

Consolidated Financial Statements  
(In Canadian dollars)

**CHARTWELL SENIORS  
HOUSING REAL ESTATE  
INVESTMENT TRUST**

Three-month and nine-month periods  
ended September 30, 2010 and 2009  
(Unaudited)

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

(In thousands of Canadian dollars)

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
<b>Assets</b>		
Properties (note 3)	\$ 2,396,249	\$ 2,176,111
Mezzanine loans receivable (note 4)	37,151	55,323
Limited life intangible assets (note 5)	37,980	32,047
Cash and cash equivalents	14,865	105,677
Other assets (note 6)	44,072	50,079
Capital funding receivable	64,723	43,824
Licences	40,484	25,650
Assets held for sale (note 7)	88,630	109,963
	<hr/>	<hr/>
	\$ 2,724,154	\$ 2,598,674

## Liabilities and Unitholders' Equity

### Liabilities:

Mortgages payable (note 8(a))	\$ 1,730,325	\$ 1,550,478
Convertible debentures	192,542	188,996
Accounts payable and other liabilities (note 9)	92,518	79,941
Deferred consideration on business combinations	13,066	12,674
Distributions payable	5,878	5,857
Future income tax liabilities	21,223	18,167
Liabilities held for sale (note 7)	63,258	77,147
	<hr/>	<hr/>
	2,118,810	1,933,260
Non-controlling interest (note 10)	6,438	7,813
Unitholders' equity	598,906	657,601
Commitments (note 18)		
Subsequent events (notes 4, 6, 8 and 20)		
	<hr/>	<hr/>
	\$ 2,724,154	\$ 2,598,674

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 (Loss)

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

(Unaudited)

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009	2010	2009
<b>Revenue:</b>				
Resident	\$ 181,182	\$ 157,596	\$ 508,847	\$ 478,611
Management and other fees (note 13)	991	1,912	3,850	5,557
Mezzanine loan interest (note 13)	1,233	1,432	4,034	6,763
Bank interest and other	1,015	689	3,351	2,178
Below-market lease amortization	184	182	552	712
	184,605	161,811	520,634	493,821
<b>Expenses:</b>				
Direct operating	129,201	110,623	358,913	337,414
General, administrative and trust	5,130	4,425	14,631	16,067
	134,331	115,048	373,544	353,481
	50,274	46,763	147,090	140,340
Interest expense	28,317	26,063	80,169	79,515
Property lease expense	548	588	1,643	1,999
	28,865	26,651	81,812	81,514
	21,409	20,112	65,278	58,826
Realized foreign exchange loss (gain)	45	(241)	58	(5,043)
Unrealized loss on derivative financial instruments and unrealized foreign exchange loss	1,926	4,089	1,119	11,184
Depreciation of properties	19,901	17,546	56,188	53,276
Amortization of limited life intangible assets	2,980	7,559	12,436	27,725
Provision for impairment of mezzanine loans and accounts receivable (note 4)	–	–	–	30,684
	24,852	28,953	69,801	117,826
Loss before income taxes	(3,443)	(8,841)	(4,523)	(59,000)
<b>Income taxes (recovery) (note 16):</b>				
Current	84	92	246	5
Future	(1,303)	(4,234)	782	(7,175)
	(1,219)	(4,142)	1,028	(7,170)
Loss before non-controlling interest	(2,224)	(4,699)	(5,551)	(51,830)
Non-controlling interest (note 10)	33	113	81	1,091
Loss from continuing operations	(2,191)	(4,586)	(5,470)	(50,739)
Loss from discontinued operations (note 7)	(1,654)	(4,364)	(4,768)	(13,270)
Loss for the period	(3,845)	(8,950)	(10,238)	(64,009)
<b>Other comprehensive income (loss):</b>				
Unrealized foreign currency loss on the translation of self-sustaining foreign operations	(3,972)	(9,807)	(2,047)	(16,064)
Net change in fair value of derivatives designated as cash flow hedges (net of future income taxes of nil; 2009 - \$147)	(39)	48	(90)	406
Non-controlling interest	57	207	30	329
	(3,954)	(9,552)	(2,107)	(15,329)
<b>Comprehensive loss</b>	<b>\$ (7,799)</b>	<b>\$ (18,502)</b>	<b>\$ (12,345)</b>	<b>\$ (79,338)</b>
<b>Loss per Unit (note 12):</b>				
<b>Basic and diluted:</b>				
Continuing operations	\$ (0.02)	\$ (0.05)	\$ (0.04)	\$ (0.52)
Discontinued operations	(0.01)	(0.04)	(0.04)	(0.13)

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, 2010	Trust Units issued, net (note 11)	LTIP Units under subscription (note 11)	LTIP instalment loan receivable	Losses	Accumulated other comprehensive loss	Distributions	Convertible debentures/ other equity components	Total
Unitholders' equity, January 1, 2010	\$ 1,307,016	\$ 31,333	\$ (23,460)	\$ (281,237)	\$ (13,866)	\$ (380,494)	\$ 18,309	\$ 657,601
Loss for the period	—	—	—	(10,238)	—	—	—	(10,238)
Other comprehensive loss	—	—	—	—	(2,107)	—	—	(2,107)
Distributions to unitholders	—	—	—	—	—	(51,913)	—	(51,913)
Units issued under the Deferred Trust Unit Plan	—	—	—	—	—	—	443	443
Issuance of Trust Units issued under the Distribution Reinvestment Program ("DRIP")	2,734	—	—	—	—	—	—	2,734
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	435	—	—	—	—	—	—	435
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of Units transferred to Treasury	1,694	(1,272)	671	—	—	—	71	1,164
Interest on instalment loan receivable	—	—	(137)	—	—	—	—	(137)
Distributions applied against instalment loan receivable	—	—	924	—	—	—	—	924
<b>Unitholders' equity, September 30, 2010</b>	<b>\$ 1,311,879</b>	<b>\$ 30,061</b>	<b>\$ (22,002)</b>	<b>\$ (291,475)</b>	<b>\$ (15,973)</b>	<b>\$ (432,407)</b>	<b>\$ 18,823</b>	<b>\$ 598,906</b>

