

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(Unaudited)

	Note	March 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current:				
Cash and cash equivalents		\$ 11,807	\$ 14,728	\$ 106,943
Trade and other receivable	8	11,283	14,595	20,783
Mezzanine loans receivable	7	12,614	14,768	28,589
Capital funding receivable	9	3,734	3,537	2,293
Other assets	10	21,710	21,037	24,524
Total current assets		61,148	68,665	183,132
Non-current:				
Other assets	10	7,186	7,421	6,059
Mezzanine loans receivable	7	–	6,035	26,734
Capital funding receivable	9	57,972	59,059	41,531
Intangible assets	6	52,080	52,740	37,684
Property, plant and equipment	5	2,436,385	2,485,176	2,361,849
Total non-current assets		2,553,623	2,610,431	2,473,857
Total assets		\$ 2,614,771	\$ 2,679,096	\$ 2,656,989
Liabilities and Unitholders' Equity				
Current liabilities:				
Revolving operating credit facility	11(b)	\$ 53,000	\$ 51,000	\$ –
Accounts payable and other liabilities	12	92,131	95,501	86,628
Distributions payable		6,525	6,505	5,857
Mortgages payable	11 (a)	143,855	116,864	127,979
Deferred consideration on business combinations	13	2,729	2,704	3,710
Total current liabilities		298,240	272,574	224,174
Non-current liabilities:				
Mortgages payable	11(a)	1,562,210	1,613,196	1,497,302
Employee benefits		786	810	881
Deferred consideration on business combinations	13	4,865	4,808	9,882
Convertible debentures		75,938	76,876	203,674
Class B Units of Mastercare LP ("Class B Units")	14	15,570	14,027	13,897
Deferred tax liabilities		36,403	40,451	45,920
Total non-current liabilities		1,695,772	1,750,168	1,771,556
Total liabilities		1,994,012	2,022,742	1,995,730
Unitholders' equity	15	620,759	656,354	661,259
Total liabilities and unitholders' equity		\$ 2,614,771	\$ 2,679,096	\$ 2,656,989

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Charles Moses" _____ Trustee

"Sidney Robinson" _____ Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Comprehensive Loss

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

(Unaudited)

	Note	Three months ended March 31,	
		2011	2010
Revenue:			
Resident		\$ 182,056	\$ 162,583
Management and other fees		849	1,446
Mezzanine loan interest		597	1,499
		183,502	165,528
Expenses:			
Direct operating		129,463	112,911
General, administrative and trust		6,161	5,578
		135,624	118,489
Earnings before the undernoted		47,878	47,039
Depreciation of property, plant and equipment	5	40,177	36,905
Amortization of intangible assets	6	596	518
		7,105	9,616
Finance income	18	1,878	1,472
Finance cost	18	(31,416)	(29,512)
Loss before income taxes		(22,433)	(18,424)
Income taxes (benefit):			
Current	19	76	80
Deferred	19	(4,045)	273
		(3,969)	353
Loss for the period		(18,464)	(18,777)
Other comprehensive loss:			
Unrealized foreign currency loss on foreign operations		(1,957)	(3,774)
Other comprehensive loss for the period, net of income taxes		(1,957)	(3,774)
Total comprehensive loss for the period		\$ (20,421)	\$ (22,551)

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Unitholders' Equity

(In thousands of Canadian dollars)

(Unaudited)

Three months ended March 31, 2011	Number of units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2011	\$ 1,439,961	\$ 26,417	\$ (21,033)	\$ (336,614)	\$ (5,156)	\$ (451,638)	\$ 4,417	\$ 656,354
Loss for the period	-	-	-	(18,464)	-	-	-	(18,464)
Other comprehensive loss	-	-	-	-	(1,957)	-	-	(1,957)
Distributions to Unitholders	-	-	-	-	-	(19,285)	-	(19,285)
Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP")	3,572	-	-	-	-	-	-	3,572
Trust Units issued on exchange of Class B Units	278	-	-	-	-	-	-	278
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury	-	(188)	164	-	-	-	24	-
Interest on LTIP receivable	-	-	(41)	-	-	-	-	(41)
Distributions applied against LTIP receivable	-	-	302	-	-	-	-	302
Unitholders' equity, March 31, 2011	\$ 1,443,811	\$ 26,229	\$ (20,608)	\$ (355,078)	\$ (7,113)	\$ (470,923)	\$ 4,441	\$ 620,759

During the three month period ended March 31, 2011, distributions were declared and paid at \$0.045 per unit. In April 2011, distributions were declared at \$0.045 per unit totalling \$6,461.

Three months ended March 31, 2010	Number of units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2010	\$ 1,307,016	\$ 28,728	\$ (23,460)	\$ (273,319)	\$ -	\$ (380,494)	\$ 2,788	\$ 661,259
Loss for the period	-	-	-	(18,777)	-	-	-	(18,777)
Other comprehensive loss	-	-	-	-	(3,774)	-	-	(3,774)
Distributions to Unitholders	-	-	-	-	-	(17,284)	-	(17,284)
Issuance of Trust Units under the DRIP	851	-	-	-	-	-	-	851
Trust Units issued on exchange of Class B Units	803	-	-	-	-	-	-	803
Trust Units issued under the LTIP, net of units transferred to Treasury	1,600	(1,268)	513	-	-	-	49	894
Interest on LTIP receivable	-	-	(46)	-	-	-	-	(46)
Distributions applied against LTIP receivable	-	-	302	-	-	-	-	302
Unitholders' equity, March 31, 2010	\$ 1,310,270	\$ 27,460	\$ (22,691)	\$ (292,096)	\$ (3,774)	\$ (397,778)	\$ 2,837	\$ 624,228

During the three month period ended March 31, 2010, distributions were declared and paid at \$0.045 per unit.

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended March 31,	
	2011	2010
Cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (18,464)	\$ (18,777)
Items not affecting cash:		
Depreciation and amortization	40,773	37,423
Interest expense	24,774	24,910
Interest expense on Class B Units	227	253
Interest capitalized to properties under development	(243)	–
Interest income on loans and other receivables	(940)	(1,380)
Mezzanine loan interest	(597)	–
Non-cash compensation expense	490	190
Change in fair value of LTIP	2,000	355
Change in fair value of swap contract	149	(92)
Amortization of finance cost and fair value adjustments on mortgages payable	705	819
Unrealized foreign exchange loss	1,337	1,895
Change in fair value of convertible debentures	(938)	250
Change in fair value of Class B Units of Master LP	1,816	471
Current income taxes	76	80
Deferred income taxes (benefit)	(4,045)	273
Change in trade and other receivables	4,058	380
Change in amounts due from Spectrum	(648)	22
Change in amounts due from ING	67	(54)
Change in other assets	(1,557)	(786)
Change in accounts payable and other liabilities	(5,126)	(5,373)
	43,914	40,859
Interest received	1,537	1,380
Interest paid	(23,792)	(23,916)
Income taxes paid	(76)	(80)
	21,583	18,243
Financing activities:		
Proceeds from mortgage financing	–	1,916
Proceeds from revolving credit facility	2,000	–
Mortgage principal repayments	(8,982)	(39,524)
Additions to finance costs	(679)	(1,004)
Distributions on Class B Units	(227)	(253)
Distributions paid	(15,431)	(16,151)
Deposits and repayments received under LTIP	–	897
	(23,319)	(54,119)
Investing activities:		
Acquisition of assets under business combinations	–	(2,277)
Acquisition of land for development	(1,875)	–
Additions to property, plant and equipment	(8,222)	(5,153)
Amounts received under income guarantees	–	69
Mezzanine loan repayments	7,587	2,383
Change in restricted cash	709	107
Proceeds from capital funding receivables	890	562
	(911)	(4,309)
Net decrease in cash and cash equivalents	(2,647)	(40,185)
Effect of exchange rate fluctuations on U.S. dollar-denominated cash held	(274)	(169)
Cash and cash equivalents, beginning of period	14,728	106,943
Cash and cash equivalents, end of period	\$ 11,807	\$ 66,589

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

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. Chartwell's main business is ownership, operations and management of retirement and long-term care communities in Canada and the United States.

