Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month and nine-month periods
ended September 30, 2007 and 2006
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	September 30, 2007	December 31, 2006
	(Unaudited)	(Audited)
Assets		
Properties (note 3)	$ 2,095,380	$ 1,510,209
Mezzanine loans receivable (note 4)	106,837	101,290
Management contracts, resident contracts, customer relationships and other intangibles (note 5)	119,961	78,903
Cash and cash equivalents	118,498	125,939
Other assets (note 6)	125,537	112,266
Licenses	25,650	16,760
Goodwill	56,964	32,383
	$ 2,648,827	$ 1,977,750

Liabilities and Unitholders' Equity

	September 30, 2007	December 31, 2006
Liabilities:		
Mortgages payable (note 7)	$ 1,420,660	$ 987,046
Convertible debentures (note 8)	179,717	120,115
Loans payable (note 9)	3,039	2,303
Accounts payable and other liabilities (note 10)	172,124	98,995
Distributions payable	8,905	7,335
Future income tax liabilities (note 20)	23,097	–
	1,807,542	1,215,794
Non-controlling interest (note 11)	50,751	54,453
Unitholders' equity	790,534	707,503
Commitments and contingencies (notes 17 and 18)		
Guarantees (note 22)		
Subsequent events (notes 10, 15 and 23)		
	$ 2,648,827	$ 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 Income
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

	Three-month periods ended September 30, 2007	2006	Nine-month periods ended September 30, 2007	2006
Revenue:				
Resident	$ 164,786	$ 86,716	$ 441,169	$ 226,958
Mezzanine loan interest (notes 4 and 15(a) and (b))	3,366	2,776	10,774	7,563
Fees (note 15(a) and (b))	5,524	3,252	10,875	10,654
Bank interest and other	3,555	1,984	9,054	4,610
	177,231	94,728	471,872	249,785
Expenses:				
Direct operating	113,240	60,357	302,346	157,972
Facility lease (note 14)	11,565	–	35,737	–
General, administrative and trust	5,832	4,629	15,895	12,228
	130,637	64,986	353,978	170,200
	46,594	29,742	117,894	79,585
Interest expense	25,483	12,105	66,051	31,982
Unrealized foreign exchange loss (gain) and losses (gains) on derivative financial instruments	4,898	(157)	10,803	741
	30,381	11,948	76,854	32,723
	16,213	17,794	41,040	46,862
Depreciation of properties	16,319	9,007	42,343	23,544
Amortization of management contracts, resident contracts, customer relationships and other intangibles	16,025	11,960	41,717	31,487
Write-down in carrying value of assets (note 5)	–	259	172	699
	32,344	21,226	84,232	55,730
Loss before the undernoted	(16,131)	(3,432)	(43,192)	(8,868)
Gain on sale of assets	11	296	331	396
Loss before income taxes	(16,120)	(3,136)	(42,861)	(8,472)
Future income tax expense (note 20)	1,802	–	18,191	–
Loss before non-controlling interest	(17,922)	(3,136)	(61,052)	(8,472)
Non-controlling interest (note 11)	982	232	3,829	680
Loss for the period	(16,940)	(2,904)	(57,223)	(7,792)
Other comprehensive income (loss):				
Unrealized foreign currency loss on the translation of self-sustaining foreign operations	(13,677)	(10)	(30,408)	(1,885)
Net change in losses/gains on derivatives designated as cash flow hedges	(266)	–	239	–
Non-controlling interest	922	–	2,078	–
	(13,021)	(10)	(28,091)	(1,885)
Comprehensive loss	$ (29,961)	$ (2,914)	$ (85,314)	$ (9,677)
Loss per unit:				
Basic and diluted (note 13)	$ (0.186)	$ (0.046)	$ (0.679)	$ (0.138)

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)

Nine-month period ended September 30, 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	–	–	–	(57,223)	–	–	–	(57,223)
Other comprehensive loss	–	–	–	–	(28,091)	–	–	(28,091)
Distributions to unitholders	–	–	–	–	–	(69,407)	–	(69,407)
Issuance of Trust Units pursuant to secondary public offering	200,925	–	–	–	–	–	–	200,925
Issuance of Trust Units pursuant to exercise of overallotment option	30,139	–	–	–	–	–	–	30,139
Issuance of 5.9% Convertible Debentures	–	–	–	–	–	–	10,563	10,563
Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP")	3,043	–	–	–	–	–	–	3,043
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	2,782	–	–	–	–	–	–	2,782
Trust Units issued under the Long-Term Incentive Program ("LTIP"), net of units transferred to Treasury	59	5,530	(5,197)	–	–	–	–	392
Deposits received under the LTIP	–	–	206	–	–	–	–	206
Disposition of LTIP Units under Subscription	232	(846)	766	–	–	–	–	152
Disposition of Treasury Units	528	–	–	–	–	–	–	528
Issue costs	(11,773)	–	–	–	–	–	(396)	(12,169)
Interest on instalment loan receivable	–	–	(822)	–	–	–	–	(822)
Distributions applied against instalment loan receivable	–	–	1,930	–	–	–	–	1,930
Conversion of convertible debentures	72	–	–	–	–	–	(3)	69
Unitholders' equity, September 30, 2007	$ 1,100,172	$ 32,351	$ (26,460)	$ (90,528)	$ (27,504)	$ (212,375)	$ 14,878	$ 790,534

Nine-month period ended September 30, 2006	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, 2006	$ 539,780	$ 19,138	$ (16,391)	$ (18,621)	$ (1,031)	$ (77,590)	$ –	$ 445,285
Loss for the period	–	–	–	(7,792)	–	–	–	(7,792)
Other comprehensive loss	–	–	–	–	(1,885)	–	–	(1,885)
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 DRIP	1,704	–	–	–	–	–	–	1,704
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	2,108	–	–	–	–	–	–	2,108
Trust Units issued under the LTIP	–	9,348	(9,039)	–	–	–	–	309
Repayment of loan receivable under the LTIP	–	–	120	–	–	–	–	120
Disposition of LTIP 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
Unitholders' equity, September 30, 2006	$ 720,128	$ 28,037	$ (24,166)	$ (26,413)	$ (2,916)	$ (123,836)	$ –	$ 570,834