Nine-month period ended September 30, 2009	Trust Units issued, net (note 11)	LTIP Units under subscription (note 11)	LTIP instalment loan receivable	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components	Total
Unitholders' equity, January 1, 2009	\$ 1,137,031	\$ 34,099	\$ (26,485)	\$ (200,116)	\$ 3,415	\$ (312,783)	\$ 15,073	\$ 650,234
Loss for the period	—	—	—	(64,009)	—	—	—	(64,009)
Other comprehensive income	—	—	—	—	(15,329)	—	—	(15,329)
Distributions to unitholders	—	—	—	—	—	(51,610)	—	(51,610)
Units issued under the Deferred Trust Unit plan	—	—	—	—	—	—	531	531
Issuance of Trust Units issued under the DRIP	4,368	—	—	—	—	—	—	4,368
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	4,965	—	—	—	—	—	—	4,965
Trust Units issued under the LTIP, net of Trust Units transferred to Treasury	1,200	(2,602)	1,852	—	—	—	616	1,066
Interest on instalment loan receivable	—	—	(771)	—	—	—	—	(771)
Distributions applied against instalment loan receivable	—	—	1,461	—	—	—	—	1,461
<b>Unitholders' equity, September 30, 2009</b>	<b>\$ 1,147,564</b>	<b>\$ 31,497</b>	<b>\$ (23,943)</b>	<b>\$ (264,125)</b>	<b>\$ (11,914)</b>	<b>\$ (364,393)</b>	<b>\$ 16,220</b>	<b>\$ 530,906</b>

See accompanying notes to consolidated financial statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

## Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (3,845)	\$ (8,950)	\$ (10,238)	\$ (64,009)
Items not affecting cash:				
Depreciation and amortization	22,881	28,072	71,059	90,084
Gain on sale of assets	—	—	(4,394)	—
Below-market lease amortization	(184)	(243)	(552)	(985)
Adjustment to record lease expense on a straight-line basis over the lease term	—	1,553	—	4,979
Non-cash compensation expense	375	99	787	389
Unrealized loss on derivative financial instruments and unrealized foreign exchange loss	1,926	4,089	1,119	11,184
Non-controlling interest	(58)	(218)	(151)	(1,377)
Amortization of financing expenses	1,450	1,570	4,465	4,496
Accretion adjustment to convertible debenture liability	832	763	2,442	2,241
Amortization of debt discounts	291	253	524	788
Amortization of mezzanine placement fees	(135)	23	(635)	(811)
Amortization of legal costs integral to mezzanine lending activities	—	124	52	434
Provision for impairment of mezzanine loans and accounts receivable	—	—	—	30,684
Write-down of assets held for sale to fair value less costs to sell	2,500	—	8,600	—
Future income taxes	(1,303)	(4,234)	782	(7,175)
Change in non-cash operating items (note 15)	12,956	2,741	5,555	(13,930)
	37,686	25,642	79,415	56,992
Financing activities:				
Proceeds from mortgage financing	9,438	14,839	11,870	32,378
Proceeds from (repayment of) loans payable and revolving operating credit facility	—	(6,000)	—	14,000
Mortgage principal repayments	(10,426)	(8,325)	(66,307)	(26,925)
Financing costs	(679)	(1,004)	(2,591)	(4,833)
Redemption of non-voting preferred interests of CSH Master Care LLC	—	(260)	—	(260)
Distributions paid	(16,086)	(15,648)	(48,367)	(48,015)
Distributions paid to non-controlling interest unitholders	(249)	(341)	(759)	(1,216)
Deposits received under LTIP and repayment of LTIP instalment loan receivable	28	634	965	645
	(17,974)	(16,105)	(105,189)	(34,226)

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows (continued)

(In thousands of Canadian dollars)

(Unaudited)

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Investing activities:				
Acquisition of assets, net of debt assumed and units issued (note 2)	(2,882)	–	(47,241)	(1,766)
Additions to properties	(11,405)	(11,376)	(25,866)	(31,131)
Proceeds from disposal	–	–	2,786	–
Amounts received under income guarantees	–	151	133	412
Mezzanine loan repayments	–	–	2,780	–
Restricted cash and deposits in escrow	1,217	255	(151)	1,931
Proceeds from capital funding receivables	911	549	2,155	1,622
	(12,159)	(10,421)	(65,404)	(28,932)
Foreign exchange gain on U.S. dollar-denominated cash	(183)	(472)	(134)	(1,032)
Increase (decrease) in cash and cash equivalents	7,370	(1,356)	(91,312)	(7,198)
Cash and cash equivalents, beginning of period:				
Continuing operations	7,765	(765)	105,677	3,071
Discontinued operations	496	5,453	1,266	7,459
	8,261	4,688	106,943	10,530
Cash and cash equivalents, end of period	\$ 15,631	\$ 3,332	\$ 15,631	\$ 3,332
Represented by:				
Continuing operations	\$ 14,865	\$ (711)	\$ 14,865	\$ (711)
Discontinued operations	766	4,043	766	4,043
	\$ 15,631	\$ 3,332	\$ 15,631	\$ 3,332

Supplemental cash flow information (note 15)

See accompanying notes to consolidated financial statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Three-month and nine-month periods ended September 30, 2010 and 2009

(Unaudited)

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

## 1. Significant accounting policies:

### (a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian 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, 2009, except as disclosed below.

These consolidated financial statements do not include all of the disclosures required by Canadian GAAP applicable to annual financial statements and should be read in conjunction with the annual audited consolidated financial statements and the accompanying notes included in the 2009 Annual Report.

### (b) Restricted Unit plan:

In 2008, Chartwell approved the adoption of a Restricted Unit plan which was implemented in 2009. Under the plan, qualified senior employees are granted notional Trust Units on an annual basis which will vest three years after the date of any grant and will be paid out in cash. The notional Trust Units earn additional notional Trust Units related to distributions that would otherwise have been paid if Trust Units had been issued on the date of the grant. The number of notional Trust Units issued in regard to distributions is based on the fair market value of the Trust Units, as defined by the plan, on the date distributions are paid. Such grants are based on an individual's performance as compared to goals set at the beginning of a given year and intended to supplement awards under the annual bonus plan. Restricted Units are recognized as compensation expense evenly over the vesting period, with the corresponding amount recorded as a liability on the consolidated balance sheet. The liability is adjusted to fair market value based on the trading value of Trust Units at each reporting date.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## 1. Significant accounting policies (continued):

(c) Future accounting changes:

(i) Multiple deliverable revenue arrangements:

In December 2009, The Canadian Institute of Chartered Accountants ("CICA") issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175").

EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, address some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. The new standard is effective for the Trust's interim and annual consolidated financial statements commencing on January 1, 2011 with early adoption permitted as of the beginning of a fiscal year. Chartwell is assessing the impact of the new standard on its consolidated financial statements.

(ii) Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued three new standards:

Section 1582, Business Combinations:

This section replaces the former Section 1581, Business Combinations, and provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, Business Combinations (January 2008). The new section expands the definition of a business subject to an acquisition and establishes significant new guidelines on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting and such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## 1. Significant accounting policies (continued):

Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests ("Section 1602"):

These two sections replace Section 1600, Consolidated Financial Statements. These two sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). The new sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new sections also require non-controlling interest to be presented as a separate component of unitholders' equity. Under Section 1602, consolidated net income and other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

The new standards are applicable to Chartwell prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Early adoption is permitted, if all three sections are applied at the same time. At present, Chartwell does not expect to adopt these sections earlier than the effective date.

### (iii) Harmonizing of Canadian and international standards:

In February 2008, the Canadian Accounting Standards Board issued an exposure draft proposing that accounting standards in Canada for publicly accountable profit-oriented enterprises will converge with IFRS for interim and annual reporting periods beginning on or after January 1, 2011. The Trust's first annual IFRS consolidated financial statements will be for the year ending December 31, 2011 and will include the comparative period for the year ending December 31, 2010. Starting with the first quarter of 2011, the Trust will provide unaudited consolidated financial statements in accordance with IFRS, including comparative figures for 2010. The impact of the transition to IFRS on Chartwell's consolidated financial statements has not yet been determined.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## 2. Acquisitions:

(a) Acquisitions during the nine-month period ended September 30, 2010:

- (i) On March 9, 2010, pursuant to the Settlement Agreement ("Settlement Agreement") with entities affiliated with Le Groupe Melior ("Melior"), Chartwell acquired, through foreclosure proceedings, three operating properties and one parcel of vacant land from Melior. In addition, Chartwell acquired from Melior another parcel of land for \$1,750. This cash was used to pay off the existing debt on the land.

In accordance with Canadian GAAP, assets acquired through foreclosure should be recorded at their fair value and any difference between the carrying amounts of the loans prior to foreclosure and the fair value of such assets recognized as a gain or loss. The above foreclosures did not result in any gain or loss as the carrying values of the mezzanine loans receivable were reduced to the underlying fair value of the properties that secured these mezzanine loans.

- (ii) On May 14, 2010, Chartwell acquired a 50% interest in six retirement communities in the United States (the "Meridian Portfolio") from entities affiliated with ING Real Estate Investment Management Australia PYT ("ING"). The purchase price before closing costs was U.S. \$110,500 and was settled through the assumption of debt of U.S. \$74,649, not including mark to market adjustments, settlement of outstanding receivable of U.S. \$6,000, with the balance, net of working capital adjustments, being paid in cash. Prior to the completion of this transaction, Chartwell owned a 50% interest in the Meridian Portfolio.
- (iii) On June 1, 2010, Chartwell acquired a 50% interest in eight long-term care properties in Ontario (the "Regency Portfolio") from ING. The purchase price before closing costs was \$79,500 and was settled through the assumption of debt of \$68,013, not including mark to market adjustments, with the remaining balance, net of working capital adjustments, settled in cash. Prior to the completion of this transaction, Chartwell owned a 50% interest in the Regency Portfolio.
- (iv) On June 1, 2010, Chartwell acquired a 50% interest in a retirement property in Vaughan, Ontario from Spectrum Seniors Housing Development LP ("Spectrum"). The purchase price before closing costs, was \$17,350 and was settled through the assumption of debt of \$15,076 with the remaining balance due, net of working capital adjustments, being paid in cash.

# **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## **2. Acquisitions (continued):**

- (v) On September 1, 2010, Chartwell acquired a 50% interest in a retirement facility in Oakville, Ontario from Spectrum. The purchase price before closing costs was \$18,500 and was settled through the assumption of debt of \$12,800, settlement of an outstanding mezzanine loan of \$1,875, settlement of outstanding accounts receivable of \$940, with the remaining balance, net of working capital adjustments, being paid in cash.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2010 and 2009

(Unaudited)

### 2. Acquisitions (continued):

The following table summarizes the preliminary allocation of the purchase price (including costs of the acquisitions) to each major class of assets acquired and liabilities assumed at the date of acquisition:

Date of acquisition Segment	March 9, 2010 Canadian Retirement Operations	May 14, 2010 United States Retirement Operations	June 1, 2010 Canadian Long-term Care Operations	June 1, 2010 Canadian Retirement Operations	September 1, 2010 Canadian Retirement Operations	Total
Location	Province of Quebec (3 retirement homes - 598 suites)	Colorado and Texas (6 retirement homes - 1,045 suites)	Province of Ontario (8 retirement homes - 1,384 suites)	Province of Ontario (1 retirement home - 139 suites)	Province of Ontario (1 retirement home - 147 suites)	
Properties	\$ 81,782	\$ 100,524	\$ 48,036	\$ 17,500	\$ 19,146	\$ 266,988
Management contracts, resident contracts, customer relationships and other intangibles	3,821	11,145	2,664	250	553	18,433
Capital subsidy receivable	—	—	23,054	—	—	23,054
Licences	—	—	14,834	—	—	14,834
Future income tax asset (liabilities)	2,277	—	(3,691)	—	(860)	(2,274)
Mortgages assumed	(67,707)	(74,353)	(74,315)	(15,076)	(12,800)	(244,251)
Other assets (liabilities)	(5,105)	(2,812)	2,706	(23)	(342)	(5,576)
<b>Net assets acquired</b>	<b>\$ 15,068</b>	<b>\$ 34,504</b>	<b>\$ 13,288</b>	<b>\$ 2,651</b>	<b>\$ 5,697</b>	<b>\$ 71,208</b>

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2010 and 2009

(Unaudited)