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. These are the Trust's first International Financial Reporting Standards ("IFRS") condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), has been applied.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of May 13, 2011, the date the Board of Trustees authorized the financial statements for issue. Any subsequent changes to IFRS that become effective and are adopted for the December 31, 2011 annual financial statements could result in revisions to accounting policies applied in these interim financial statements, and if applicable, the opening balance sheet and reconciliations included herein.

In preparing these consolidated interim financial statements, management has amended certain accounting, valuation and consolidation methods previously applied in the Canadian generally accepted accounting principles ("GAAP") financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Note 3 contains reconciliations and descriptions of the effect of the transition from previous Canadian GAAP ("CGAAP") to IFRS on equity, earnings and comprehensive income along with line by line reconciliations of the income statements and balance sheet for the year ended December 31, 2010 as well as interim periods relevant to the preparation of these interim financial statements.

Certain information that has not changed from the information disclosed in the Trust's annual 2010 CGAAP financial statements has not been included in these condensed interim consolidated financial statements. This information can be found in the notes to the Trust's annual 2010 CGAAP financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

1. Basis of preparation (continued):

The condensed consolidated financial statements were authorized for issue by the Trustees on May 13, 2011.

(b) Basis of presentation:

These condensed consolidated financial statements are presented in Canadian dollars, which is the Trust's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(c) Basis of measurement:

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following items:

- derivative financial instruments are measured at fair value;
- certain financial instruments that are measured at fair value; and
- liabilities for cash-settled unit-based payment arrangements are measured at fair value.

(d) Use of estimates and judgments:

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year. Actual results may differ from these estimates.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

1. Basis of preparation (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following note:

- Note 2(c) - Property, plant and equipment
- Note 2(l)(iii) - Revenue recognition - Allowance for doubtful accounts
- Note 3(e)(i) - Property, plant and equipment - Fair value as deemed cost

In the process of applying the accounting policies, Chartwell makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognizes in the financial statements. Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated financial statements is included in the following notes:

- Note 2(d)(i) - Intangible assets - licences
- Note 2(e) - Impairment

2. Significant accounting policies:

(a) Basis of consolidation:

(i) Transactions eliminated on consolidation:

The condensed consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint ventures. All intercompany transactions have been eliminated on consolidation.

(ii) Jointly controlled entities:

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

2. Significant accounting policies (continued):

The Trust recognizes its interests in jointly controlled entities using proportionate consolidation. The Trust's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Trust's similar line items, in the consolidated interim financial statements.

(iii) Business combinations:

As part of the transition to IFRS, Chartwell elected to not restate those business combinations that occurred prior to January 1, 2010.

All acquisitions occurring on and after January 1, 2010 are accounted for under the acquisition method under which all identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill is the excess of the fair value of the consideration transferred over the net identifiable assets acquired. If the fair value of the net identifiable assets acquired exceeds the consideration transferred, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs (e.g. finder's fees, legal fees, due diligence fees, and other professional and consulting fees) incurred in connection with the acquisition, are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the Trust's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date through profit or loss.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(b) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of Chartwell's United States operations at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations:

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date.

The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

Exchange gains and losses arising from translation of the financial statements of Chartwell's foreign operations are deferred and included in other comprehensive income.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(c) Property, plant and equipment:

Chartwell considers its properties to be owner-occupied properties under IAS 16, Property, Plant and Equipment.

Property, plant and equipment includes land, buildings, furniture, fixtures and equipment, which are measured at cost less accumulated depreciation and accumulated impairment losses. The Trust elected to apply the optional exemption to use fair values as deemed cost at January 1, 2010, the date of transition.

Properties under development and land held for development are carried at cost and are not subject to depreciation. Cost includes initial acquisition costs, other direct costs, realty taxes and interest related to their financing during the development period. The development period ends when the asset is available for use and construction is complete. Upon completion, properties under development are transferred to the appropriate asset class. Significant parts of the buildings have different useful lives and they are accounted for as separate components of the property. The cost of replacing a major component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to the Trust, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of on-going repairs and maintenance of the properties are recognized in profit or loss as incurred.

Depreciation is recorded in profit or loss on the straight line basis over the estimated useful lives of the assets. The following are the estimated useful lives of existing property, plant and equipment:

Building components:	
Structure	36 - 40 years
Mechanical, electrical and elevators	10 - 20 years
Roof, windows and doors	5 - 15 years
Interior upgrades	3 - 5 years
Resident contracts and above and below market leases	1 - 3 years
Payment-in-lieu of taxes ("PILOT")	Term of agreement
Furniture, fixtures and equipment	3 - 5 years

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

2. Significant accounting policies (continued):

Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of an item of property, plant and equipment are recognized in profit or loss.

(i) Resident contracts:

The value associated with in-place resident contracts, which represents the avoided cost of originating the acquired resident contracts plus the value of lost net resident revenue over the estimated lease up period of the property, is amortized over the expected term of the resident occupancy.

(ii) Above and below market leases:

The values of the above and below market resident contracts are amortized and recorded as either an increase, in the case of below market resident contracts, or decrease, in the case of above market resident contracts, to depreciation over the expected term of the associated resident occupancy, estimated at an average of three years for retirement properties and two years for long term care properties.

(iii) PILOT:

PILOT consists of arrangements with municipal governments in the United States which require the participant to incur certain expenses in lieu of municipal property taxes. They are amortized over the life of the specific agreements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(d) Intangible assets:

Intangible assets include licences, management contracts and other intangibles which are measured at cost less accumulated amortization and accumulated impairment losses, except in the case of licences with an indefinite life which are measured at cost and are not amortized.

(i) Licenses:

Licences for the operation of long-term care ("LTC") properties are considered to have indefinite lives and are recorded at cost and are not amortized. Given the current demographic of our Canadian markets as well as the fact that the demand for licenced beds is expected to increase beyond its current supply, management has determined that it is unreasonable to attach an expiration date to a licence.

(ii) Management contracts:

Management contracts represent the acquired value of contractual agreements to provide management and advisory services for the operations of senior residences and long-term care properties owned by third parties. Management contracts are amortized on a straight line basis over the term of the contract or if no term is specified, over its estimated life not to exceed five years.

(iii) Other intangibles:

Other intangibles consist of the allocated cost of acquired operating leases of seniors housing properties and software costs.

The allocated cost of the operating leases is amortized on a straight line basis over the initial lease term of those leases.

Software costs are amortized over 1-3 years on a straight-line basis.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

2. Significant accounting policies (continued):

(e) Impairment:

(i) Financial assets (including receivables):

Financial assets carried at amortized cost are assessed at each reporting date to determine whether there is objective evidence indicating the assets might be impaired. Objective evidence can include default or delinquency by a debtor, restructuring of an amount due to the Trust on terms that the Trust would not consider otherwise or indications that a debtor or issuer will enter bankruptcy.

The Trust considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. The assets recoverable amount is the higher of (a) fair value less costs to sell and (b) value in use.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

2. Significant accounting policies (continued):

(ii) Non-financial assets (excluding inventories and deferred tax assets):

The carrying amounts of the Trust's PP&E are assessed at each reporting date to determine if any events have incurred that would indicate the property, plant and equipment may be impaired. If any such indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit or loss for the amount by which the PP&E carrying amount exceeds its estimated recoverable amount. The assets recoverable amount is the higher of: (a) fair value less costs to sell; and (b) value in use.

Intangible assets that have indefinite useful lives are tested for impairment annually or more frequently, if events or circumstances indicate that the assets might be impaired.

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances indicate the carrying amount may not be recoverable.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed (excluding for goodwill) if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, in no impairment loss had been recognized.