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, 2007	2006	Nine-month periods ended September 30, 2007	2006
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (16,940)	$ (2,904)	$ (57,223)	$ (7,792)
Items not affecting cash:				
Depreciation and amortization	32,344	20,967	84,060	55,031
Write-down in carrying value of assets	–	259	172	699
Gain on sale of assets	(11)	(296)	(331)	(396)
Amortization of below-market resident contracts	(311)	(614)	(1,135)	(1,529)
Adjustment to record lease expense on a straight-line basis over the lease term	1,853	–	6,253	–
Option benefit granted under the LTIP	96	242	445	306
Loss (income) from long-term investments	181	(256)	(43)	(38)
Unrealized losses on derivative financial instruments and foreign exchange loss on U.S. dollar-denominated balances	4,898	–	10,803	–
Unrealized gains	–	(153)	–	(12)
Non-controlling interest	(982)	(232)	(3,829)	(680)
Amortization of financing expenses	1,118	626	3,382	1,823
Amortization of debt discounts	1,197	22	2,817	171
Amortization of mezzanine loan fees and costs	(267)	–	(1,892)	–
Future income taxes	1,802	–	18,191	–
Change in non-cash operating items	(4,080)	964	20,503	(3,565)
	20,898	18,625	82,173	44,018
Financing activities:				
Proceeds from mortgage financing	11,275	30,595	476,217	211,404
Proceeds from (repayment of) bank loan payable	69	(261)	100	53
Mortgage principal repayments	(5,903)	(5,257)	(214,312)	(32,971)
Proceeds from (repayment of) loans payable	–	28,000	–	(1,450)
Deferred financing costs	(517)	(1,608)	(7,968)	(4,296)
Proceeds received from ING (note 2)	–	–	41,919	–
5.9% convertible debentures issued, net of issue costs	–	–	72,188	–
Trust units issued pursuant to:				
Public offering	–	–	231,064	185,009
Issue costs	–	–	(11,773)	(8,900)
Disposition of Treasury Units	195	–	528	–
Distributions paid	(21,231)	(17,178)	(63,720)	(46,786)
Distributions paid to non-controlling interest unitholders	(1,734)	(1,437)	(5,126)	(4,245)
Deposits received under LTIP and repayment of instalment loan receivable	–	418	275	534
	(17,846)	33,272	519,392	298,352

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended September 30, 2007	2006	Nine-month periods ended September 30, 2007	2006
Investing activities:				
Acquisition of assets, net of debt assumed and units issued (note 2)	(36,171)	(78,195)	(593,832)	(306,336)
Payment of deferred consideration on acquisitions of properties	(487)	–	(2,942)	(871)
Additions to properties	(11,317)	(7,999)	(26,560)	(18,698)
Amounts received under net operating income guarantees	222	244	660	641
Proceeds on sale of properties	479	1,280	4,768	1,907
Mezzanine loans advances	(5,174)	(2,583)	(14,832)	(22,526)
Mezzanine loans repayments	4,161	–	4,161	–
Distributions on long-term investments	–	789	1,020	789
Restricted cash and deposits in escrow	7,005	(1,949)	24,993	(3,955)
Proceeds from capital funding receivables	495	95	841	233
	(40,787)	(88,318)	(601,723)	(348,816)
Foreign exchange gain (loss) on U.S. dollar-denominated cash	(7,061)	678	(7,283)	4,361
Decrease in cash and cash equivalents	(44,796)	(35,743)	(7,441)	(2,085)
Cash and cash equivalents, beginning of period	163,294	48,503	125,939	14,845
Cash and cash equivalents, end of period	$ 118,498	$ 12,760	$ 118,498	$ 12,760

Supplemental cash flow information is presented in note 19 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

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 below.

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' 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 in the consolidated balance sheets 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.

(In thousands of Canadian dollars, except per unit amounts)

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	$ (5,295)
Other assets	(17,825)
Mortgages payable	(12,434)
Convertible debentures	(4,415)
Deferred revenue	(6,286)
Non-controlling interest	1
Losses	(14)

1. Significant accounting policies (continued):

There are no significant non-financial derivatives or embedded derivatives that require separate fair value recognition in the consolidated balance sheet on the transition date.

(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 and comprehensive income 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 and comprehensive income.

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 and comprehensive income 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 and comprehensive income.

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 new consolidated statements 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 nine-month period ended September 30, 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).

1. Significant accounting policies (continued):

(c) Other intangibles:

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

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

(d) Income taxes:

Chartwell REIT currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly listed or traded trusts, as discussed below, income earned by Chartwell REIT and distributed annually to unitholders was not, and would not be, subject to taxation in Chartwell REIT, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of Chartwell REIT's distributions was treated as an exemption from taxation as Chartwell REIT distributed and was committed to continue distributing all of its taxable income to its unitholders. Accordingly, Chartwell REIT did not previously record a provision for income taxes or future income tax assets or liabilities, in respect of Chartwell REIT or its investment in its subsidiary trust.

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT") received royal assent (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership and trust, such as an income trust and a real estate investment trust.

1. Significant accounting policies (continued):

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from 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. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

Under the SIFT Rules, 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.

A SIFT that was publicly listed before November 1, 2006 (an "Existing Trust") is 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. Therefore, commencing in fiscal 2007, Chartwell REIT is likely to be subject to tax on certain income.

Chartwell REIT uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply in the periods in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

The impact of the new SIFT Rules resulted in Chartwell REIT recording a future tax liability of $23,097 as at September 30, 2007 (note 20).

1. Significant accounting policies (continued):

(e) Future accounting changes:

There are three new accounting standards that are effective for Chartwell REIT's 2008 fiscal year: Section 1535, Capital Disclosures; Section 3862, Financial Instruments - Disclosures; and Section 3863, Financial Instruments - Presentation.

Section 1535 includes required disclosures of an entity's objective, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The REIT is still in the process of evaluating the impact of these future accounting changes.