### 2. Acquisitions (continued):

Date of acquisition Segment	March 9, 2010 Canadian Retirement Operations	May 14, 2010 United States Retirement Operations	June 1, 2010 Canadian Long-term Care Operations	June 1, 2010 Canadian Retirement Operations	September 1, 2010 Canadian Retirement Operations	Total
Location	Province of Quebec (3 retirement homes - 598 suites)	Colorado and Texas (6 retirement homes - 1,045 suites)	Province of Ontario (8 retirement homes - 1,384 suites)	Province of Ontario (1 retirement home - 139 suites)	Province of Ontario (1 retirement home - 147 suites)	
Discharge of mezzanine loans receivable	\$ 12,791	\$ -	\$ -	\$ -	\$ 1,875	\$ 14,666
Settlement of management contracts and accounts receivable	-	6,333	2,028	-	940	9,301
Cash consideration	1,750	27,937	9,981	2,251	2,502	44,421
Acquisition costs	527	234	1,279	400	380	2,820
<b>Total consideration</b>	<b>\$ 15,068</b>	<b>\$ 34,504</b>	<b>\$ 13,288</b>	<b>\$ 2,651</b>	<b>\$ 5,697</b>	<b>\$ 71,208</b>

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

Acquisitions completed in the nine-month period ended September 30, 2010 are subject to the final settlement of the working capital adjustments. Chartwell continues to assess the initial valuation of the net assets acquired for each of these acquisitions. Therefore, 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 and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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### 2. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2009:

During the year ended December 31, 2009, Chartwell acquired varying interests in six seniors housing communities (619 suites). The following table summarizes the allocation of the purchase price (including costs of acquisition) to each major class of assets acquired and liabilities assumed at the date of acquisition:

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Properties	\$ 78,262
Limited life intangible assets	6,414
Mortgages assumed	(60,100)
Below-market resident contracts	(593)
Other liabilities	(971)
<b>Net assets acquired</b>	<b>\$ 23,012</b>
Discharge of mezzanine loans receivable	\$ 9,327
Settlement of outstanding receivables from Spectrum	10,490
Cash consideration	1,287
Acquisition costs	1,908
<b>Total consideration</b>	<b>\$ 23,012</b>

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

Chartwell continues to assess the initial valuation of the net assets acquired for certain of these acquisitions. The purchase price allocation for accounting purposes may be adjusted in future periods for the acquisitions which were completed during the three-month period ended December 31, 2009.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 3. Properties:

	September 30, 2010			December 31, 2009		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 244,674	\$ –	\$ 244,674	\$ 224,928	\$ –	\$ 224,928
Buildings	2,303,276	237,695	2,065,581	2,032,199	194,767	1,837,432
Furniture, fixtures and equipment	93,039	61,696	31,343	84,411	52,740	31,671
	2,640,989	299,391	2,341,598	2,341,538	247,507	2,094,031
Properties under development	33,382	–	33,382	67,394	–	67,394
Land held for development	21,269	–	21,269	14,686	–	14,686
	\$ 2,695,640	\$ 299,391	\$ 2,396,249	\$ 2,423,618	\$ 247,507	\$ 2,176,111

Included in properties as at September 30, 2010 are assets under capital leases with a cost of \$131,001 (December 31, 2009 - \$133,586) and accumulated depreciation of \$13,108 (December 31, 2009 - \$10,544).

Included in properties under development is interest of \$4,709 (December 31, 2009 - \$3,726) and incremental operating costs of \$848 (December 31, 2009 - \$760) capitalized as at September 30, 2010.

During the nine-month period ended September 30, 2010, two properties with a carrying value of \$29,845 previously under development were reclassified to operating properties.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

#### 4. Mezzanine loans receivable:

The following table summarizes mezzanine loans receivable from Spectrum, Melior, Seasons and other joint venture partners:

				September 30, 2010	December 31, 2009
	Contractual interest rate	Principal amount	Lending expenses/ (deferred placement fees), net	Net balance	Net balance
Spectrum	10% - 14%	\$ 20,584	\$ 18	\$ 20,602	\$ 27,752
Melior	10% - 14%	19,188	(2,032)	17,156	36,367
Seasons	10% - 14%	8,438	(135)	8,303	7,639
Others	10% - 12%	14,295	(204)	14,091	14,073
		<u>\$ 62,505</u>	<u>\$ (2,353)</u>	60,152	85,831
Provision for impairment				(23,001)	(30,508)
				<u>\$ 37,151</u>	<u>\$ 55,323</u>

In the nine-month period ended September 30, 2010, Chartwell completed foreclosures of three operating properties and one parcel of vacant land in Quebec (note 2). As a result, mezzanine loans with a carrying amount of \$12,791 were settled. The original amount of the loans was \$22,639, which was reduced by fees recorded as a reduction of mezzanine loan balances of \$1,031, and a previously recorded impairment provision of \$8,817.

In the nine-month period ended September 30, 2010, Seasons repaid two of its mezzanine loans in the amount of \$2,383 and Spectrum made a partial repayment of one of its mezzanine loans in the amount of \$397.

During the three-month period ended September 30, 2010, one of Spectrum's mezzanine loans in the amount of \$2,607 was assumed by Seasons and one of its mezzanine loans in the amount of \$1,875 was settled on acquisition of a property (note 2).



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## 4. Mezzanine loans receivable (continued):

### (a) Spectrum:

The loans are secured by second charges or pledges of Spectrum's interest over 15 (December 31, 2009 - 18) seniors housing development properties. In addition, the loans are cross defaulted.

During the three-month period ended June 30, 2010, Chartwell agreed to extend the term of its settlement agreement with Spectrum from the original date of August 16, 2010 to December 31, 2010 to allow Spectrum more time to complete its orderly wind-down.

### (b) Melior:

The loans are secured by second mortgages over six (December 31, 2009 - 11) seniors housing development properties.

### (c) Seasons:

These loans are secured by second charges over five (December 31, 2009 - six) seniors housing development projects. In the three-month period ended September 30, 2010, Seasons acquired one property from Spectrum and assumed its mezzanine loan of \$2,607. The loan matures on March 31, 2011.

### (d) Others:

These loans are secured by second charges over 10 (December 31, 2009 - 10) seniors housing development properties.