(f) Capital funding:

Capital funding are grants received from the Government of Ontario for the construction costs of long-term care properties. These grants are financial instruments that are initially recorded at fair value on acquisition and carried at amortized cost. The interest accretion on the grants is recognized in profit or loss as finance income over the life of the grant.

(g) Cash and cash equivalents:

Cash and cash equivalents include cash and short term investments. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase and are stated at cost, which approximates fair value.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(h) Financial Instruments:

(i) Non-derivative financial assets:

Trade and other receivable, capital funding receivable and mezzanine loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized on the date that they are originated at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Trust is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, Chartwell has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets are presented as current assets on the balance sheet except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(ii) Non-derivative financial liabilities:

Non-derivative financial liabilities primarily consist of accounts payables, distributions payable, mortgages payable, deferred consideration on business combinations and revolving credit facility. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

2. Significant accounting policies (continued):

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

A financial liability is derecognized when the Trust's contractual obligations are discharged, cancelled or expired.

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred and are subsequently remeasured to their fair value at the end of each reporting period. Any resulting gain or loss is recognized in profit or loss immediately.

Chartwell entered into an interest rate swap arrangement in order to reduce the impact of fluctuating interest rates on long term debt. This swap agreement requires periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swap arrangements. This swap arrangement is not designated as a hedging instrument under IFRS.

(iv) Financial liabilities measured at fair value:

Financial liabilities are measured at fair value when the financial liability is either held for trading or it is designated as fair value through profit and loss ("FVTPL").

A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39"), permits the entire combined contract, asset or liability, to be designated as FVTPL.

The convertible debentures and Class B Units are designated as FVTPL. Any gains or losses arising on remeasurement are recognized in profit or loss. Distributions paid to Class B Unitholders are recognized as interest expense in profit or loss.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(i) Employee benefits:

(i) Short-term benefits:

Short-term employee benefit obligations including vacation and bonus payments are measured on an undiscounted basis and are expensed as the related service is provided. Liabilities are recognized for the amounts expected to be paid within 12 months as the Trust has an obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Short-term employee benefits are recorded in accounts payable and other liabilities.

Employee health benefits:

Chartwell self insures the cost of certain employee health plans. These plans are administered by an independent third party. Accruals for self insured liabilities include estimates of costs of both reported claims and claims incurred but not reported and are based on estimates of loss based on assumptions made by management including consideration of projections provided by the independent third party administrator of the plan.

(ii) Long-term employee benefits:

Chartwell accrues its obligations related to accumulated sick pay and post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected unit credit method using management assumptions. Any net actuarial gain (loss) is recognized as other comprehensive loss and reported in accumulated losses.

Chartwell provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis.

A defined contribution plan is a post-employment benefit plan whereby Chartwell contributes fixed amounts into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(iii) Unit-based payment plans:

Chartwell maintains Long-Term Incentive Plans, Deferred Trust Units Plans, and Restricted Unit Plans for its employees, directors and trustees. These plans are considered cash-settled and the fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities, over the employees' service period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as finance cost.

(j) Income taxes:

Income tax expense (benefit) comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable or receivable in respect of previous years.

The Trust is a mutual fund trust and a specified investment flow-through trust ("SIFT") pursuant to the Income Tax Act (Canada) and became subject to SIFT tax commencing in fiscal 2007. Under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general income tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

The Trust uses the asset and liability method of accounting for income taxes. Under this method, deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Finance income and finance costs:

Finance income comprises interest income on mezzanine loans, capital funding receivable and bank deposits.

Finance cost comprises interest expense on borrowings that do not qualify for capitalization under IAS 23, Borrowing Costs, impairment losses recognized on financial assets, the net change in fair value of financial liabilities measured at FVTPL, and distributions classified as interest expense under IFRS on Class B Units.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(l) Revenue recognition:

The Trust derives most of its revenue from rental income, care services to residents, and management services.

(i) Retirement community resident revenue:

Revenue in respect of accommodation and care services fees provided to residents of retirement communities is recognized when services, both rental and care are provided. In certain jurisdictions, residents of retirement communities are eligible for government subsidies and the rates of these subsidies are regulated. In Canada, in some jurisdictions rent control regulations affect the rates that can be charged for rental accommodation.

(ii) Long-term care community resident revenue:

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian long term care communities is recognized when the rental or ancillary services are provided.

In Canada, the provinces or regional health authorities (collectively, the "funding agency") regulate the amounts charged to residents of long-term care communities, a substantial portion of which are funded by provincial or regional programs. Such resident revenue earned is exclusively on actual census and is recognized as services are rendered. Certain revenue is earned only when the Trust has achieved actual census and has met additional criteria, which may include achieving certain levels of expenditure or levels of labour hours. Revenue is recognized when these criteria are achieved.

In certain cases, funding agencies provide additional funding in excess of the amounts due for actual census if certain minimum occupancy levels are achieved over the funding agency's annual cycle. Revenue for funding in excess of amounts due for actual census is recognized when the Trust has achieved the required occupancy criteria, on a proportionate basis, to earn such funding and where management expects to continue to achieve the occupancy criteria through to the completion of the funding agency's annual cycle.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

2. Significant accounting policies (continued):

(iii) Allowance for doubtful accounts:

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of residents to meet the contractual obligations under their lease agreements. Such allowances are reviewed periodically based on the recovery experience of the Trust and the creditworthiness of the residents.

(iv) Fee revenue:

(a) The Trust provides property management services for both third party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services and is recognized in the month in which services are performed in accordance with the terms of the management contract.

(b) Fee revenue integral to Chartwell's lending activities is recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are expensed over the same period using the effective interest rate method.

(c) To the extent that ultimate collection of revenue is not reasonably assured, Chartwell will recognize revenue only as cash received.

(v) Gains/losses on property, plant and equipment:

Gains/losses on property, plant and equipment are recognized when the Trust has transferred to the purchaser the significant risk and rewards of ownership of the property and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

2. Significant accounting policies (continued):

(m) Segment reporting:

Chartwell monitors and operates its Canadian Retirement, Canadian Long-Term Care and United States operations separately.

Segment results that are reported to the senior executive committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general, administrative and trust expenses. The accounting policies applied by the segments are the same as those applied by the Trust.

(n) Lease payments:

Chartwell maintains some properties in the United States that are classified as operating leases. These leased assets are not recognized in the Trust's consolidated balance sheet, but payments made are recognized in profit or loss on a straight-line basis over the term of the lease.

3. Explanation of transition to IFRS:

As of January 1, 2011, the Trust has adopted IFRS. Chartwell's effective transition date is January 1, 2010 (the "Transition Date") to accommodate 2010 IFRS comparative figures. Prior to January 1, 2010, the Trust prepared its financial statements in accordance with CGAAP. The Trust's condensed consolidated financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

In preparing its opening IFRS balance sheet, the Trust has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRS has affected the Trust's financial position, financial performance and cash flows is set out in the following notes:

(a) Elected exemption from full retrospective application:

In preparing these condensed consolidated financial statements in accordance with IFRS 1, the Trust has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions are described below:

(i) Business combinations:

The Trust has applied the business combination exemption in IFRS 1 to not apply IFRS 3 (revised), Business Combination ("IFRS 3"), retrospectively to past business combinations. Accordingly, the Trust has not restated business combinations that took place prior to the Transition Date and no adjustments have been required to exclude the recognition of assets or liabilities under CGAAP that do not qualify for recognition under IFRS.

(ii) Fair value or revaluation as deemed cost:

The Trust has elected to measure its property, plant and equipment at fair value as at the Transition Date and use that amount as its deemed cost in the opening balance sheet. The impact of this election is shown in note 3(e).

(iii) Employee benefits:

The Trust has elected to recognize all cumulative unrecognized actuarial gains and losses that existed at the Transition Date in opening retained earnings for all its employee benefit plans. The impact of this election is shown in note 3(j).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

3. Explanation of transition to IFRS (continued):

(iv) Cumulative translation differences:

The Trust has elected to set the previous cumulative translation account, which is included in accumulated other comprehensive income, to zero at January 1, 2010. Gains and losses on any subsequent disposals of U.S. operations would exclude translation differences that arose before the Transition Date to IFRS and the cumulative translation account would only include translation differences arising after the Transition Date. The impact of this election is shown in note 3(k).