(In thousands of Canadian dollars, except per unit amounts)

2. Acquisitions:

The following table summarizes the net assets acquired, at fair value, for the three-month and nine-month periods ended September 30:

	Three-month periods ended September 30, 2007	Three-month periods ended September 30, 2006	Nine-month periods ended September 30, 2007	Nine-month periods ended September 30, 2006
Assets				
Properties	$ 39,505	$ 99,218	$ 709,240	$ 320,666
Management contracts, resident contracts, customer relationships and other intangibles	(523)	8,402	95,043	37,507
Capital funding receivable	1,389	4,184	36,421	4,184
Other assets	3,304	–	14,899	–
Land held for development	2,500	–	2,500	2,357
Licenses	437	4,825	8,890	4,825
Goodwill	(561)	–	25,765	–
Assets held for sale	–	–	122,505	–
	46,051	116,629	1,015,263	369,539
Liabilities				
Mortgages and loans payable	5,610	37,041	266,843	53,582
Below-market resident contracts	(291)	213	–	2,539
Other liabilities	4,561	–	13,076	–
Future income tax liability	–	–	4,904	–
Liabilities related to assets held for sale	–	–	80,107	–
	9,880	37,254	364,930	56,121
Net assets acquired	$ 36,171	$ 79,375	$ 650,333	$ 313,418

(In thousands of Canadian dollars, except per unit amounts)

2. Acquisitions (continued):

	Three-month periods ended September 30, 2007	Three-month periods ended September 30, 2006	Nine-month periods ended September 30, 2007	Nine-month periods ended September 30, 2006
Settled by:				
Issuance of Class B Units of Chartwell Master Care LP ("Master LP") (note 11)	$ –	$ –	$ 10,145	$ 2,624
Repayment of mezzanine loan receivable	–	–	1,688	2,758
Issuance of Class B Common Units of CSH Massapequa Inc. (note 9)	–	–	663	–
Deferred consideration on business combinations	–	1,180	44,005	1,700
Cash	36,171	78,195	593,832	306,336
	$ 36,171	$ 79,375	$ 650,333	$ 313,418

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.

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.

During the nine-month period ended September 30, 2007, Chartwell REIT completed the following acquisitions:

(a) RegencyCare Portfolio:

On June 30, 2007, Chartwell REIT indirectly acquired from independent sellers a 100% interest in seven long-term care facilities and a 50% interest in one long-term care facility (the "RegencyCare LTC Facilities") for $245,011 less estimated assumed mortgages payable of $148,466, future income taxes of $9,808 and other liabilities of $1,984.

2. Acquisitions (continued):

Under the participation agreement dated June 30, 2007 between Chartwell REIT and the affiliates of ING Real Estate Investment Management Australia PTY Limited (collectively "ING"), ING was committed to participate as a 50% partner in the RegencyCare LTC Facilities acquisition. However, as certain structuring and legal steps had not been completed at June 30, 2007, Chartwell REIT was the owner of 100% of the portfolio as at June 30, 2007 and net assets of $42,398 that were to be sold to ING were classified as held for sale in the consolidated balance sheet as at June 30, 2007.

On July 5, 2007, Chartwell REIT acquired, from a different independent seller, the remaining 50% interest in one long-term care facility in which it had previously acquired an initial 50% interest, pursuant to the RegencyCare LTC Facilities acquisition. Total consideration was $4,120, net of estimated assumed debt and working capital.

On August 1, 2007, the structuring and legal steps were completed and ING became a 50% partner in the RegencyCare LTC Facilities for consideration of approximately $42,398.

In addition, Chartwell REIT acquired all of the outstanding shares of three management and consulting companies for a total consideration of $13,099. As a result of this acquisition and related agreements, Chartwell REIT is the manager of the RegencyCare LTC Facilities and two third-party long-term care facilities. Chartwell REIT will also manage up to four other third-party contracts on a month-by-month basis.

In the three-month period ending September 30, 2007 Chartwell REIT adjusted the valuation of the net assets acquired relating to the acquisition of the RegencyCare Portfolio and, based on this valuation, adjusted the purchase price allocation. The value assigned to properties and other assets was increased by $6,680 with a corresponding decrease in management contracts, resident contracts, customer relationships and other intangibles of $4,505, goodwill of $2,466 and below-market resident contracts of $291.

(In thousands of Canadian dollars, except per unit amounts)

2. Acquisitions (continued):

The following table summarizes Chartwell REIT's 50% interest in the RegencyCare LTC Facilities, its 100% interest in the associated management contracts and its 100% interest in third party management contracts acquired:

Assets	
Properties	$ 88,745
Management contracts, resident contracts, customer relationships and other intangibles	10,481
Capital funding receivable	27,991
Other assets	3,840
Land held for development	2,500
Licenses	6,920
	140,477
Liabilities	
Mortgages and loans payable	79,843
Other liabilities	5,087
	84,930
Net assets acquired	$ 55,547

(b) Merrill Gardens Portfolio:

On April 30, 2007, CSH Master Care USA Inc. ("Master Care USA"), an indirect wholly owned subsidiary of the REIT, indirectly acquired 22 seniors housing facilities in the United States (the "Merrill Gardens Portfolio") for $371,078 (U.S. $333,853) less the assumption and repayment of existing mortgage debt in the amount of $134,449 (U.S. $120,961) and other liabilities of $3,303 (U.S. $2,972). The acquisition, and the refinancing of existing mortgage debt, was financed with new mortgage debt in the amount of $238,992 (U.S. $215,017), net of financing costs, and cash of $128,783 (U.S. $115,864).

2. Acquisitions (continued):

On May 31, 2007, Master Care USA indirectly acquired the leasehold interest in two seniors housing facilities in Florida for $13,902 (U.S. $13,016) less the assumption of certain liabilities of $560 (U.S. $542). The acquisition was financed with deferred consideration of $2,704 (U.S. $2,528) and cash of $10,638 (U.S. $9,946).

(c) 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. $3,050), 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.

2. Acquisitions (continued):

(d) Bristal Portfolio:

On February 21, 2007, CSH-INGRE LLC, a joint venture between Chartwell REIT and ING, acquired five seniors housing facilities in the United States ("Bristal 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. In April 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.