Subsequent to September 30, 2010, Seasons and its partners notified Chartwell of their intent to repay mezzanine loans on four projects totalling \$11,661, of which Seasons' share was \$5,831 with the remaining \$5,830 included in the others category. Seasons has also notified Chartwell that they will be fully internalizing management of these four properties effective January 1, 2011.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

#### 4. Mezzanine loans receivable (continued):

Each mezzanine loan matures on the earliest of: (a) the fifth anniversary of the initial advance of the funds; (b) the date of sale of the related development property; or (c) on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development and Loan Agreements with the Borrowers. No principal amounts are due prior to maturity of each loan.

The following table represents the loan maturity schedule assuming that all outstanding mezzanine loans mature on their fifth anniversary date:

	Spectrum	Melior	Seasons	Other joint venture partners	Total
Balance of 2010	\$ 7,915	\$ 15,435	\$ 2,380	\$ 4,531	\$ 30,261
2011	5,487	–	4,183	6,462	16,132
2012	7,182	3,753	–	1,427	12,362
2013	–	–	1,875	1,875	3,750
	\$ 20,584	\$ 19,188	\$ 8,438	\$ 14,295	\$ 62,505

As of September 30, 2010, Spectrum, Melior and certain other joint venture partners continue to be in default under these mezzanine loan agreements with Chartwell. As a result, the carrying amount of these loans was reduced by \$23,001 to their estimated recoverable amount.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 5. Limited life intangible assets:

	September 30, 2010			December 31, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	\$ 1,532	\$ 207	\$ 1,325	\$ 9,308	\$ 5,266	\$ 4,042
Resident contracts	37,026	13,204	23,822	82,685	67,260	15,425
Other intangibles	21,883	9,050	12,833	20,145	7,565	12,580
	<u>\$ 60,441</u>	<u>\$ 22,461</u>	<u>\$ 37,980</u>	<u>\$ 112,138</u>	<u>\$ 80,091</u>	<u>\$ 32,047</u>

During the nine-month period ended September 30, 2010, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and other intangibles that were fully amortized by \$57,696 (December 31, 2009 - \$56,155).

### 6. Other assets:

	September 30, 2010	December 31, 2009
Accounts receivable	\$ 12,560	\$ 13,563
Due from Spectrum, net of provision for impairment of \$2,881 (December 31, 2009 - \$3,506)(a)	345	218
Due from ING	352	6,610
Prepaid expenses and deposits	11,322	9,655
Deposits in escrow	10,422	10,473
Other	9,071	9,560
	<u>\$ 44,072</u>	<u>\$ 50,079</u>

(a) Subsequent to September 30, 2010, the \$345 due from Spectrum was collected in cash.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2010 and 2009

(Unaudited)

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## 7. Discontinued operations:

On October 1, 2009, the Trust divested its 49% interest in Horizon Bay Realty LLC ("HBR"), whose assets and liabilities included: equipment, current assets, trade accounts receivable and certain other assets and liabilities and were included in the Trust's U.S. operating segment (note 14). HBR owns 50% of management company Horizon Bay Chartwell LLC ("HBC") with the remaining 50% of HBC being owned by the Trust. Upon completion of the HBR transactions, the Trust's 74.5% interest in HBC, 50% direct ownership and 24.5% indirect ownership through HBR, has been reduced to a 50% direct ownership interest. As part of the transaction, Chartwell increased its ownership interest in Horizon Bay Chartwell II LLC by 5.5%.

On June 30, 2010, the Trust disposed of one retirement community which assets and liabilities were included in the Canadian Retirement Operations segment for \$15,250. The purchaser assumed the existing debt of \$12,258 with net proceeds of \$2,786, net of working capital adjustments being received in cash. The Trust recorded a gain on sale of \$4,394 as a result of this transaction.

During the nine-month period ended September 30, 2010, the Trust committed to a plan to divest two Canadian retirement communities which assets and liabilities were previously included in the Canadian Retirement Operations segment. Accordingly, the results of operations and financial position have been presented separately as discontinued operations and assets and liabilities held for sale in the consolidated financial statements. The carrying value of these properties has been reduced by \$8,600 to the estimated fair value less costs to sell.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 7. Discontinued operations (continued):

The following table summarizes the results of operations of the above discontinued operations:

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenue	\$ 3,384	\$ 28,483	\$ 11,260	\$ 90,093
Income (loss) before undernoted items	\$ 821	\$ (4,469)	\$ (632)	\$ (13,556)
Gain on sale of assets	–	–	4,394	–
Write-down of assets held for sale to fair value less costs to sell	(2,500)	–	(8,600)	–
Non-controlling interest	25	105	70	286
	\$ (1,654)	\$ (4,364)	\$ (4,768)	\$ (13,270)

Assets and liabilities held for sale are as follows:

	September 30, 2010	December 31, 2009
Properties	\$ 86,735	\$ 107,410
Cash and cash equivalents	766	1,266
Other assets	1,129	1,287
	88,630	109,963
Mortgages payable	61,668	74,803
Accounts payable and other liabilities	1,590	2,344
	63,258	77,147
	\$ 25,372	\$ 32,816

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 8. Secured debt:

#### (a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are repayable as follows:

	Regular principal payments	Principal due on maturity	Total
Balance of 2010	\$ 8,672	\$ 56,169	\$ 64,841
2011	35,541	79,532	115,073
2012	48,375	127,174	175,549
2013	35,625	98,919	134,544
2014	31,525	132,203	163,728
2015	28,885	179,025	207,910
2016	24,747	163,846	188,593
2017	18,461	244,006	262,467
2018	19,445	32,625	52,070
2019	18,325	98,558	116,883
2020 - 2024	77,126	74,012	151,138
Thereafter	85,451	15,315	100,766
	<u>\$ 432,178</u>	<u>\$ 1,301,384</u>	1,733,562
Mark-to-market adjustment arising on acquisition			15,443
Financing costs			(18,680)
			<u>\$ 1,730,325</u>

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 8. Secured debt (continued):

	September 30, 2010	December 31, 2009
Mortgages at fixed rates:		
Mortgages	\$1,641,184	\$1,502,691
Interest rates	2.03% - 10.00%	2.03% - 10.00%
Weighted average interest rate	5.50%	5.49%
Mortgages at variable rates:		
Mortgages	\$92,378	\$53,747
Interest rates	Bankers' acceptance + 65 bps to prime plus 2.25%	Lenders' COF + 2.00% to prime plus 4.75%
Weighted average interest rate	4.48%	3.56%
Blended weighted average rate of maturing debt	5.45%	5.42%

Subsequent to September 30, 2010, Chartwell repaid two variable rate mortgages totalling \$23,700. One was due to mature in 2011 and the other was due to mature in 2015.