(v) Share-based payment transactions:

The Trust has elected to apply IFRS 2, Share-based Payments, to equity instruments granted after November 7, 2002 that have not vested by the Transition Date. The impact of this election is shown in note 3(f).

(b) Mandatory exceptions to retrospective application:

In preparing these condensed consolidated financial statements in accordance with IFRS 1 the Trust has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective exceptions are described below.

(i) Hedge accounting:

IFRS requires that only hedging relationships that satisfy the hedge accounting criteria under IAS 39 as of the Transition Date be reflected as hedges.

The Trust's current interest rate swap agreement does not qualify for hedge accounting under IFRS. As at the Transition Date, the swap has been de-designated for hedge accounting. The impact is shown in note 3(i).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

(ii) Estimates:

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Trust under CGAAP are consistent with their application under IFRS.

(c) Other transition differences:

(i) Loss per unit:

The Trust's units are considered puttable instruments that can be presented within equity under IAS 32, Financial Instruments - Presentation ("IAS 32"). However, under IAS 33, Earnings Per Share, the Trust units are not considered ordinary units and therefore an income/loss per unit calculation may not be presented.

(ii) Designation of previously recognized financial instruments:

As an accounting policy choice, the Trust has elected to designate its convertible debentures and Class B Units at FVTPL. The impact of this election is shown in note 3(g) and 3(h).

(iii) Discontinued operations:

Under IFRS, a discontinued operation represents a separate major line of business or geographical area of operations or subsidiaries acquired exclusively with a view to resale.

The discontinued operations presented in 2010 under previous CGAAP represented either an individual property or group of properties. As a result, there are reclassifications to present these operations within continuing operations in our 2010 statement of comprehensive loss under IFRS. The impact of this change is shown in note 3(m).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

3. Explanation of transition to IFRS (continued):

(d) Reconciliation of equity reported under CGAAP and IFRS:

The following is a reconciliation of the Trust's total equity reported in accordance with previous CGAAP to its total equity in accordance with IFRS as at January 1, 2010.

	Notes	CGAAP	IFRS		March 31, 2010
		March 31, 2010	Reclassification ⁽¹⁾	Adjustments	
Assets					
Current assets:					
Cash and cash equivalents		\$ 106,943	\$ –	\$ –	\$ 106,943
Trade and other receivables		51,366	(30,583)	–	20,783
Mezzanine loans receivable		–	28,589	–	28,589
Capital funding receivable		–	2,293	–	2,293
Other assets		–	24,524	–	24,524
Total current assets		158,309	24,823	–	183,132
Non-current assets:					
Other assets		–	6,059	–	6,059
Mezzanine loans receivable		55,323	(28,589)	–	26,734
Capital funding receivable		43,824	(2,293)	–	41,531
Intangible assets	(e)	32,047	25,650	(20,013)	37,684
Licenses		25,650	(25,650)	–	–
Property, plant and equipment	(e)	2,283,521	–	78,328	2,361,849
Total non-current assets		2,440,365	(24,823)	58,315	2,473,857
Total assets		\$ 2,598,674	\$ –	\$ 58,315	\$ 2,656,989
Liabilities and Unitholders' Equity					
Current liabilities:					
Accounts payable and other liabilities	(f)	\$ 81,367	\$ (1,083)	\$ 6,344	\$ 86,628
Distributions payable		5,857	–	–	5,857
Mortgages payable		–	127,979	–	127,979
Deferred Consideration on business combinations		–	3,710	–	3,710
Total current liabilities		87,224	130,606	6,344	224,174
Non-current liabilities:					
Mortgages payable		1,625,281	(127,979)	–	1,497,302
Employee benefits	(j)	–	1,083	(202)	881
Deferred consideration on business combinations		13,592	(3,710)	–	9,882
Convertible debentures	(g)	188,996	–	14,678	203,674
Class B units	(h)	–	–	13,897	13,897
Deferred tax liabilities	(p)	18,167	–	27,753	45,920
Total non-current liabilities		1,846,036	(130,606)	56,126	1,771,556
Total liabilities		1,933,260	–	62,470	1,995,730
Non-controlling interests	(h)	7,813	–	(7,813)	–
Unitholders' equity	(i), (k)	657,601	–	3,658	661,259
Total equities and liabilities		\$ 2,598,674	\$ –	\$ 58,315	\$ 2,656,989

⁽¹⁾ Reclassifications are recorded as a result of a classified balance sheet presentation under IFRS.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

The following is a reconciliation of the Trust's total equity reported in accordance with previous CGAAP to its total equity in accordance with IFRS as at March 31, 2010.

	Notes	CGAAP	IFRS		March 31, 2010
		March 31, 2010	Reclassification ⁽¹⁾	Adjustments	
Assets					
Current assets:					
Cash and cash equivalents		\$ 66,589	\$ –	\$ –	\$ 66,589
Trade and other receivables	(l)	51,379	(31,501)	–	19,878
Mezzanine loans receivable		–	21,261	–	21,261
Capital funding receivable		–	2,322	–	2,322
Other assets		–	25,602	–	25,602
Total current assets		117,968	17,684	–	135,652
Non-current assets:					
Other assets		–	5,899	–	5,899
Mezzanine loans receivable		40,419	(21,261)	–	19,158
Capital funding receivable		43,262	(2,322)	–	40,940
Intangible assets	(e)	29,486	25,650	(18,793)	36,343
Licenses		25,650	(25,650)	–	–
Property, plant and equipment	(e)	2,328,514	–	63,356	2,391,870
Total non-current assets		2,467,331	(17,684)	44,563	2,494,210
Total assets		\$ 2,585,299	\$ –	\$ 44,563	\$ 2,629,862
Liabilities and Unitholders' Equity					
Current liabilities:					
Accounts payable and other liabilities	(f)	\$ 81,887	\$ (1,097)	\$ 6,851	\$ 87,641
Distributions payable		5,865	–	–	5,865
Mortgages payable		–	125,371	–	125,371
Deferred Consideration on business combinations		–	6,045	–	6,045
Total current liabilities		87,752	130,319	6,851	224,922
Non-current liabilities:					
Mortgages payable		1,636,191	(125,371)	–	1,510,820
Employee benefits	(j)	–	1,097	(202)	895
Deferred consideration on business combinations		13,639	(6,045)	–	7,594
Convertible debentures	(g)	190,167	–	13,756	203,923
Class B units	(h)	–	–	13,564	13,564
Deferred tax liabilities	(p)	18,886	–	25,030	43,916
Total non-current liabilities		1,858,883	(130,319)	52,148	1,780,712
Total liabilities		1,946,635	–	58,999	2,005,634
Non-controlling interests	(h)	6,975	–	(6,975)	–
Unitholders' equity	(i), (k)	631,689	–	(7,461)	624,228
Total equities and liabilities		\$ 2,585,299	\$ –	\$ 44,563	\$ 2,629,862

⁽¹⁾ Reclassifications are recorded as a result of a classified balance sheet presentation under IFRS.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

The following is a reconciliation of the Trust's total equity reported in accordance with previous CGAAP to its total equity in accordance with IFRS as at December 31, 2010.

