ 125,000
Debt component	\$ 116,048	\$ 120,115

During the three-month period ended March 31, 2007, convertible debentures with a principal amount of \$75 were converted into 4,808 Trust Units.

9. Loans payable:

	March 31, 2007	December 31, 2006
Non-voting Series A preferred interests of CSH Master Care ("Series A Interests") (b)	\$ 2,056	\$ 2,013
Class B Common Units of CSH Massapequa Inc. (c)	545	nil
Other loans	300	290
	\$ 2,901	\$ 2,303

(a) Chartwell REIT has arranged for a \$90,000 secured revolving operating facility. At March 31, 2007, the maximum available borrowing capacity was \$63,899 (December 31, 2006 - \$75,737) based on the security provided. No amounts were outstanding under this facility at March 31, 2007.

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Notes to Consolidated Financial Statements (continued)
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9. Loans payable (continued):

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) 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 (note 12). 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.
- (c) On February 22, 2007, as part of the Bristol Portfolio acquisition (note 2(b)) in the United States, CSH Massapequa Inc., a subsidiary of CSH-INGRE LLC, issued 70,159 units of Class B Common Units to the vendors at \$16.62 per unit.

CSH Massapequa Inc. has a right to call Class B Common Units for a period of 90 days commencing on the fifth anniversary of closing. The call option must be exercised in combination with the call option rights of both the Class A and Class B Preferred Units (note 10) of CSH Massapequa Inc. The holders of Class B Common Units have a put option exercisable between August 1, 2007 and October 30, 2007. The put option must be exercised in combination with the put option rights of the Class A Preferred Units of CSH Massapequa Inc. (note 10). The put price is based on the 20-day volume adjusted weighted average price of the Chartwell REIT Trust Units in the preceding 20 days. Class B Common Units are classified as a liability in these consolidated financial statements and are measured at their redemption value. Unrealized and realized gains and losses resulting from changes in the redemption value of Class B Common Units are recorded in income. At March 31, 2007, the redemption price of Class B Common Units was \$15.62 per unit; consequently, a gain of \$35 was recorded in these consolidated financial statements. Class B Common Units receive monthly distributions equal to distributions on Chartwell REIT Trust Units.

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Notes to Consolidated Financial Statements (continued)
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(Unaudited)

10. Accounts payable and other liabilities:

	March 31, 2007	December 31, 2006
Accounts payable and accrued liabilities	\$ 66,366	\$ 50,808
Below-market resident contracts, net of accumulated amortization of \$5,354 (December 31, 2006 - \$5,197)	2,990	3,260
Resident deposits	5,325	4,805
Deferred consideration on acquisition of properties	67,160	29,820
Deferred revenue (note 1(b))	6,952	10,302
	\$ 148,793	\$ 98,995

Included in deferred consideration on acquisition of properties at March 31, 2007 are the following:

Facility	March 31, 2007	December 31, 2006
Castel Royale	\$ 520	\$ 520
Elizabeth Towers	1,180	1,180
Heritage Glen	20,605	20,365
Van Horne Manor	50	50
Domaine Bellerive	5,250	5,250
Devonshire Seniors Residence	-	2,455
WHS�H (note 2(a))	4,034	-
Bristol Portfolio:		
A and B notes	14,291	-
Class A Preferred Units	9,771	-
Class B Preferred Units	11,459	-
	\$ 67,160	\$ 29,820

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Notes to Consolidated Financial Statements (continued)
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10. Accounts payable and other liabilities (continued):

In connection with the Bristol Portfolio acquisition (note 2(b)), non-interest bearing Series A and Series B notes were issued as deferred consideration for the four stabilized properties. The Series A note has a principal value (REIT's share) of \$3,857 (U.S. \$3,308) and matures on the third anniversary of the date of the acquisition. The Series B note has a principal value (REIT's share) of \$12,469 (U.S. \$10,693) and matures as to 25.0%, 32.1% and 42.9% of the principal on the first, second and third anniversary dates of the date of the acquisition, respectively.

In addition to the Class B Common Units, as part of the Bristol Portfolio acquisition (note 2(b)), CSH Massapequa Inc. issued (REIT's share) \$9,883 (U.S. \$8,475) of Class A Preferred Units and \$11,661 (U.S. \$10,000) of Class B Preferred Units.