During the three-month and nine-month periods ended September 30, 2010, interest expense on mortgages payable amounted to \$24,074 and \$67,884 (three-month and nine-month periods ended September 30, 2009 - \$21,771 and \$67,078), respectively.

#### (b) Secured revolving operating credit facility:

Chartwell has arranged for a \$75,000 secured revolving operating credit facility (the "Credit Facility"). At September 30, 2010, the maximum available borrowing capacity under the Credit Facility was \$72,856 (December 31, 2009 - \$61,931) based on the security provided. The Credit Facility matures on June 24, 2011. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.75% or the applicable bankers' acceptance rate plus 2.75%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The Credit Facility is secured by first and second charges on specific properties. As at September 30, 2010, no amount (December 31, 2009 - nil) was outstanding under the Credit Facility.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 9. Accounts payable and other liabilities:

	September 30, 2010	December 31, 2009
Accounts payable and accrued liabilities	\$ 80,978	\$ 70,284
Below-market resident contracts, net of accumulated amortization of \$919 (December 31, 2009 - \$1,723)	826	1,467
Resident deposits	4,230	4,186
Deferred revenue	6,484	4,004
	<u>\$ 92,518</u>	<u>\$ 79,941</u>

### 10. Non-controlling interest:

The details of non-controlling interest are as follows:

	September 30, 2010	December 31, 2009
Balance, beginning of period	\$ 7,813	\$ 15,990
Non-controlling interest's share of loss for the period	(151)	(1,447)
Distributions on Class B Units of Master LP	(759)	(1,395)
Exchange of Class B Units of Master LP for Trust Units and redemptions	(435)	(4,983)
Other comprehensive loss	(30)	(352)
Balance, end of period	<u>\$ 6,438</u>	<u>\$ 7,813</u>



## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 11. Unitholders' equity:

- (a) The following Trust Units are issued and outstanding and exclude the issuance of Trust Units under LTIP ("LTIP Units"):

	Number of voting units	Amount
Balance, January 1, 2009	96,369,598	\$ 1,137,031
Trust Units issued under DRIP	1,013,922	5,074
Trust Units issued on exchange of Class B Units of Master LP	888,613	4,965
Trust Units issued on repayment of LTIP instalment receivable	120,000	1,200
Trust Units issued pursuant to public offering	27,370,000	158,746
Balance, January 1, 2010	125,762,133	1,307,016
Trust Units issued under DRIP	374,266	2,734
Trust Units issued on exchange of Class B Units of Master LP	110,528	435
Trust Units released on payment of LTIP instalment receivable	170,000	1,694
Balance, September 30, 2010	126,416,927	\$ 1,311,879

- (b) The following table summarizes LTIP Units as at September 30, 2010:

	Number of Units under subscription	Amount
Balance, January 1, 2009	2,571,990	\$ 34,099
Trust Units issued under LTIP	122,500	614
Compensation expense	–	493
Trust Units surrendered for cancellation under LTIP	(137,595)	(2,673)
Trust Units released on repayment of LTIP instalment receivable	(120,000)	(1,200)
Balance, January 1, 2010	2,436,895	31,333
Trust Units issued under LTIP	146,882	1,139
Compensation expense	–	222
Trust Units surrendered for cancellation under LTIP	(82,124)	(939)
Trust Units released on payment of LTIP instalment receivable	(170,000)	(1,694)
Balance, September 30, 2010	2,331,653	\$ 30,061

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

## 11. Unitholders' equity (continued):

### (c) Deferred Unit plan:

During 2008, the Trust implemented a deferred unit plan which was approved by unitholders at the annual general meeting held on May 21, 2009. The plan entitles independent directors, at their option, to receive all, 75%, 50% or 25% of their trustee fees in the form of Deferred Trust Units. The number awarded is based on the fair market value, as defined by the plan, of the Trust Units on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred Trust Units issued in regard to distributions is based on the fair market value of the Trust's Units, as defined in the plan, on the date distributions are paid.

Effective July 1, 2010, the deferred unit plan was amended for subsequent issuances, among other things, to provide that director fees elected to be received in deferred units would be matched on a one-for-one basis by the Trust.

The following table summarizes the Deferred Trust Unit activity for the nine-month period ended September 30, 2010:

	Units granted		Reinvested distributions		Total	
	Number of units	Amount	Number of units	Amount	Number of units	Amount
Balance, January 1, 2010	111,102	\$ 592	9,490	\$ 52	120,592	\$ 644
Activity for the nine-month period ended September 30, 2010	47,401	389	7,174	54	54,575	443
Balance, September 30, 2010	158,503	\$ 981	16,664	\$ 106	175,167	\$ 1,087

### (d) Restricted Unit plan:

As at September 30, 2010, 85,604 Restricted Units were outstanding, all of which were granted in 2010. The liability relating to these Restricted Units at September 30, 2010 was \$174.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 12. Loss per Unit calculation:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2010	2009	2010	2009
Numerator:				
Loss for the period - continuing operations	\$ (2,191)	\$ (4,586)	\$ (5,470)	\$ (50,739)
Loss for the period - discontinued operations	(1,654)	(4,364)	(4,768)	(13,270)
	<u>\$ (3,845)</u>	<u>\$ (8,950)</u>	<u>\$ (10,238)</u>	<u>\$ (64,009)</u>
Denominator:				
Denominator for basic earnings per Unit - weighted average Units	126,350,579	98,113,597	126,192,149	97,673,218
Denominator for diluted earnings per Unit - weighted average Units	126,350,579	98,113,597	126,192,149	97,673,218
Loss per unit:				
Basic and diluted - continuing operations	\$ (0.02)	\$ (0.05)	\$ (0.04)	\$ (0.52)
Basic and diluted - discontinued operations	(0.01)	(0.04)	(0.04)	(0.13)
<b>Total loss per Unit</b>	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>	<u>\$ (0.65)</u>

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 12. Loss per Unit calculation (continued):

The following items were excluded from the calculation of diluted weighted average Units as they were anti-dilutive in the respective periods:

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Trust Units issued under LTIP	2,301,777	2,777,068	2,325,170	2,697,946
Class B Units of Master LP	1,866,922	1,985,589	1,880,946	2,159,563
Assumed conversion of convertible debentures	12,623,398	12,623,398	12,623,398	12,623,398

### 13. Transactions with Spectrum:

Except as disclosed elsewhere in these consolidated financial statements, transactions with Spectrum were as follows:

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Contractual mezzanine loan interest (note 4)	\$ 506	\$ 874	\$ 1,671	\$ 3,272
Effective interest rate adjustment	–	(42)	–	(147)
Development fees	–	157	–	321
Operations management fees	288	437	949	1,458
Other fees	–	17	20	51
Interest on overdue receivables	136	117	372	351

To the extent that ultimate collection of revenue is not reasonably assured, Chartwell recognizes revenue from Spectrum only as cash is received.