	Notes	CGAAP	IFRS		December 31, 2010
		December 31, 2010	Reclassification ⁽¹⁾	Adjustments	
Assets					
Current assets:					
Cash and cash equivalents		\$ 14,728	\$ –	\$ –	\$ 14,728
Trade and other receivables		43,578	(28,983)	–	14,595
Mezzanine loans receivable		–	14,768	–	14,768
Capital funding receivable		–	3,537	–	3,537
Other assets		–	21,037	–	21,037
Total current assets		58,306	10,359	–	68,665
Non-current assets:					
Other assets	(l)	–	7,946	(525)	7,421
Mezzanine loans receivable		20,803	(14,768)	–	6,035
Capital funding receivable	(l)	63,865	(3,537)	(1,269)	59,059
Intangible assets	(e)	36,523	38,581	(22,364)	52,740
Licenses		38,581	(38,581)	–	–
Property, plant and equipment	(e)	2,458,689	–	26,487	2,485,176
Total non-current assets		2,618,461	(10,359)	2,329	2,610,431
Total assets		\$ 2,676,767	\$ –	\$ 2,329	\$ 2,679,096
Liabilities and Unitholders' Equity					
Current liabilities:					
Revolving operating credit facility		\$ 51,000	\$ –	\$ –	\$ 51,000
Accounts payable and other liabilities	(f)	87,735	(995)	8,761	95,501
Distributions payable		6,505	–	–	6,505
Mortgages payable		–	116,864	–	116,864
Deferred Consideration on business combinations		–	2,704	–	2,704
Total current liabilities		145,240	118,573	8,761	272,574
Non-current liabilities:					
Mortgages payable	(l)	1,732,438	(116,864)	(2,378)	1,613,196
Employee benefits	(j)	–	995	(185)	810
Deferred consideration on business combinations		7,512	(2,704)	–	4,808
Convertible debentures	(g)	70,859	–	6,017	76,876
Class B units	(h)	–	–	14,027	14,027
Deferred tax liabilities	(p)	25,310	–	15,141	40,451
Total non-current liabilities		1,836,119	(118,573)	32,622	1,750,168
Total liabilities		1,981,359	–	41,383	2,022,742
Non-controlling interests	(h)	5,429	–	(5,429)	–
Unitholders' equity	(i), (k)	689,979	–	(33,625)	656,354
Total equities and liabilities		\$ 2,676,767	\$ –	\$ 2,329	\$ 2,679,096

⁽¹⁾ Reclassifications are recorded as a result of a classified balance sheet presentation under IFRS.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

(e) Property, plant and equipment ("PP&E"):

(i) Fair value as deemed cost:

At the Transition Date, the Trust has elected to apply the fair value as deemed cost election to PP&E. The fair value of PP&E as at January 1, 2010 is assessed at \$2,361,849, which resulted in an increase to the CGAAP carrying value on the Transition Date of \$78,328.

Fair values were determined by the following approaches:

- (a) Consideration of recent prices of similar properties within similar market areas;
- (b) Discounted cash flow analysis which is based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions on the valuation date less future cash outflows in respect of such leases discounted generally over a term of 15 years for long-term care properties and 25 years for retirement homes; and
- (c) The direct capitalization method which is based on the conversion of normalized earnings into an expression of market value. The normalized net income for the year is divided by an overall capitalization rate (inverse of an earnings multiplier).

Overall, the capitalization rates ranged from 7.5% to 12.3% with an average rate for the portfolio of approximately 8.9%.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

The table below provides details of the average capitalization rates for Retirement and Long-term Care segments as at January 1, 2010:

	Internal valuations	External valuations
Canadian Retirement Operations		
Weighted Average capitalization rate	9.2%	8.8%
Range	8.2% - 12.3%	7.5% - 10.3%
Canadian Long-Term Care Operations		
Weighted Average capitalization rate	8.5%	8.4%
Range	8.5%	8.3% - 8.5%
United States		
Weighted Average capitalization rate	8.6%	8.7%
Range	7.5% - 9.3%	8.5% - 9.3%

In the valuation process of our PP&E assets, external appraisals were used for approximately 20% of the properties with the remaining 80% being valued internally.

The internal valuation process included the combination of the direct capitalization income approach and discounted cash flow calculations.

- (a) The direct capitalization income approach determined fair value by applying a capitalized rate to the stabilized Net Operating Income, which incorporates allowances for vacancies and management fees. The resulting capitalized value was further adjusted, where appropriate, for extraordinary costs to stabilize the income and capital expenditures.
- (b) The discounted cash flow approach was used to determine the fair value of Ontario Class B and Class C LTC properties due to the redevelopment requirements under the new LTC legislation; certain properties subject to realty tax abatement contracts and properties in lease up. The discounted cash flow methodology was used to derive the value of the capital funding subsidy related to our Class A LTC properties in Ontario.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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3. Explanation of transition to IFRS (continued):

Qualified independent valuers were used for the external valuation process. Property values were based on:

- (a) available market evidence of prices of similar properties within similar market areas,
- (b) rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet date, less future cash outflows in respect of such leases.

(ii) Borrowing cost and pre-operating losses:

Under previous CGAAP, the Trust's policy was to capitalize borrowing costs and pre-operating losses to the date the property is stabilized. Under IFRS, Chartwell's policy is to only capitalize borrowing costs directly associated with the construction of qualifying assets during the development period.

On transition (January 1, 2010), there is no impact of the change in policy as the deemed cost election was applied to properties. Subsequent to January 1, 2010, Chartwell has de-recognized only the borrowing costs on qualifying assets and pre-operating losses that were capitalized under previous CGAAP subsequent to properties becoming available for use.

(iii) Resident contracts and below market land leases:

Under previous CGAAP resident contracts and below market leases are recognized as separate intangible assets. As a result of transitioning to IFRS they are accounted for as a component of the building asset. The value of resident contracts and below market land leases transferred from intangible assets is \$17,904.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

3. Explanation of transition to IFRS (continued):

(f) Unit-based payments:

Unit-based compensation cost under the LTIP Plan and the Deferred Unit plan have been reclassified from equity under previous CGAAP to a liability under IFRS as they are considered cash-settled plans. Under previous CGAAP, compensation cost was only measured once at grant date whereas under IFRS, the LTIP Plan and the Deferred Unit plan are required to be remeasured each reporting period until settled. As a result, unitholders' equity under previous CGAAP has been adjusted for:

LTIP Plan:

- (i) \$2,605 reclassification of the historical compensation cost previously recorded in equity; and
- (ii) \$3,095 for the impact on accumulated losses from the cumulative fair value adjustment of the liability.

Deferred Unit Plan:

- (i) the compensation expense of \$644 has been adjusted from equity to liability.

(g) Convertible debentures:

IAS 32 requires that options over puttable instruments be classified as a liability. As a result, the equity portion of the convertible debenture of \$14,878 recorded under CGAAP has been classified as a liability through a credit to equity under IFRS. The liability has been remeasured at fair value as the Trust has elected to designate the financial instrument at FVTPL under IFRS. The fair value measurement on January 1, 2010 has reduced the liability by \$200.

(h) Class B Units:

Under IAS 32, the Class B Units are considered puttable instruments and are classified as financial liabilities in the condensed consolidated financial statements of the Trust. This has resulted in a movement from non-controlling interest under previous CGAAP to liability under IFRS of \$7,813 at the Transition Date.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

The Trust has also elected to designate the Class B Units as a financial liability at FVTPL under IFRS. The fair value measurement on January 1, 2010 has increased the liability by \$6,084 through a charge to equity.

Class B Unitholders are no longer treated as non-controlling interests under IFRS, therefore, distributions to Class B Unitholders are recorded as interest expense (previously equity under CGAAP).

(i) Cash flow hedges:

Under IFRS, the existing interest rate swap contract does not qualify for hedge accounting and has thus been de-designated. This has resulted in a transfer of \$1,218 to accumulated losses from accumulated other comprehensive income and thus does not affect net reported equity.

(j) Employee benefits:

The Trust has elected to recognize all actuarial gains and losses immediately in other comprehensive income without recycling to profit or loss in subsequent periods. As a result, actuarial gains and losses are not amortized to profit or loss but rather are recorded directly to other comprehensive loss at the end of each period and reported in accumulated losses.

(k) Cumulative translation differences:

The Trust has elected to set the cumulative translation amount of \$13,825 under CGAAP to zero upon transition to IFRS. This has been reflected as a reclassification between accumulated other comprehensive income and accumulated losses and thus does not affect reported net equity.