The Class A Preferred Units are redeemable by the holders at their principal amount during the period from August 1, 2007 to October 30, 2007. This put option can only be exercised in combination with the put option rights of the Class B Common Units. These units pay a dividend equal to the interest rate negotiated for the mortgage on the Massapequa facility until August 1, 2007 and subsequently at this rate less 50 basis points.

The Class B Preferred Units are redeemable by the holders at their principal amount in three separate tranches of 25%, 25% and 50% for a period of 90 days commencing on the earlier of: the achievement of occupancy milestone corresponding to each tranche, and the second anniversary of the date of the acquisition. In no event can this put option be exercised prior to August 1, 2007. These units pay a dividend equal to the Class A Preferred Units; however, entitlement to this dividend does not commence until the corresponding right to put the units (by tranche) has vested.

CSH Massapequa Inc. may purchase the Class A and Class B Preferred Units at their principal amount during a 90-day period commencing on the fifth anniversary of the date of the acquisition. Call options must be exercised simultaneously on all outstanding Class A Preferred Units, Class B Preferred Units and Class B Common Units of CSH Massapequa Inc.

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Notes to Consolidated Financial Statements (continued)
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11. 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 consolidated 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:

	Three-month period ended March 31, 2007	Year ended December 31, 2006
Balance, beginning of period	\$ 54,453	\$ 52,448
Cumulative impact of adopting the New Standards	1	-
Issuance of Class B Units of Master LP (note 2)	10,145	11,091
Non-controlling interest's share of loss for the year	(730)	(1,252)
Distributions on Class B Units of Master LP	(1,701)	(5,744)
Exchange of Class B Units of Master LP for Trust Units	(1,636)	(2,233)
Other comprehensive income (loss)	(87)	143
Balance, end of period	\$ 60,445	\$ 54,453

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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12. Unitholders' capital:

The following units are issued and outstanding for accounting purposes and exclude the issuance of Trust Units under the LTIP:

	Number of voting units	Amount
Units outstanding, January 1, 2006	49,218,102	\$ 539,780
May 9, 2006:		
Trust Units issued pursuant to secondary public offering	13,310,000	185,009
November 28, 2006:		
Trust Units issued pursuant to secondary public offering	3,676,475	50,000
Trust Units issued pursuant to private placement	7,150,000	97,240
November 30, 2006:		
Trust Units issued pursuant to exercise of over- allotment option	551,470	7,500
Trust Units issued pursuant to private placement	202,941	2,760
Trust Units issued pursuant to the Distribution Reinvestment Program	181,626	2,476
Trust Units issued on exchange of Class B Units of Master LP	223,425	2,233
Trust Units issued on dispositions of Long-Term Incentive Program Units under Subscription	62,500	867
Issue costs	–	(13,700)
Units outstanding, January 1, 2007	74,576,539	874,165
Trust Units issued pursuant to the Distribution Reinvestment Program	59,935	906
Trust Units issued on exchange of Class B Units of Master LP	180,404	1,636
Trust Units issued on dispositions of Long-Term Incentive Program Units under Subscription	20,000	166
Trust Units issued on dispositions of Treasury Units	–	239
Trust Units issued on conversion of convertible debentures	4,808	72
Units outstanding, March 31, 2007	74,841,686	\$ 877,184

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Notes to Consolidated Financial Statements (continued)
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13. Loss per unit calculation:

	March 31, 2007		March 31, 2006	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the period	74,657,854	\$ (9,130)	49,416,294	\$ (1,643)
Loss per unit (basic and diluted)		\$ (0.122)		\$ (0.033)

Basic per unit information is calculated using the weighted average number of units outstanding during the period excluding the impact of 2,445,329 (March 31, 2006 - 1,475,000) weighted average units of LTIP units under Subscription, 6,250,305 (March 31, 2006 - 5,247,342) weighted average units of Class B Units of Master LP and 8,010,588 (March 31, 2006 - nil) weighted average units of convertible debentures. The calculation of per unit information on a diluted basis considers the potential exercise of outstanding unit options to the extent that the exercise of the option is dilutive and the potential conversion of outstanding convertible debentures to the extent that such conversion is dilutive.