(e) Other:

During the nine-month period ended September 30, 2007, Chartwell REIT acquired six seniors housing facilities and one long-term care facility in Canada for total purchase prices of $93,626 and $30,676, respectively, from three different vendors and two seniors housing facilities from Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management, for consideration of $38,079. Chartwell REIT assumed mortgages and loans payable totalling $52,552 and assumed other liabilities of $573 on these acquisitions. The net assets acquired in these acquisitions were financed with the issuance of $10,145 of Class B Units of Master LP, the discharge of $1,688 in mezzanine loans receivable, deferred consideration of $1,415 and the balance settled in cash.

Included in the acquisitions for the nine-month period ended September 30, 2006 is one facility acquired from Spectrum for a total purchase price of $6,955.

(In thousands of Canadian dollars, except per unit amounts)

3. Properties:

			September 30, 2007			December 31, 2006
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 213,395	$ –	$ 213,395	$ 162,465	$ –	$ 162,465
Buildings	1,897,210	83,070	1,814,140	1,344,944	52,575	1,292,369
Furniture, fixtures and equipment	72,767	25,117	47,650	53,143	15,917	37,226
	2,183,372	108,187	2,075,185	1,560,552	68,492	1,492,060
Land held for development	20,195	–	20,195	18,149	–	18,149
	$ 2,203,567	$ 108,187	$ 2,095,380	$ 1,578,701	$ 68,492	$ 1,510,209

At September 30, 2007, building costs included $12,001 (December 31, 2006 - $3,222) related to the development of additional units at existing facilities.

During the nine-month period ended September 30, 2007, Chartwell REIT sold two properties with a carrying value of $3,969. A gain of $320 was recognized on these sales. During the three-month period ended September 30, 2007, Chartwell REIT sold miscellaneous equipment resulting in a gain of $11.

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.

During the nine-month period ended September 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.

(In thousands of Canadian dollars, except per unit amounts)

4. Mezzanine loans receivable:

	September 30, 2007			December 31, 2006
	Principal amount	Upfront fees, net of lending expenses (note 1(b))	Net balance	principal amount
Spectrum	$ 49,787	$ 231	$ 50,018	$ 45,277
Melior	44,873	(3,602)	41,271	42,182
Others	16,511	(963)	15,548	13,831
	$ 111,171	$ (4,334)	$ 106,837	$ 101,290

(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 September 30, 2007, mezzanine loans due from Spectrum amounted to $49,787 (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 September 30, 2007 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 33 (December 31, 2006 - 35) seniors housing development properties.

(In thousands of Canadian dollars, except per unit amounts)

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 28 (December 31, 2006 - 25) mezzanine loans totalling $61,384 (December 31, 2006 - $56,013) to seven of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling $44,873 at September 30, 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 26 (December 31, 2006 - 23) seniors housing development projects.

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

			September 30, 2007			December 31, 2006
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 13,334	$ 3,028	$ 10,306	$ 6,277	$ 2,714	$ 3,563
Resident contracts	166,549	85,510	81,039	150,668	76,642	74,026
Customer relationships	3,214	2,488	726	3,497	2,183	1,314
Other intangibles	29,291	1,401	27,890	–	–	–
	$ 212,388	$ 92,427	$ 119,961	$ 160,442	$ 81,539	$ 78,903

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

(In thousands of Canadian dollars, except per unit amounts)

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

During the nine-month period ended September 30, 2007, the termination of two management contracts resulted in a write-down of $105 and $67 in the carrying value of management contracts and customer relationships, respectively.

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, respectively.

6. Other assets:

	September 30, 2007	December 31, 2006
Accounts receivable	$ 28,552	$ 15,183
Deferred financing costs, net of accumulated amortization of nil (December 31, 2006 - $7,086) (note 1(b))	–	16,834
Capital funding receivable	48,580	13,000
Deposits on acquisitions	611	11,683
Long-term investments	1,541	2,518
Due from Spectrum (note 15(a))	4,296	2,515
Due from ING	4,261	1,458
Prepaid expenses and deposits	14,074	8,974
Deposits in escrow	15,019	34,308
Other	8,603	5,793
	$ 125,537	$ 112,266

(In thousands of Canadian dollars, except per unit amounts)

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	$ 6,034	$ 28,917	$ 34,951
2008	24,262	70,222	94,484
2009	21,918	102,304	124,222
2010	21,479	56,592	78,071
2011	21,878	25,976	47,854
2012	23,388	69,109	92,497
2013	23,435	56,556	79,991
2014	21,422	33,433	54,855
2015	21,334	77,400	98,734
2016	19,545	161,890	181,435
2017 - 2021	63,381	336,783	400,164
Thereafter	77,824	55,298	133,122
	$ 345,900	$ 1,074,480	1,420,380
Mark-to-market adjustment arising on acquisition			17,807
Financing costs (note 1(b))			(17,527)
			$ 1,420,660

The following table excludes the impact of financing costs:

	September 30, 2007	December 31, 2006
Mortgages at fixed rates	$1,400,042	$899,511
Interest rates	3.50% - 10.00%	3.50% - 10.00%
Weighted average interest rate	5.78%	5.71%
Mortgages at variable rates	$20,338	$78,563
Interest rates	Prime plus 0.65% - 3.00%	Bankers' acceptance plus 0.65% - prime plus 3.00%
Weighted average interest rate	7.06%	5.58%

(In thousands of Canadian dollars, except per unit amounts)

7. Mortgages payable (continued):

During the three-month and nine-month periods ended September 30, 2007, interest expense on mortgages payable amounted to $20,221 and $54,932 (three-month and nine-month periods ended September 30, 2006 - $11,369 and $29,165), respectively.

8. Convertible debentures:

			September 30, 2007			December 31, 2006
	6.0% Convertible Debentures	5.9% Convertible Debentures	Total	6.0% Convertible Debentures	5.9% Convertible Debentures	Total
Principal	$ 124,925	$ 75,000	$ 199,925	$ 125,000	$ –	$ 125,000
Debt component	$ 116,852	$ 62,865	$ 179,717	$ 120,115	$ –	$ 120,115

(a) 6.0% Convertible Debentures:

During the nine-month period ended September 30, 2007, 6.0% Convertible Debentures with a principal amount of $75 were converted into 4,808 Trust Units at a conversion price of $15.60.