(l) Business combinations - step acquisitions versus full measurement:

Under previous CGAAP, if an investment in a subsidiary is acquired through two or more acquisitions (step acquisition) the interest in the identifiable assets and liabilities are determined separately at each acquisition date and are not subsequently revalued.

Under IFRS 3, if the business combination is achieved in steps, the previously held equity interest is remeasured to the acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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(Unaudited)

3. Explanation of transition to IFRS (continued):

Chartwell acquired the second half of two joint venture portfolios in May and June of 2010 which resulted in the remeasurement of the original 50% acquired interest and in an adjustment to PP&E, intangible assets, trade and other receivables, mortgages and capital funding receivable.

(m) Reconciliation of net loss as reported under previous CGAAP and IFRS:

The following is a reconciliation of the Trust's net loss reported in accordance with CGAAP to its loss for the period in accordance with IFRS for the year ended December 31, 2010 and the three months ended March 31, 2010.

	Note	Three months ended March 31, 2010	Year ended December 31, 2010
Loss for the period as reported under Canadian GAAP		\$ (8,009)	\$ (26,337)
Increases (decreases) to reported amount:			
Reversal of non-controlling interest	(i)	(119)	(371)
Depreciation of PP&E and amortization of intangible assets	(ii)	(12,851)	(65,607)
Other income	(iii)	–	17,240
Other expenses	(iv)	–	(3,681)
		(12,970)	(52,419)
Finance income:			
Changes in fair value of convertible debentures	(v)	922	8,661
Fair value of LTIP	(v)	(355)	(1,386)
Change in fair value of interest rate swap	(vi)	92	81
		659	7,356
Finance cost:			
Borrowing costs	(vii)	(396)	(1,211)
Interest expense (distributions) on Class B Units	(viii)	(252)	(987)
Changes in fair value of Class B Units	(v)	(471)	(2,370)
Fair value remeasurement on acquisitions	(ix)	–	(266)
		(1,119)	(4,834)
Direct operating and general, administrative and trust expenses	(x)	(61)	(324)
Deferred taxes	(xi)	2,723	13,139
Loss for the period as reported under IFRS		\$ (18,777)	\$ (63,419)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

3. Explanation of transition to IFRS (continued):

(i) Non-controlling interest:

Reversal of loss attributable to non-controlling interests ("CGAAP") as described in note (h) above.

(ii) Depreciation of PP&E and amortization of intangible assets:

Depreciation adjustments due to the deemed cost election and reallocation of the amortization of resident contracts and below market leases to depreciation expense as these assets are now components of the building assets (notes 2(c) and 3(e) above).

(iii) Other income:

Remeasurement of fair value of previously held equity interests and gain on sale of property, plant and equipment is described in note 3(l) above.

(iv) Other expenses:

Under IFRS, transactions costs arising upon business combination are expensed through profit or loss. Under CGAPP, they are capitalized.

(v) Finance income:

Reflection of the change in fair value of financial instruments as described in notes 3(g), 3(f) and 3(i) above.

(vi) Interest rate swap:

Effective portion of the swap contract was reclassified from other comprehensive loss to profit or loss as described in note 3(i) above.

(vii) Borrowing costs:

Reversal of ineligible borrowing costs as described in note 3(e) above.

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

3. Explanation of transition to IFRS (continued):

(viii) Interest expense on Class B Units:

Reflection of the distributions now classified as interest expense and the change in fair value of the financial instrument described in note 3(h) above.

(ix) Fair value remeasurement on acquisitions:

Reflection of the remeasurement of receivables and payables in a business combination as per note 3(l) above.

(x) Direct operating and general, administrative and trust expenses:

Ineligible operating losses previously capitalized under CGAAP as described in note 3(e) above.

(xi) Deferred taxes:

Reflection of the tax impact of items described above.

(n) Reconciliation of other comprehensive loss as reported under CGAAP to IFRS:

	Note	Three months ended March 31, 2010	Year ended December 31, 2010
Other comprehensive loss as reported under CGAAP		\$ (3,185)	\$ (4,631)
Decreases to reported amount:			
Reversal of non-controlling interest	(i)	(48)	(65)
Change in fair value of interest rate swap	(ii)	(92)	(81)
Unrealized foreign exchange loss on foreign operations	(iii)	(449)	(379)
Other comprehensive loss as reported under IFRS		\$ (3,774)	\$ (5,156)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

3. Explanation of transition to IFRS (continued):

(i) Reversal of non-controlling interest:

Reversal of loss attributable to non-controlling interests (CGAAP) as described in note (h) above.

(ii) Interest rate swap:

Effective portion of the swap contract was reclassified from other comprehensive loss to profit or loss as described in note 3(i) above.

(iii) Unrealized foreign exchange gain (loss) on self sustaining operations:

Impact of foreign exchange on depreciation adjustments to U.S. operations.

(o) IFRS impact on the condensed consolidated statements of cash flows:

The IFRS adjustments made to the comparative condensed consolidated statement of comprehensive loss for the three months ended March 31, 2010 (as described above) have also been made to the condensed consolidated statement of cash flows as at the same date. There were no other significant IFRS transition differences noted.

(p) Deferred tax liability:

The increase in deferred tax liability under IFRS compared with CGAAP primarily relates to the increased carrying values of Chartwell's property, plant and equipment and the increase in the tax rate being applied to temporary differences of 46.4%, the applicable tax rate of the Trust excluding the impact of future distributions.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

4. Acquisitions:

For the period ended March 31, 2011, the Trust purchased a parcel of development land in Hamilton, Ontario for cash consideration of \$1,875.

The following are the acquisitions that occurred during the year ended December 31, 2010:

Property	Ownership interest	Date acquired
The Quebec Portfolio	100%	March 9, 2010
The Meridian Portfolio	50%	May 14, 2010
The Regency Portfolio	50%	June 1, 2010
Valley Vista	50%	June 1, 2010
Oakville	50%	September 1, 2010
Muskoka Traditions	100%	December 1, 2010

Details of these acquisitions are disclosed in the Trust's annual 2010 CGAAP financial statements.

The table below summarizes the acquisitions and the resulting changes from CGAAP to IFRS. Under CGAAP, the purchase price (including costs of acquisition) is allocated to each major class of assets acquired and liabilities assumed. Under IFRS, the fair value of the acquisition is allocated.

	CGAAP	IFRS adjustment	IFRS
Property, plant and equipment	\$ 290,814	\$ 28,142	\$ 318,956
Intangible assets	22,965	(22,965)	–
Capital funding receivable	23,054	(1,268)	21,786
Licenses	12,931	5,753	18,684
Deferred income tax asset (liability)	(2,274)	(3,901)	(6,175)
Mortgages assumed	(261,051)	2,645	(258,406)
Other liabilities	(6,694)	(2,651)	(9,345)
Net assets acquired	\$ 79,745	\$ 5,755	\$ 85,500
Discharge of mezzanine loans receivable	\$ 17,366	\$ –	\$ 17,366
Settlement of management contracts and accounts receivable	9,301	(2,028)	7,273
Cash consideration	49,783	–	49,783
Acquisition costs	3,295	(3,295)	–
Gain recorded on remeasurement of previously held equity interest on acquisition	–	11,078	11,078
Total consideration	\$ 79,745	\$ 5,755	\$ 85,500

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month periods ended March 31, 2011 and 2010

(Unaudited)

4. Acquisitions (continued):

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

Pro forma information:

The following unaudited pro forma results of operations, prepared in accordance with IFRS, have been prepared as if the acquisitions had occurred at January 1, 2010. This is not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the date indicated.