14. Facility operating leases:

Through its acquisition of a 49% interest in WHSLH (note 2(a)), Chartwell REIT has become a party to a master lease agreement with respect to 25 seniors housing communities. Under these agreements, on inception of the master lease, the individual facility lease terms varied from 12.2 to 13 years and included two consecutive extension options on the same terms and conditions. Under the master lease, WHSLH is responsible for all operating costs, including repairs, property taxes and insurance, and is subject to net worth requirements, minimum capital expenditure requirements per facility per annum and minimum lease coverage ratios.

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Notes to Consolidated Financial Statements (continued)
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14. Facility operating leases (continued):

A summary of facility lease expense is as follows:

	Three-month periods ended March 31,	
	2007	2006
Cash payments	\$ 10,036	\$ –
Adjustment to record lease expense on a straight-line basis over the lease term	2,351	–
Facility lease expense	\$ 12,387	\$ –

15. Related party transactions:

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

(a) Spectrum:

	Three-month periods ended March 31,	
	2007	2006
Mezzanine loan interest earned (note 4(a))	\$ 1,280	\$ 1,187
Development fees	1,104	1,918
Operations management fees	339	129
Financing fees	–	171
Other	–	551

Other assets as at March 31, 2007 include \$2,542 (December 31, 2006 - \$2,515) due from Spectrum. Subsequent to March 31, 2007, \$522 of this balance was paid.

Included in distributions payable at March 31, 2007 is \$273 (December 31, 2006 - \$273) due to Spectrum.

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Notes to Consolidated Financial Statements (continued)
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15. Related party transactions (continued):

(b) Melior:

	Three-month periods ended March 31,	
	2007	2006
Mezzanine loan interest earned (note 4(b))	\$ 1,646	\$ 914
Development fees earned	–	563
Referral and due diligence fees paid (note 18(h))	–	343

At March 31, 2007, accounts receivable and other assets include \$2,800 (December 31, 2006 - \$2,613) due from Melior. Subsequent to March 31, 2007, \$680 of the outstanding amounts receivable from Melior was collected.

(c) Included in accounts receivable at March 31, 2007 is \$66 (December 31, 2006 - \$34) due from an officer of Chartwell REIT related to the previous sale of a facility to the REIT.

(d) Included in mortgages payable at March 31, 2007 is a vendor take-back mortgage of \$1,979 (December 31, 2006 - \$2,270) due to an officer of Chartwell REIT. In March 31, 2007, the REIT incurred interest expense of \$36 (March 31, 2006 - \$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.

16. Segmented information:

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

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.

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Notes to Consolidated Financial Statements (continued)
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16. Segmented information (continued):

	For the three-month period ended March 31, 2006					Total
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations		
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 the following	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, administration and trust expenses						(3,357)
Foreign exchange gain and gains on derivative financial instruments						52
Non-controlling interest						157
Loss for the period					\$	(1,643)
Expenditures for assets by segment:						
Acquisitions - properties and resident contracts	\$ 6,955	\$ 12,655	\$ –	\$ –	\$	19,610
Capital improvements	2,001	294	–	61	\$	2,356

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Notes to Consolidated Financial Statements (continued)
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16. Segmented information (continued):

March 31, 2006						
	Canadian retirement operations	Canadian long-term care operations	Canadian 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

December 31, 2006						
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	\$ 1,192,399	\$ 155,884	\$ 18,393	\$ 383,845	\$ 227,229	\$ 1,977,750
Total liabilities	800,451	110,791	6,813	290,404	7,335	1,215,794

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Notes to Consolidated Financial Statements (continued)
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17. Joint venture operations and other variable interest entities:

(a) Joint venture operations:

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

	March 31, 2007	December 31, 2006
Assets	\$ 645,745	\$ 439,660
Liabilities	516,083	323,517
<hr/>		
	Three-month periods ended March 31,	
	2007	2006
Revenue	\$ 46,452	\$ 7,532
Expenses, including depreciation and amortization of \$7,329 (March 31, 2006 - \$4,129)	55,037	9,266
Loss for the period	(8,585)	(1,714)
<hr/>		
Cash provided by (used in):		
Operating activities	\$ 50,918	\$ 12,463
Financing activities	149,602	(1,962)
Investing activities	(196,100)	(11,368)

Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to \$516,083. The assets of these joint ventures are available to satisfy these liabilities.