8. Convertible debentures (continued):

(b) 5.9% Convertible Debentures:

On April 20, 2007, Chartwell REIT issued $75,000 of convertible, unsecured, subordinated debentures ("5.9% Convertible Debentures") pursuant to a prospectus dated April 13, 2007 for proceeds of $72,188, net of issue costs. The 5.9% Convertible Debentures bear interest at an annual rate of 5.9% payable semi-annually in arrears on May 1 and November 1 in each year commencing May 1, 2007. Each 5.9% Convertible Debenture is convertible into freely-tradable Trust Units of Chartwell REIT at the option of the holder at any time prior to the earlier of May 1, 2012 and the last business day immediately preceding the date specified by Chartwell REIT for redemption of the 5.9% Convertible Debentures, at a conversion price of $16.25 per Trust Unit (the "Conversion Price"). Holders converting their 5.9% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 5.9% Convertible Debentures up to and including the last record date set by Chartwell REIT prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell REIT has suspended regular distributions, then a 5.9% Convertible Debenture holder, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion.

The 5.9% Convertible Debentures will not be redeemable by Chartwell REIT before May 1, 2010 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after May 1, 2010 but prior to May 1, 2011, the 5.9% Convertible Debentures may be redeemed by Chartwell REIT in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the trust indenture relating to the debentures (the "Indenture") is not less than 125% of the Conversion Price. On or after May 1, 2011, the 5.9% Convertible Debentures may be redeemed by Chartwell REIT in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

(In thousands of Canadian dollars, except per unit amounts)

8. Convertible debentures (continued):

Subject to regulatory approval and provided no event of default has occurred, Chartwell REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.9% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely-tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the Indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 5.9% Convertible Debentures trustee to satisfy the obligations to pay interest on the 5.9% Convertible Debentures.

As Chartwell REIT's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell REIT requires a variable number of Trust Units to be issued to satisfy the obligation, the 5.9% Convertible Debentures are recorded primarily as a liability. On issuance, Chartwell REIT has recorded a liability of $62,021, net of issue costs of $2,416, and equity, which represents the holders' option to convert the 5.9% Convertible Debentures into Trust Units, of $10,167, net of issue costs of $396.

Interest expense is recorded on the liability component of the 5.9% Convertible Debentures as a charge to income and is calculated at an effective rate of approximately 10.0% with the difference between the coupon interest rate of 5.9% and the effective rate of 10.0% credited to the liability component of the 5.9% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 5.9% Convertible Debentures.

9. Loans payable:

	September 30, 2007	December 31, 2006
Non-voting Series A preferred interests of CSH Master Care	$ 1,854	$ 2,013
Class B Common Units of CSH Massapequa Inc.	480	–
Other loans	705	290
	$ 3,039	$ 2,303

(In thousands of Canadian dollars, except per unit amounts)

9. Loans payable (continued):

Chartwell REIT has arranged for a $90,000 secured revolving operating facility. At September 30, 2007, the maximum available borrowing capacity was $65,640 (December 31, 2006 - $75,737) based on the security provided. No amounts were outstanding under this facility as at September 30, 2007.

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 28, 2008. The term may be extended with the consent of the lenders for an additional 364-day period.

10. Accounts payable and other liabilities:

	September 30, 2007	December 31, 2006
Accounts payable and accrued liabilities	$ 90,489	$ 50,808
Below-market resident contracts, net of accumulated amortization of $906 (December 31, 2006 - $5,197)	1,929	3,260
Resident deposits	4,869	4,805
Deferred consideration on business combinations	67,153	29,820
Deferred revenue (note 1(b))	7,684	10,302
	$ 172,124	$ 98,995

(In thousands of Canadian dollars, except per unit amounts)

10. Accounts payable and other liabilities (continued):

Included in deferred consideration on business combinations at September 30, 2007 are the following:

Facility	September 30, 2007	December 31, 2006
Castel Royale	$ 520	$ 520
Elizabeth Towers	1,180	1,180
Heritage Glen	21,095	20,365
Van Horne Manor	50	50
Domaine Bellerive	5,250	5,250
Devonshire Seniors Residence	–	2,455
WHSLH	3,482	–
Bristal Portfolio:		
Series A notes	3,024	–
Series B notes	9,711	–
Class A Preferred Units	8,742	–
Class B Preferred Units	9,934	–
Jardins de la Gare	1,450	–
Merrill Gardens Portfolio	2,565	–
Other	150	–
	$ 67,153	$ 29,820

In connection with the Bristal Portfolio acquisition (note 2(d)), non-interest bearing Series A and Series B notes were issued as deferred consideration for the four stabilized properties. At acquisition the Series A notes had a principal value (REIT's share) of $3,857 (U.S. $3,308) and mature on the third anniversary of the date of the acquisition. The Series B notes had a principal value (REIT's share) of $12,469 (U.S. $10,693) and mature 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 Bristal Portfolio acquisition (note 2(d)), 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.

10. Accounts payable and other liabilities (continued):

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. The right to a dividend on the first and second tranches began to accrue on August 1, 2007 and September 3, 2007, respectively.

Subsequent to September 30, 2007, pursuant to the put option exercised by the vendor, CSH-INGRE LLC acquired all of the outstanding Class B Common Units, all of the outstanding Class A Preferred Units and the first tranche (50,000 units) of the outstanding Class B Preferred Units of CSH Massapequa Inc. Chartwell REIT's portion of the consideration was $11,396 (U.S. $11,456) plus accrued and unpaid dividends.

CSH-INGRE LLC also received the put option notice for the second and third tranches of the Class B Preferred Units of CSH Massapequa Inc. on September 6, 2007 and October 10, 2007, respectively. CSH-INGRE LLC has 90 days from receipt of the notice to acquire the units. Chartwell REIT's share of the acquisition price of the units is $7,461 (U.S. $7,500) plus accrued and unpaid dividends.