	Year ended December 31, 2010
	(Unaudited)
Revenue	\$ 142,806
Loss for the year, after income taxes	(1,815)

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

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

5. Property, plant and equipment:

	Land	Building	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost or deemed cost:						
Balance, January 1, 2010	\$ 255,801	\$ 2,049,739	\$ 35,068	\$ 11,006	\$ 18,643	\$ 2,370,257
Additions for the year	836	18,187	5,307	15,012	1,889	41,231
Additions through business combinations	42,906	414,574	16,507	839	10,934	485,760
Disposals	(17,485)	(179,644)	(3,192)	(419)	(5,017)	(205,757)
Transfers	3,171	10,669	233	(9,608)	(4,465)	–
Exchange differences on translation of U.S. Operations	(4,179)	(38,742)	(893)	(182)	(321)	(44,317)
Balance December 31, 2010	281,050	2,274,783	53,030	16,648	21,663	2,647,174
Additions for the period	6	2,935	865	4,289	1,875	9,970
Exchange differences on translation of U.S. Operations	(1,909)	(18,346)	(418)	(16)	(166)	(20,855)
Balance, March 31, 2011	\$ 279,147	\$ 2,259,372	\$ 53,477	\$ 20,921	\$ 23,372	\$ 2,636,289
Depreciation and impairment losses:						
Balance, January 1, 2010	\$ –	\$ 5,062	\$ 3,346	\$ –	\$ –	\$ 8,408
Depreciation for the year	–	150,035	10,859	–	–	160,894
Exchange differences on translation of U.S. Operations	–	(2,114)	(194)	–	–	(2,308)
Disposals	–	(4,692)	(304)	–	–	(4,996)
Balance, December 31, 2010	–	148,291	13,707	–	–	161,998
Depreciation for the period	–	37,030	3,147	–	–	40,177
Exchange differences on translation of U.S. Operations	–	(2,110)	(161)	–	–	(2,271)
Balance, March 31, 2011	\$ –	\$ 183,211	\$ 16,693	\$ –	\$ –	\$ 199,904
Carrying amounts:						
Balance, January 1, 2010	\$ 255,801	\$ 2,044,677	\$ 31,722	\$ 11,006	\$ 18,643	\$ 2,361,849
Balance, December 31, 2010	\$ 281,050	\$ 2,126,492	\$ 39,323	\$ 16,648	\$ 21,663	\$ 2,485,176
Balance, March 31, 2011	\$ 279,147	\$ 2,076,161	\$ 36,784	\$ 20,921	\$ 23,372	\$ 2,436,385

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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(Unaudited)

5. Property, plant and equipment (continued):

During the period, the Trust capitalized \$243 of borrowing costs related to development projects under construction with a capitalization rate of 5.44%.

Included in buildings are assets under finance leases with a carrying book value as at March 31, 2011 of \$98,903 (December 31, 2010 - \$103,045).

The properties are leased for a nominal amount and at the expiry date Chartwell is obliged to purchase the right, title and interest in the properties for a nominal amount.

6. Intangible assets:

	Management contracts	Licences	Other	Total
Cost:				
Balance, January 1, 2010	\$ 5,486	\$ 25,650	\$ 11,754	\$ 42,890
Additions	–	–	1,082	1,082
Additions through business combinations	–	18,684	–	18,684
Disposals	(4,506)	–	–	(4,506)
Exchange differences on translation of U.S. Operations	–	–	(491)	(491)
Balance, December 31, 2010	980	44,334	12,345	57,659
Additions	–	–	127	127
Exchange differences on translation of U.S. Operations	–	–	(270)	(270)
Balance, March 31, 2011	\$ 980	\$ 44,334	\$ 12,202	\$ 57,516
Amortization and impairment:				
Balance, January 1, 2010	\$ 2,412	\$ –	\$ 2,794	\$ 5,206
Amortization for the year	289	–	2,055	2,344
Disposals	(2,478)	–	–	(2,478)
Exchange differences on translation of U.S. Operations	–	–	(153)	(153)
Balance, December 31, 2010	223	–	4,696	4,919
Amortization for the period	16	–	580	596
Exchange differences on translation of U.S. Operations	–	–	(79)	(79)
Balance, March 31, 2011	\$ 239	\$ –	\$ 5,197	\$ 5,436
Carrying amounts:				
Balance, January 1, 2010	\$ 3,074	\$ 25,650	\$ 8,960	\$ 37,684
Balance, December 31, 2010	\$ 757	\$ 44,334	\$ 7,649	\$ 52,740
Balance, March 31, 2011	\$ 741	\$ 44,334	\$ 7,005	\$ 52,080

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

7. Mezzanine loans receivable:

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

	Note	Contractual interest rate	Net balance (Principal amount less lending expenses)		
			March 31, 2011	December 31, 2010	January 1, 2010
Spectrum and Partners, outside Quebec	(a)	10% - 14%	\$ 14,317	\$ 17,603	\$ 25,023
Melior, Spectrum and Partners	(b)	10% - 14%	8,551	22,128	47,376
Seasons and Partners	(c)	10% - 14%	2,607	2,607	13,432
			25,475	42,338	85,831
Provision, opening balance			21,535	30,508	6,406
Settlement of mezzanine loans			–	(12,535)	–
Additions to provision/reallocated on collection of certain accounts receivable			602	3,562	24,102
Offset against principal amount of the loan			(9,276)	–	–
Provision, closing balance			12,861	21,535	30,508
			\$ 12,614	\$ 20,803	\$ 55,323
Current			\$ 12,614	\$ 14,768	\$ 28,589
Non-current			–	6,035	26,734
			\$ 12,614	\$ 20,803	\$ 55,323

(a) Spectrum and Partners, Outside Quebec:

The loans are secured by second charges or pledges over nine (December 31, 2010 - ten) seniors housing development properties.

During the three month period ended March 31, 2011, one mezzanine loan in the amount of \$3,285 was collected in cash.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

7. Mezzanine loans receivable (continued):

(b) Melior, Spectrum and Partners:

The loans are secured by second mortgages over two (December 31, 2010 - six) seniors housing development properties.

During the three month period ended March 31, 2011, three mezzanine loans in the amount of \$9,276, which had previously been fully provided for were deemed unrecoverable and were removed from the principal amount outstanding and the provision for impairment.

During the three month period ended March 31, 2011, one mezzanine loan in the amount of \$4,301 was collected in cash.

(c) Seasons and Partners:

This loan is secured by a second charge over one (December 31, 2010 - one) seniors housing development project.

Each mezzanine loan matures on the earliest of: (i) the fifth anniversary of the initial advance of the funds; (ii) the date of sale of the related development property; or (iii) 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 Partners, outside Quebec	Melior, Spectrum and Partners	Seasons and Partners	Total
Remainder of 2011	\$ 14,317	\$ 8,551	\$ –	\$ 22,868
2012	–	–	2,607	2,607
	\$ 14,317	\$ 8,551	\$ 2,607	\$ 25,475

As at March 31, 2011, Spectrum, Melior and certain other joint venture partners were in default under these mezzanine loan agreements with Chartwell. As a result, the carrying amount of these loans was reduced by \$12,861 to their estimated recoverable amount.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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(Unaudited)

8. Trade and other receivables:

	March 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	\$ 10,395	\$ 14,288	\$ 13,955
Due from Spectrum	821	173	218
Due from ING	67	134	6,610
	<u>\$ 11,283</u>	<u>\$ 14,595</u>	<u>\$ 20,783</u>

The Trust's exposure to credit and currency risk and impairment losses related to trade and other receivable is disclosed in note 17.

9. Capital funding receivable:

The capital funding receivable of \$61,706 (December 31, 2010 - \$62,596) represents the discounted cash flows due from the Government of Ontario over a remaining period of approximately 12 years in respect of construction costs of 12 long-term care properties. The funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care communities for the remaining period. The discount rate used is based upon long term Ontario Government Bond rates.