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17. Joint venture operations and other variable interest entities (continued):

(b) Variable interest entities:

At March 31, 2007, Chartwell REIT holds variable interests in 18 (December 31, 2006 - 18) VIEs. Chartwell REIT provides development services, mezzanine loans, structuring services and consulting services to these entities. These variable interest entities are expected to incur development costs of approximately \$433,923 (December 31, 2006 - \$419,187).

Although these entities were identified as VIEs, it was determined that Chartwell REIT is not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

As of March 31, 2007, Chartwell REIT had mezzanine loans receivable of \$66,180 (December 31, 2006 - \$62,708). During the three-month period ended March 31, 2007, Chartwell REIT earned \$2,217 in interest from these entities.

18. Commitments and contingencies:

(a) Operating leases of seniors housing facilities:

Through the acquisition of a 49% interest in WHSLH (note 2(a)), Chartwell REIT acquired leased interests in 25 facilities. Chartwell REIT's share of the aggregate amount of all future minimum lease payments under the leases are as follows for the years ending December 31:

2007	\$	39,995
2008		41,504
2009		42,895
2010		44,332
2011		45,816
Thereafter		388,026
	\$	602,568

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

(b) Other 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 \$950 to \$1,004 over the term of the lease.

(c) Acquisitions:

As of March 31, 2007, Chartwell REIT is committed to acquire varying interests in 34 seniors housing facilities for a purchase price of approximately \$669,752 as follows:

- (i) Chartwell REIT has agreed to acquire the Regency Care Portfolio, consisting of seven long-term care communities and management contracts for an additional six long-term care communities, for a total purchase price of approximately \$245,000, including assumption of debt of approximately \$146,218.
- (ii) Chartwell REIT has agreed to acquire 24 seniors housing facilities and an interest in the two leased seniors housing facilities in the United States for an aggregate purchase price of approximately \$396,252 (U.S. \$343,700).
- (iii) Chartwell REIT is committed to acquire one seniors housing facility for a purchase price of approximately \$22,000.
- (iv) Chartwell REIT has also agreed to acquire one long-term care facility for a purchase price of \$6,500.

(d) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As at March 31, 2007, the remaining commitments under these contracts amounted to approximately \$7,294.

As at March 31, 2007, Chartwell REIT has entered into fixed gas contracts with a third-party gas supplier for \$536 to provide gas to its facilities.

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

(e) At March 31, 2007 contingent consideration on acquisitions of properties amounted to \$9,626 and consisted of the following:

- (i) The vendor of one property is entitled to receive an additional \$1,795 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually.
- (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 of the acquisition.
- (iii) The vendor of one property is entitled to receive an additional \$4,000 in respect of certain suites that are being added to the property.
- (iv) The vendor of two properties has a right to receive an additional \$675 over a three-year period expiring on June 21, 2007 subject to the properties achieving certain earnings targets.
- (v) The vendors of two properties are entitled to receive an additional 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, 2007, Chartwell REIT's obligation with respect to the remaining combined consideration was \$2,256 (U.S. \$1,957).

(f) Mezzanine loans receivable:

As at March 31, 2007, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of \$38,647 (December 31, 2006 - \$41,577) (note 4).

(g) Letters of credit:

As at March 31, 2007, Chartwell REIT was contingently liable for letters of credit in the amount of \$639 (December 31, 2006 - \$639).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

(h) 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 revenue. Chartwell REIT owns a 50% interest in CM.
- (ii) Chartwell REIT's properties in the United States are managed by HBC. The properties' management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenue plus incentive fee based on certain operating targets. Through Chartwell REIT's acquisition of WHSLH, Chartwell REIT owns a 74.5% effective interest in HBC (note 2(a)).
- (iii) 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 (note 15(b)).
 - (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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18. Commitments and contingencies (continued):

(i) Litigation and claims:

In the ordinary course of business activities, Chartwell REIT may be contingently liable for litigation and claims from, among others, residents, 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.