(In thousands of Canadian dollars, except per unit amounts)

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:

	Nine-month period ended September 30, 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 period	(3,829)	(1,252)
Distributions on Class B Units of Master LP	(5,159)	(5,744)
Exchange of Class B Units of Master LP for Trust Units	(2,782)	(2,233)
Other comprehensive income (loss)	(2,078)	143
Balance, end of period	$ 50,751	$ 54,453

(In thousands of Canadian dollars, except per unit amounts)

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 DRIP	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 LTIP 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 DRIP	208,169	3,043
Trust Units issued on exchange of Class B Units of Master LP	314,955	2,782
Trust Units issued on dispositions of LTIP Units under Subscription	20,000	232
LTIP Units surrendered to Treasury	–	59
Trust Units issued on dispositions of Treasury Units	35,000	528
Trust Units issued on conversion of convertible debentures	4,808	72
Trust Units issued pursuant to secondary public offering	14,100,000	200,925
Trust Units issued pursuant to exercise of over-allotment option	2,115,000	30,139
Issue costs	–	(11,773)
Units outstanding, September 30, 2007	91,374,471	$ 1,100,172

(In thousands of Canadian dollars, except per unit amounts)

13. Loss per unit calculation:

	Three-month periods ended September 30, 2007		Three-month periods ended September 30, 2006		Nine-month periods ended September 30, 2007		Nine-month periods ended September 30, 2006	
	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount
Loss for the period	91,230,943	$ (16,940)	62,849,747	$ (2,904)	84,323,727	$ (57,223)	56,499,574	$ (7,792)
Loss per unit (basic and diluted)		$ (0.186)		$ (0.046)		$ (0.679)		$ (0.138)

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.

Excluded from the calculation of dilutive weighted average units are the following weighted average units:

	Three-month periods ended September 30, 2007	Three-month periods ended September 30, 2006	Nine-month periods ended September 30, 2007	Nine-month periods ended September 30, 2006
LTIP Units under Subscription	2,406,676	2,017,995	2,445,716	1,657,799
Class B Units of Master LP	6,482,223	5,397,282	6,417,697	5,322,514
Assumed conversion of convertible debentures	12,623,398	–	10,764,568	–

(In thousands of Canadian dollars, except per unit amounts)

14. Facility operating leases:

Through its acquisition of a 49% interest in WHSLH (note 2(c)), 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.

Chartwell REIT also acquired a leasehold interest in two seniors housing facilities in Florida pursuant to the acquisition of the Merrill Gardens Portfolio (note 2(b)).

A summary of facility lease expense is as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2007	2006	2007	2006
Lease payments	$ 9,712	$ –	$ 29,484	$ –
Adjustment to record lease expense on a straight-line basis over the lease term	1,853	–	6,253	–
Facility lease expense	$ 11,565	$ –	$ 35,737	$ –

(In thousands of Canadian dollars, except per unit amounts)

15. Related party transactions and balances:

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

(a) Spectrum:

	Three-month periods ended September 30, 2007	2006	Nine-month periods ended September 30, 2007	2006
Mezzanine loan interest (note 4(a))	$ 1,346	$ 1,379	$ 3,898	$ 3,785
Development fees	1,861	1,248	3,270	4,152
Operations management fees	387	280	1,094	558
Financing fees	–	240	–	627
Other fees	483	44	483	628

Other assets as at September 30, 2007 include $4,296 (December 31, 2006 - $2,515) due from Spectrum. Subsequent to September 30, 2007, $1,333 of this balance was paid.

Included in distributions payable at September 30, 2007 is $273 (December 31, 2006 - $273) due to Spectrum.

(b) Melior:

	Three-month periods ended September 30, 2007	2006	Nine-month periods ended September 30, 2007	2006
Mezzanine loan interest (note 4(b))	$ 1,494	$ 1,085	$ 5,637	$ 3,018
Development fees	–	644	–	1,744
Referral and due diligence fees paid (note 18(h))	434	427	959	2,101
Fees paid for net increase in economic value created (note 18(h))	174	216	1,793	216

15. Related party transactions and balances (continued):

At September 30, 2007, accounts receivable and other assets include $2,322 (December 31, 2006 - $2,613) due from Melior. Subsequent to September 30, 2007, $231 of the outstanding amounts receivable from Melior was collected.

At September 30, 2007, Chartwell REIT had accounts payable due to Melior of $1,537 (December 31, 2006 - nil) relating to referral fees, management fees, incentive fees and legal fees.

(c) Included in accounts receivable at September 30, 2007 is $74 (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 September 30, 2007 is a vendor take-back mortgage of $1,392 (December 31, 2006 - $2,270) due to an officer of Chartwell REIT. During the three-month and nine-month periods ended September 30, 2007, the REIT incurred interest expense of $26 and $92 (three-month and nine-month periods ended September 30, 2006 -$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.

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.

(In thousands of Canadian dollars, except per unit amounts)

16. Segmented information (continued):

	Three-month period ended September 30, 2007				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 61,422	$ 39,095	$ 5,524	$ 64,269	$ 170,310
Direct operating and facility lease expenses	37,809	33,477	994	52,525	124,805
Income before the undernoted	23,613	5,618	4,530	11,744	45,505
Interest expense	8,196	2,712	–	10,628	21,536
Income before the following	15,417	2,906	4,530	1,116	23,969
Depreciation and amortization	14,503	4,684	423	12,734	32,344
Write-down in carrying value of assets	–	–	–	–	–
Gain on sale of assets	(11)	–	–	–	(11)
	$ 925	$ (1,778)	$ 4,107	$ (11,618)	(8,364)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					6,921
General, administrative and trust expenses					(5,832)
Interest on convertible debentures					(3,947)
Unrealized foreign exchange loss and losses on derivative financial instruments					(4,898)
Non-controlling interest					982
Future income tax expense					(1,802)
Loss for the period					$ (16,940)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 34,370	$ 10,853	$ –	$ –	$ 45,223
Capital improvements	7,718	929	119	2,551	11,317

(In thousands of Canadian dollars, except per unit amounts)

16. Segmented information (continued):

	Three-month period ended September 30, 2006				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 46,850	$ 23,178	$ 3,252	$ 16,688	$ 89,968
Direct operating and facility lease 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 following	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)
	$ (1,987)	$ 407	$ 1,186	$ (3,030)	(3,424)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					4,760
General, administrative and trust expenses					(4,629)
Interest on convertible debentures					–
Unrealized foreign exchange gain and gains on derivative financial instruments					157
Non-controlling interest					232
Future income expense					–
Loss for the period					$ (2,904)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 70,610	$ 31,014	$ –	$ 10,821	$ 112,445
Capital improvements	6,880	349	–	526	7,755