# **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## **14. Segmented information:**

Chartwell monitors and operates its Canadian Retirement, Canadian Long-term Care, Canadian Management and United States Operations separately.

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

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

## 14. Segmented information (continued):

	Three-month period ended September 30, 2010				Total
	Canadian Retirement Operations	Canadian Long-term Care Operations	Canadian Management Operations	United States Operations	
Revenue	\$ 84,890	\$ 48,527	\$ 991	\$ 47,765	\$ 182,173
Below-market lease amortization	184	–	–	–	184
Direct operating expense	(54,015)	(42,107)	(1,000)	(32,079)	(129,201)
Income (loss) before the undernoted	31,059	6,420	(9)	15,686	53,156
Interest expense	(10,025)	(3,171)	–	(10,931)	(24,127)
Property lease expense	(31)	(102)	–	(415)	(548)
Income (loss) before the following	21,003	3,147	(9)	4,340	28,481
Depreciation and amortization	(12,906)	(2,839)	(109)	(7,027)	(22,881)
	<u>\$ 8,097</u>	<u>\$ 308</u>	<u>\$ (118)</u>	<u>\$ (2,687)</u>	5,600
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					2,248
General, administrative and trust expenses					(5,130)
Interest on convertible debentures					(4,190)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					(1,971)
Non-controlling interest					33
Current income tax expense					(84)
Future income tax recovery					1,303
Loss from discontinued operations, net of tax					(1,654)
<b>Loss for the period</b>					<b>\$ (3,845)</b>
Expenditures for assets by land segment:					
Acquisitions - properties, land held for development, limited life intangible assets licenses and other assets	\$ 18,497	\$ –	\$ –	\$ –	\$ 18,497
Capital improvements	3,252	4,484	–	3,669	11,405

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

## 14. Segmented information (continued):

	Three-month period ended September 30, 2009					Total
	Canadian Retirement Operations	Canadian Long-term Care Operations	Canadian Management Operations	United States Operations		
Revenue	\$ 77,090	\$ 36,503	\$ 1,912	\$ 44,003	\$ 159,508	
Below-market lease amortization	179	–	–	3	182	
Direct operating expense	(48,942)	(31,303)	(1,025)	(29,353)	(110,623)	
Income before the undernoted	28,327	5,200	887	14,653	49,067	
Interest expense	(8,875)	(2,297)	–	(10,808)	(21,980)	
Property lease expense	(24)	(51)	–	(513)	(588)	
Income before the following	19,428	2,852	887	3,332	26,499	
Depreciation and amortization	(13,061)	(1,742)	(450)	(9,852)	(25,105)	
	<u>\$ 6,367</u>	<u>\$ 1,110</u>	<u>\$ 437</u>	<u>\$ (6,520)</u>	1,394	
Items not allocated to operating segments:						
Mezzanine loan interest, bank interest and other income					2,121	
General, administrative and trust expenses					(4,425)	
Interest on convertible debentures					(4,083)	
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					(3,848)	
Non-controlling interest					113	
Current income tax expense					(92)	
Future income tax expense					4,234	
Loss from discontinued operations, net of tax					(4,364)	
Loss for the period					\$ (8,950)	
Expenditures for assets by segment:						
Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets	\$ –	\$ –	\$ –	\$ –	\$ –	
Capital improvements	7,527	324	–	3,525	11,376	

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

## 14. Segmented information (continued):

	Nine-month period ended September 30, 2010					Total
	Canadian Retirement Operations	Canadian Long-term Care Operations	Canadian Management Operations	United States Operations		
Revenue	\$ 248,522	\$ 125,369	\$ 3,850	\$ 134,956	\$ 512,697	
Below-market lease amortization	552	–	–	–	552	
Direct operating expense	(158,602)	(108,733)	(3,006)	(88,572)	(358,913)	
Income before the undernoted	90,472	16,636	844	46,384	154,336	
Interest expense	(29,232)	(7,949)	–	(30,501)	(67,682)	
Property lease expense	(95)	(226)	–	(1,322)	(1,643)	
Income before the following	61,145	8,461	844	14,561	85,011	
Depreciation and amortization	(38,725)	(6,461)	(670)	(22,768)	(68,624)	
	<u>\$ 22,420</u>	<u>\$ 2,000</u>	<u>\$ 174</u>	<u>\$ (8,207)</u>	16,387	
Items not allocated to operating segments:						
Mezzanine loan interest, bank interest and other income					7,385	
General, administrative and trust expenses					(14,631)	
Interest on convertible debentures					(12,487)	
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)					(1,177)	
Non-controlling interest					81	
Current income tax expense					(246)	
Future income tax expense					(782)	
Loss from discontinued operations, net of tax					(4,768)	
Loss for the period					\$ (10,238)	
Expenditures for assets by segment:						
Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 118,999	\$ 87,603	\$ –	\$ 108,857	\$ 315,459	
Capital improvements	14,724	6,402	–	4,740	25,866	