19. Supplemental cash flow information:

- (a) At March 31, 2007, distributions of \$7,452, including \$578 applicable to non-controlling interests (December 31, 2006 - \$7,335, including \$533 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 issuance of \$10,145 (March 31, 2006 - nil) of Class B Units of Master LP, the issuance of \$663 (March 31, 2006 - nil) of Class B Common Units of a subsidiary of CSH-INGRE LLC (note 9(c)) and the discharge of \$1,688 (March 31, 2006 - \$2,758) of mezzanine loans receivable. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.
- (c) During the three-month period ended March 31, 2007, distributions of \$622 (March 31, 2006 - \$392) and interest of \$267 (March 31, 2006 - \$166) 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 periods ended March 31, 2007 and 2006
(Unaudited)

19. Supplemental cash flow information (continued):

- (d) During the three-month period ended March 31, 2007, Trust Units valued at \$906 (March 31, 2006 - \$484) were issued pursuant to the Distribution Reinvestment Program. This amount has been excluded from financing activities on the consolidated statements of cash flows.
- (e) During the three-month period ended March 31, 2007, interest paid amounted to \$15,613 (March 31, 2006 - \$9,057).
- (f) During the three-month period ended March 31, 2007, cash distributions on Trust Units amounted to \$20,011 (March 31, 2006 - \$13,022). In accordance with Chartwell REIT's Third Amended and Restated Declaration of Trust, the REIT may distribute to the REIT unitholders such percentage of the Distributable Income of the REIT as the trustees in their discretion may determine and declare. Notwithstanding the foregoing, the REIT shall distribute in each year an amount equal to at least 80% of the distributable income of the REIT provided that the REIT receives amounts equal to such distributions from its investments. While the Trustees have discretion over the determination of Distributable Income to be distributed, Chartwell REIT is required under the Declaration of Trust to distribute an amount at least equal to income of Chartwell REIT for tax purposes to ensure that it will not be taxable pursuant to the Income Tax Act.

20. Income taxes:

Chartwell REIT currently qualifies as a Mutual Fund Trust for Canadian income tax purposes and does not record a provision for income taxes on income earned by Chartwell REIT, its subsidiary trust and flow through entities. On March 29, 2007, the federal government tabled a bill in the House of Commons to implement draft legislation (the "Proposals") relating to the federal income taxation of publicly traded income trusts and publicly traded partnerships.

Under the Proposals, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, the Proposals provide that the distributions paid by a SIFT as returns of capital will not be subject to the tax.

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20. Income taxes (continued):

The Proposals provided that a SIFT that was publicly listed before November 1, 2006 (an "Existing Trust") would become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain safe harbour limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). On April 20, 2007, Chartwell REIT issued equity capital in excess of these Safe Harbour Limits.

Under the Proposals, the new taxation regime will not apply to a Real Estate Investment Trust that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Chartwell REIT does not meet the REIT Conditions and, therefore, is a SIFT. Accordingly, if the Proposals are enacted into law, as Chartwell REIT exceeded the Safe Harbour Limits, commencing in 2007, Chartwell REIT would be subject to tax on certain income, which would adversely impact the level of cash otherwise available for distribution. At the date of substantive enactment, Chartwell REIT would record future income tax assets and liabilities in respect of accounting and tax basis differences that are expected to reverse in or after 2007, with a corresponding credit or charge to consolidated earnings for the period.

It is possible that changes to the Proposals will be made prior to their enactment that may mitigate the impact on Chartwell REIT. If the Proposals are not changed, Chartwell REIT may need to restructure its affairs in order to minimize their impact. There can be no assurances, however, that changes will be made to the Proposals or that Chartwell REIT would be able to restructure its affairs such that Chartwell REIT would not be subject to the tax contemplated by the Proposals.

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Notes to Consolidated Financial Statements (continued)
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(Unaudited)

20. Income taxes (continued):

Chartwell REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At March 31, 2007, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes of approximately \$1,091 (U.S. \$946) expiring in 2025, \$5,952 (U.S. \$5,163) expiring in 2026 and \$4,947 (U.S. \$4,291) expiring in 2027, totalling \$11,990 (U.S. \$10,400).

As at March 31, 2007, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of \$6,566 (U.S. \$5,695) against which a valuation allowance of \$6,566 (U.S. \$5,695) has been recorded.

21. 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 March 31, 2007, through its self-sustaining United States operations, 29% (December 31, 2006 - 19%) of Chartwell REIT's assets and 32% (December 31, 2006 - 26%) of Chartwell REIT's mortgages payable were held in the United States and for the three-month period ended March 31, 2007, 33% (March 31, 2006 - 10%) 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. dollar-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 U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk.