(In thousands of Canadian dollars, except per unit amounts)

16. Segmented information (continued):

	Nine-month period ended September 30, 2007				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 178,093	$ 93,293	$ 10,875	$ 169,783	$ 452,044
Direct operating and facility lease expenses	110,379	81,349	2,884	143,471	338,083
Income before the undernoted	67,714	11,944	7,991	26,312	113,961
Interest expense	25,338	5,560	–	25,402	56,300
Income before the following	42,376	6,384	7,991	910	57,661
Depreciation and amortization	43,342	8,244	1,369	31,105	84,060
Write-down in carrying value of assets	–	–	172	–	172
Gain on sale of assets	(331)	–	–	–	(331)
	$ (635)	$ (1,860)	$ 6,450	$ (30,195)	(26,240)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					19,828
General, administrative and trust expenses					(15,895)
Interest on convertible debentures					(9,751)
Unrealized foreign exchange loss and losses on derivative financial instruments					(10,803)
Non-controlling interest					3,829
Future income expense					(18,191)
Loss for the period					$ (57,223)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 125,908	$ 136,916	$ –	$ 567,748	$ 830,572
Capital improvements	17,794	2,861	1,011	4,894	26,560

(In thousands of Canadian dollars, except per unit amounts)

16. Segmented information (continued):

	Nine-month period ended September 30, 2006				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 130,668	$ 59,994	$ 10,654	$ 36,296	$ 237,612
Direct operating and facility lease 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 following	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)
	$ (8,192)	$ 1,375	$ 5,111	$ (5,970)	(7,676)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					12,173
General, administrative and trust expenses					(12,228)
Interest on convertible debentures					–
Unrealized foreign exchange loss and losses on derivative financial instruments					(741)
Non-controlling interest					680
Future income expense					–
Loss for the period					$ (7,792)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 133,314	$ 43,669	$ –	$ 188,372	$ 365,355
Capital improvements	16,262	977	–	818	18,057

(In thousands of Canadian dollars, except per unit amounts)

16. Segmented information (continued):

	September 30, 2007					
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,213,883	$ 327,858	$ 16,613	$ 860,878	$ 229,595	$ 2,648,827
Total liabilities	778,831	216,917	–	604,978	206,816	1,807,542

	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	680,336	110,791	6,813	290,404	127,450	1,215,794

(In thousands of Canadian dollars, except per unit amounts)

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:

	September 30, 2007	December 31, 2006
Assets	$ 690,295	$ 439,660
Liabilities	516,796	323,517

	Three-month periods ended September 30,		Nine month periods ended September 30,	
	2007	2006	2007	2006
Revenue	$ 48,676	$ 13,087	$ 146,032	$ 39,341
Expenses, including depreciation and amortization of $9,711 and $25,176 (2006 - $4,908 and $13,205), respectively	54,746	15,783	166,684	45,552
Loss for the period	(6,070)	(2,696)	(20,652)	(6,211)
Cash provided by (used in):				
Operating activities	$ (4,219)	$ 6,121	$ 14,218	$ 24,242
Financing activities	61,170	9,074	247,228	166,327
Investing activities	(52,941)	(15,107)	(247,164)	(190,806)

Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to $516,796. The assets of these joint ventures are available to satisfy these liabilities.

(In thousands of Canadian dollars, except per unit amounts)

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

(b) Variable interest entities:

At September 30, 2007, Chartwell REIT holds variable interests in 20 (December 31, 2006 - 18) variable interest entities. 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 $471,803 (December 31, 2006 - $419,187).

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

As of September 30, 2007, Chartwell REIT had mezzanine loans receivable of $68,317 (December 31, 2006 - $62,708) from these entities. During the three-month and nine-month periods ended September 30, 2007, Chartwell REIT earned $2,151 and $7,292 (three-month and nine-month periods ended September 30, 2006 - $1,088 and $3,942), respectively, in interest from these entities.

18. Commitments and contingencies:

(a) Operating leases of seniors housing facilities:

Chartwell REIT has a leasehold interest in 25 facilities through the acquisition of a 49% interest in WHSLH (note 2(c)) and a leasehold interest in two facilities acquired with the Merrill Gardens Portfolio (note 2(b)). 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	$ 9,032
2008	37,437
2009	38,638
2010	39,879
2011	41,162
Thereafter	344,719
	$ 510,867

18. Commitments and contingencies (continued):

(b) Other 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 $958 to $1,004 over the term of the lease.

Pursuant to the RegencyCare Portfolio acquisition (note 2(a)), the REIT assumed one land lease expiring August 31, 2044 with annual payments of $100 through to August 31, 2024 and $120 for the remainder of the term, and one land lease expiring May 31, 2048 with annual payments of $138, negotiated to market every 15 years thereafter. Chartwell REIT's share is 50% of the amounts due under the lease.

(c) Acquisitions:

As of September 30, 2007, Chartwell REIT is committed to acquire varying interests in two seniors housing facilities in the United States for an aggregate purchase price of approximately $24,074 (U.S. $24,200) and one seniors housing facility in Canada for an aggregate purchase price of $6,500.

(d) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As at September 30, 2007, the remaining commitments under these contracts amounted to approximately $28,942.

As at September 30, 2007, Chartwell REIT has entered into fixed-price natural gas contracts with a third-party natural gas supplier for $2,053 to provide gas to its facilities.

18. Commitments and contingencies (continued):

(e) At September 30, 2007, contingent consideration on acquisitions of properties, not currently recognized elsewhere in these consolidated financial statements, amounted to $7,695 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 one property is entitled to receive an additional $1,000 contingent upon the property achieving predetermined operating income increases over the three-year period following acquisition.

(f) Mezzanine loans receivable:

As at September 30, 2007, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of $12,906 (December 31, 2006 - $41,577) (note 4).

Borrowers of 16 mezzanine loans can obligate Chartwell REIT to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

(g) Letters of credit:

As at September 30, 2007, Chartwell REIT was contingently liable for letters of credit in the amount of $1,940 (December 31, 2006 - $639).

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(c)).

(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.