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

## 14. Segmented information (continued):

	Nine-month period ended September 30, 2009					Total
	Canadian Retirement Operations	Canadian Long-term Care Operations	Canadian Management Operations	United States Operations		
Revenue	\$ 229,195	\$ 107,956	\$ 5,557	\$ 141,460		\$ 484,168
Below-market lease amortization	358	–	–	354		712
Direct operating expense	(148,544)	(93,883)	(3,074)	(91,913)		(337,414)
Income before the undernoted	81,009	14,073	2,483	49,901		147,466
Interest expense	(26,243)	(6,934)	–	(34,164)		(67,341)
Property lease expense	(98)	(153)	–	(1,748)		(1,999)
Income before the following	54,668	6,986	2,483	13,989		78,126
Depreciation and amortization	(39,087)	(6,091)	(1,384)	(34,439)		(81,001)
	<u>\$ 15,581</u>	<u>\$ 895</u>	<u>\$ 1,099</u>	<u>\$ (20,450)</u>		(2,875)
Items not allocated to operating segments:						
Mezzanine loan interest, bank interest and other income						8,941
General, administrative and trust expenses						(16,067)
Interest on convertible debentures						(12,174)
Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss)						(6,141)
Provision for impairment on mezzanine loans and accounts receivable						(30,684)
Non-controlling interest						1,091
Current income taxes						(5)
Future income taxes						7,175
Loss from discontinued operations, net of tax						(13,270)
Loss for the period						\$ (64,009)
Expenditures for assets by segment:						
Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 51,874	\$ –	\$ –	\$ –		\$ 51,874
Capital improvements	17,890	2,054	–	11,187		31,131

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2010 and 2009

(Unaudited)

## 14. Segmented information (continued):

September 30, 2010						
	Canadian Retirement Operations	Canadian Long-term Care Operations	Canadian Management Operations	United States Operations	Other	Total
Total assets	\$ 1,447,093	\$ 394,458	\$ 1,067	\$ 829,168	\$ 52,368	\$ 2,724,154
Total liabilities	986,837	256,999	–	660,235	214,739	2,118,810

  

December 31, 2009						
	Canadian Retirement Operations	Canadian Long-term Care Operations	Canadian Management Operations	United States Operations	Other	Total
Total assets	\$ 1,382,074	\$ 295,161	\$ 3,476	\$ 749,087	\$ 168,876	\$ 2,598,674
Total liabilities	949,332	180,933	–	594,879	208,116	1,933,260

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

### 15. Supplemental cash flow information:

The change in non-cash operating items for the three-month and nine-month periods ended September 30 are as follows:

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Change in non-cash operating items:				
Accounts receivable	\$ 4,079	\$ 585	\$ 2,343	\$ (931)
Due from Spectrum	611	206	498	(5,530)
Due from ING	(117)	27	(165)	204
Accounts payable and other liabilities	6,805	1,247	(4,021)	223
Prepaid expenses	(16)	1,272	(550)	(1,568)
Other	1,594	(596)	7,450	(6,328)
	\$ 12,956	\$ 2,741	\$ 5,555	\$ (13,930)

The following amounts recognized during the three-month and nine-month periods ended September 30 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Discharge of mezzanine loans receivable on acquisitions	\$ 1,875	\$ –	\$ 14,666	\$ 5,676
Distributions applied against instalment loans receivable related to LTIP	308	459	924	1,461
Interest on instalment loans receivable related to LTIP	46	254	137	771
Trust Units issued pursuant to the DRIP	963	849	2,734	4,368
Deferred trust units	265	98	443	337
Accounts receivable settlement on acquisition	940	7,493	7,273	7,493

## **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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### **15. Supplemental cash flow information (continued):**

In accordance with Chartwell's Seventh Amended and Restated Declaration of Trust, the distributions to Trust unitholders will be within the discretion of the Trustees. Trustees will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions.

During the three-month and nine-month periods ended September 30, 2010, interest paid amounted to \$24,408 and \$77,041 (three-month and nine-month periods ended September 30, 2009 - \$22,534 and \$75,275), respectively.

### **16. Income taxes:**

For the three-month and nine-month periods ended September 30, 2010, Chartwell recorded a current income tax expense of \$84 and \$246 (three-month and nine-month periods ended September 30, 2009 - \$92 and \$5) and a future income tax expense (recovery) of (\$1,303) and \$782 (three-month and nine-month periods ended September 30, 2009 - (\$4,234) and \$(7,175)), respectively.

As at September 30, 2010, the net future tax assets of Chartwell's U.S. corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of \$48,608 (U.S. \$47,238) against which a valuation allowance of \$48,608 (U.S. \$47,238) has been recorded.

### **17. Financial instruments and financial risk management:**

Financial risk management objectives and policies:

In the normal course of business, Chartwell is exposed to risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for unitholder returns. Chartwell is exposed to financial risks that arise from the fluctuation of interest rates, the credit quality of its residents and borrowers pursuant to mezzanine loans, risks of changes in foreign exchange rates and rate and other regulations by provincial governments.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## **17. Financial instruments and financial risk management (continued):**

The Board of Trustees has overall responsibility for the establishment and oversight of the Trust's financial risk management framework and policies. Management is responsible for developing and monitoring the Trust's financial risk management policies and reports regularly to the Board of Trustees on its activities.

There have been no significant changes to the Trust's risk management policies and strategies since December 31, 2009.

## **18. Commitments:**

During the nine-month period ended September 30, 2010, the Trust entered into construction contracts to develop two retirement facilities. The total estimated cost of the two facilities is approximately \$33,000 and construction is expected to take approximately 18 months to complete.

During the three-month period ended September 30, 2010, Chartwell, along with its joint venture partner, jointly and severally guaranteed CMHC insured loans on two properties totalling \$30,715. The Trust has obtained appropriate security from its joint venture partner for such guarantees.

## **19. Capital structure financial policies:**

The Trust monitors capital based on the debt to adjusted gross book value ratio as required by the Declaration of Trust.

The Trust's strategy for capital management is driven by policies stated under the Declaration of Trust and external requirements from certain of its lenders. There have been no changes in the Trust's capital management strategy since December 31, 2009.

# **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

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

Three-month and nine-month periods ended September 30, 2010 and 2009  
(Unaudited)

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## **20. Subsequent events**

On October 29, 2010, Chartwell completed a public offering through a syndicate of underwriters of 13,775,000 Trust Units for gross proceeds of \$130,179. The net proceeds of approximately \$124,217, together with cash on hand, are expected to be used to redeem \$124,925 of 6% convertible unsecured subordinated debentures at par. Chartwell issued the redemption notice on October 29, 2010 and expects to complete the redemption in December 2010.

## **21. Comparative figures:**

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2010.