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Notes to Consolidated Financial Statements (continued)
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21. 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 March 31, 2007, \$25,510 (December 31, 2006 - \$78,853) of Chartwell REIT's mortgages and loans payable, excluding hedged loans, bears 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 25 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 an estimate of the cost to close the contracts as at March 31, 2007 is a loss position of \$828, which is included in accrued liabilities on the consolidated balance sheet (note 10). Included in other comprehensive loss for the three-month period ended March 31, 2007 is a gain of \$59 that relates to the effective portion of the net change in fair value of interest rate swaps designated as hedges.

(c) Credit and collection risk:

Chartwell REIT has four significant categories of receivables: mezzanine borrowers, various provincial 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. 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.

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Notes to Consolidated Financial Statements (continued)
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21. 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.

	March 31, 2007	
	Carrying value of loans and receivable and non-trading liabilities	Fair value of loans and receivable and non-trading liabilities
Financial assets:		
Mezzanine loans receivable (i)	\$ 98,810	\$ 98,472
Capital funding receivable (ii)	21,283	22,306
Financial liabilities:		
Mortgages payable (iii)	1,129,534	1,143,719
Debt component of convertible debenture (iv)	116,048	129,672

The fair value of mortgages payable as at December 31, 2006 was \$994,165 as compared to its carrying value of \$987,046. As at December 31, 2006, the fair values of mezzanine loans receivable, capital funding receivable, loans payable and convertible debentures approximated their carrying values.

- (i) The fair value of mezzanine loans receivable is an estimate based on the rates currently charged on Chartwell REIT's mezzanine loans. The fair value of mezzanine loans receivable is below the carrying value because costs associated with the origination of these mezzanine loans have been offset against the applicable mezzanine loan receivable and are being amortized using the effective interest method. The carrying value of the mezzanine loans has not been written down as management intends to hold them to maturity such that it will recover the carrying amount.

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

- (ii) The fair value of capital funding receivable is an estimate based on the yield of the applicable bonds issued by the Province of Ontario.
- (iii) The fair value of mortgages payable is an estimate based on the rates currently prevailing for similar instruments of similar maturities.
- (iv) The fair value of the convertible debenture is based on a market quote. The carrying value of the convertible debenture is recorded as financial liability and equity as follows:

Liability	\$ 116,048
Equity	4,711
	<hr/>
	\$ 120,759

Management has not separately estimated the market value of the liability and equity components of the convertible debenture as neither is traded separately in an active market such that management can reliably estimate their respective fair values.

(e) Reliance on government subsidies:

Chartwell REIT holds licenses related to each of its long-term care facilities, which receive funding from the relevant provincial government. During the three-month period ended March 31, 2007, the REIT received approximately \$14,800 (March 31, 2006 - \$11,263) in respect of these licenses, which has been recorded to resident revenue.

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

At March 31, 2007, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of \$23,850 (December 31, 2006 - \$23,850). As at March 31, 2007, \$17,575 (December 31, 2006 - \$18,560) 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 March 31, 2007, 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 March 31, 2007, 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 \$51,045, of which \$46,021 (December 31, 2006 - \$45,516) was outstanding at March 31, 2007. In the opinion of management, at March 31, 2007, the value of each of these properties exceeds the respective total amount of debt outstanding.

23. Subsequent events:

- (a) Subsequent to March 31, 2007, Chartwell REIT acquired one seniors housing facility in Canada for a purchase price of approximately \$22,000.
- (b) Subsequent to March 31, 2007, Chartwell REIT acquired 24 seniors housing facilities and an interest in two leased seniors housing facilities in the United States for an aggregate purchase price of \$396,252 (U.S. \$343,700).
- (c) On April 20, 2007, Chartwell REIT completed a public offering of 14,100,000 Trust Units for \$14.25 per Trust Unit and \$75,000 of 5.9% convertible unsecured subordinated debentures due on May 1, 2012 for aggregate gross proceeds of \$275,925 to a syndicate of underwriters.
- (d) Subsequent to March 31, 2007, Chartwell REIT advanced \$1,041 of mezzanine loans to Spectrum, Melior and Spectrum's joint venture partners.