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 September 30, 2007, distributions of $8,905, including $567 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 during the three-month and nine-month periods ended September 30, 2007 (note 2) was partially financed through the issuance of Class B Units of Master LP of nil and $10,145 (three-month and nine-month periods ended September 30, 2006 - nil and $2,624), respectively, the issuance of Class B Common Units of a subsidiary of CSH-INGRE LLC of nil and $663 (three-month and nine-month periods ended September 30, 2006 - nil and nil), respectively, deferred consideration of nil and $44,005 (three-month and nine-month periods ended September 30, 2006 - $1,180 and $1,700), respectively, and the discharge of mezzanine loans receivable of nil and $1,688 (three-month and nine-month periods ended September 30, 2006 - nil and $2,758), respectively. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

19. Supplemental cash flow information (continued):

(c) During the three-month and nine-month periods ended September 30, 2007, distributions of $664 and $1,930 (three-month and nine-month periods ended September 30, 2006 - $505 and $1,288), respectively, and interest of $273 and $822 (three-month and nine-month periods ended September 30, 2006 - $233 and $558), 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.

(d) During the three-month and nine-month periods ended September 30, 2007, Trust Units valued at $1,180 and $3,043 (three-month and nine-month periods ended September 30, 2006 - $695 and $1,704), respectively, were issued pursuant to the DRIP. This amount has been excluded from financing activities on the consolidated statements of cash flows.

(e) During the three-month and nine-month periods ended September 30, 2007, interest paid amounted to $21,330 and $56,846 (three-month and nine-month periods ended September 30, 2006 - $13,592 and $31,182), respectively.

(f) During the three-month and nine-month periods ended September 30, 2007, cash distributions on Trust Units amounted to $21,231 and $63,720 (three-month and nine-month periods ended September 30, 2006 - $17,178 and $46,786), respectively. 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.

(g) During the three-month period ended September 30, 2007, Chartwell REIT applied $41,919 received from ING against net assets of $42,398, related to the RegencyCare LTC Facilities, acquired by ING from Chartwell REIT. These amounts have been excluded from the consolidated statement of cash flows.

(In thousands of Canadian dollars, except per unit amounts)

20. Income taxes:

	Three-month periods ended September 30, 2007	Three-month periods ended September 30, 2006	Nine-month periods ended September 30, 2007	Nine-month periods ended September 30, 2006
Future income tax expense	$ 1,802	$ –	$ 18,191	$ –

Due to the SIFT Rules (note 1(d)), Chartwell REIT commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, including those related to its subsidiary trust, that are expected to reverse in or after 2007. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT Rules resulted in Chartwell REIT recording a future income tax expense of $1,802 and $18,191 for the three-month and nine-month periods ended September 30, 2007, respectively. The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are as follows as at September 30, 2007:

Future income tax assets:	
Mortgages payable	$ 6,354
Issue costs	10,191
Other	4,228
	20,773
Future income tax liabilities:	
Properties	(25,542)
Management contracts, resident contracts customer relationships and other intangibles	(14,030)
Other	(4,298)
	(43,870)
Net future income tax liability	$ (23,097)

On the acquisition of the RegencyCare Portfolio, Chartwell REIT recorded a future tax liability of $4,904.

20. Income taxes (continued):

Chartwell REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at rate of approximately 38%. At September 30, 2007, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes of approximately $941 (U.S. $946) expiring in 2025, $2,070 (U.S. $2,081) expiring in 2026 and $23,425 (U.S. $23,548) expiring in 2027, totalling $26,436 (U.S. $26,575).

As at September 30, 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 $9,885 (U.S. $9,937) against which a valuation allowance of $9,885 (U.S. $9,937) 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 September 30, 2007, through its self-sustaining United States operations, 33% (December 31, 2006 - 19%) of Chartwell REIT's assets and 37% (December 31, 2006 - 26%) of Chartwell REIT's mortgages payable were held in the United States and for the three-month and nine-month periods ended September 30, 2007, 38% and 38% (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. dollar-denominated financial instruments which are not a component of the self-sustaining U.S. operations.

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

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 consolidated financial statements. The U.S. operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk.

(b) Interest rate risk:

Interest rate risk arises with changes in interest costs, which affect Chartwell REIT's floating rate debt on an ongoing basis and its fixed-rate debt upon renewal. At September 30, 2007, $20,338 (December 31, 2006 - $78,563) 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 contract as at September 30, 2007 is a loss position of $569, which is included in accrued liabilities on the consolidated balance sheet (note 10). Included in other comprehensive loss for the three-month and nine-month periods ended September 30, 2007 is a loss of $266 and a gain of $239, respectively, that relates to the effective portion of the net change in fair value of interest rate swaps designated as hedges.

(In thousands of Canadian dollars, except per unit amounts)

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

(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.

(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.

	September 30, 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)	$ 106,837	$ 103,057
Capital funding receivable (ii)	48,580	49,163
Financial liabilities:		
Mortgages payable (iii)	1,420,660	1,425,559
Debt component of convertible debentures (iv)	179,717	197,926

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.

(In thousands of Canadian dollars, except per unit amounts)

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

(i) The fair value of mezzanine loans receivable is an estimate based on the rates currently charged on Chartwell REIT's mezzanine loans. 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.

(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 debentures is based on market quotes. The carrying value of the convertible debentures is recorded as financial liability and equity as follows:

Liability	$ 179,717
Equity	14,878
	$ 194,595

Management has not separately estimated the market value of the liability and equity components of the convertible debentures 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 and nine-month periods ended September 30, 2007, the REIT received approximately $22,848 and $54,271 (three-month and nine-month periods ended September 30, 2006 - $18,430 and $42,043), respectively, in respect of these licenses, which has been recorded as resident revenue.

22. Guarantees:

At September 30, 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 September 30, 2007, $18,228 (December 31, 2006 - $18,560) of the loans was 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, subject to rental achievement provisions.

At September 30, 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 September 30, 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 $45,927 (December 31, 2006 - $45,516) was outstanding at September 30, 2007. In the opinion of management, at September 30, 2007, the value of each of these properties exceeds the respective total amount of debt outstanding.

23. Subsequent event:

Subsequent to September 30, 2007, Chartwell REIT advanced $2,216 of mezzanine loans to Spectrum, Melior and Spectrum's joint venture partners.