10. Other assets:

	March 31, 2011	December 31, 2010	January 1, 2010
Prepaid expenses and deposits	\$ 12,204	\$ 10,659	\$ 10,531
Restricted cash	8,328	9,232	10,473
Lease purchase option	4,159	4,266	4,507
Other assets	4,205	4,301	5,072
	<u>\$ 28,896</u>	<u>\$ 28,458</u>	<u>\$ 30,583</u>
Current	\$ 21,710	\$ 21,037	\$ 24,524
Non-current	7,186	7,421	6,059
	<u>\$ 28,896</u>	<u>\$ 28,458</u>	<u>\$ 30,583</u>

Restricted cash relates to capital expenditure reserves required in the United States for certain mortgages.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

11. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. For more information about the Trust exposure to interest rates, foreign currency and liquidity risk, see note 17.

The mortgages payable as at March 31, 2011 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total maturing debt	Weighted average interest rate %
Remainder of 2011	\$ 29,671	\$ 64,992	\$ 94,663	5.05	4.60
2012	37,224	162,873	200,097	12.65	4.95
2013	37,216	102,848	140,064	7.99	5.10
2014	32,617	132,203	164,820	10.27	4.36
2015	30,026	177,106	207,132	13.76	5.12
2016	26,859	167,434	194,293	13.01	6.00
2017	19,796	231,978	251,774	18.02	5.69
2018	20,930	32,625	53,555	2.53	5.55
2019	19,824	91,030	110,854	7.24	6.17
2020	19,785	30,038	49,823	2.33	4.51
2021	18,625	17,362	35,987	1.35	4.36
2022	18,006	9,161	27,167	0.71	5.60
2023	16,180	13,648	29,828	1.06	6.01
2024	11,446	17,394	28,840	1.35	7.13
Thereafter	88,403	34,360	122,763	2.67	4.95
	<u>\$ 426,608</u>	<u>\$ 1,285,052</u>	1,711,660		
Fair value adjustment			12,585		
Financing costs			(18,180)		
			<u>\$ 1,706,065</u>		
Current			\$ 143,855		
Non-current			1,562,210		
			<u>\$ 1,706,065</u>		

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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(Unaudited)

11. Secured debt (continued):

	March 31, 2011	December 31, 2010	January 1, 2010
Mortgages at fixed rates:			
Mortgages	\$1,624,925	\$1,650,282	\$1,578,454
Interest rates	2.03% - 10.00%	2.50% - 10.00%	2.03% - 10.00%
Weighted average interest rate	5.48%	5.48%	5.49%
Mortgages at variable rates:			
Mortgages	\$86,735	\$85,775	\$53,747
Interest rates	Lenders COF + 2.0% to prime + 2.25%	BA +300 bps to prime + 2.25%	Lenders COF + 2.0% to prime + 4.75%
Weighted average interest rate	4.55%	4.73%	3.56%
Blended weighted average rate	5.43%	5.44%	5.42%

During the three month period ended March 31, 2011, interest expense on mortgages payable amounted to \$23,875 (2010 - \$22,397).

Chartwell owns a 50% interest in a group of properties in the United States which are financed through a mortgage pool in the amount of \$69,030 (U.S. \$69,406). At March 31, 2011, the joint venture did not meet two of the covenant requirements. Under the terms of the loan agreement, the lender may require a pay down of this mortgage pool by a maximum amount of U.S. \$4,500 (U.S. \$2,250 at Chartwell's 50% share). Chartwell is currently working with the lenders in order to remedy this covenant breach.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

11. Secured debt (continued):

(b) Secured revolving operating credit facility:

Chartwell has arranged for a \$75,000 secured revolving operating credit facility (the "Credit Facility"). At March 31, 2011, the maximum available borrowing capacity under the Credit Facility was \$75,000 (December 31 2010 - \$75,000) based on the security provided. \$2,236 (December 31, 2010 - \$2,116) of this capacity has been allocated to support various letters of credit issued by Chartwell. 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 charges on specific properties. As at March 31, 2011, \$53,000 (December 31, 2010 - \$51,000) was outstanding under the Credit Facility.

12. Accounts payable and other liabilities:

	March 31, 2011	December 31, 2010	January 1, 2010
Accounts payable and accrued liabilities	\$ 70,618	\$ 76,244	\$ 70,466
Resident deposits	3,949	3,973	4,348
Deferred revenue	5,709	5,637	4,004
Fair value of LTIP	9,400	7,400	5,700
Other liabilities	459	646	1,466
Deferred trust units	1,619	1,363	644
Restricted trust units	377	238	—
	<u>\$ 92,131</u>	<u>\$ 95,501</u>	<u>\$ 86,628</u>

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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12. Accounts payable and other liabilities (continued):

(a) Deferred Unit Plan:

The Trust provides a Deferred Unit Plan for its independent directors. The plan entitles directors, at their option, to receive all, 75%, 50% or 25% of their directors' fees in the form of Deferred Trust Units. The Trust matches on a one-on-one basis the number of Trust units elected to be received by directors. 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. Deferred Trust Units cannot be distributed to the directors until after they retire from the Board.

As described in note 2(i), under IFRS this plan is considered a cash-settled plan with the value of issued units recorded as a liability on the consolidated balance sheet. The liability is released to equity after retirement of the director. The liability is revalued at each reporting date based on trading value of Trust Units. Distributions on Deferred Trust Units are included in general, administrative and trust expenses in the consolidated statement of comprehensive loss.

The following table summarizes the Deferred Trust Unit activity since December 31, 2009:

	Units outstanding	Amount
Balance, January 1, 2010	120,592	\$ 644
Units granted	78,306	641
Reinvested distributions	9,936	78
Balance, December 31, 2010	208,834	1,363
Units granted	25,708	228
Reinvested distributions	3,439	28
Balance, March 31, 2011	237,981	\$ 1,619

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12. Accounts payable and other liabilities (continued):

(b) Restricted Unit Plan:

Under the terms of the Restricted Unit 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 using the trading value of Trust Units at each reporting date.

During the three month period ended March 31, 2011, 75,536 Restricted Trust Units were issued, 73,167 related to grants and 2,369 related to reinvested distributions. As at March 31, 2011, the liability associated with Restricted Trust Units was \$377 (December 31, 2010 - \$238).

13. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

Business combination	March 31, 2011	December 31, 2010	January 1, 2010
Castle Royale	\$ 520	\$ 520	\$ 520
Elizabeth Towers	—	—	918
Heritage Glen	7,074	6,992	9,075
Merrill Gardens portfolio	—	—	3,079
	<u>\$ 7,594</u>	<u>\$ 7,512</u>	<u>\$ 13,592</u>
Current	\$ 2,729	\$ 2,704	\$ 3,710
Non-current	4,865	4,808	9,882
	<u>\$ 7,594</u>	<u>\$ 7,512</u>	<u>\$ 13,592</u>

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14. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability under IFRS. The Trust has elected to designate Class B Units as FVTPL. Fair value is determined by using market prices for listed Trust Units since there is a one for one exchange feature. The market price of Trust Units as at March 31, 2011 was \$9.26 (December 31, 2010 - \$8.18).

Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Under IFRS, these distributions are included in finance cost in profit or loss.

	Number of units	Market price	Amount
Balance, January 1, 2010	1,976,859	\$ 7.03	\$ 13,897
Exchange of Class B Units into Trust Units	(262,207)		
Balance December 31, 2010	1,714,652	8.18	14,027
Exchange of Class B Units into Trust Units	(33,127)		
Balance, March 31, 2011	1,681,525	9.26	15,570

15. Unitholders' equity and LTIP:

(a) The following Trust Units are issued and outstanding:

	Number of voting units	Amount
Balance, January 1, 2010	125,762,133	\$ 1,307,016
Trust Units issued under DRIP	628,792	4,795
Trust Units issued in exchange of Class B Units	262,207	2,239
Trust Units released on settlement of LTIP receivable	170,000	1,694
Trust Units issued pursuant to public offering	13,775,000	124,217
Balance, December 31, 2010	140,598,132	1,439,961
Trust Units issued under DRIP	446,772	3,572
Trust Units issued in exchange of Class B Units	33,127	278
Balance, March 31, 2011	141,078,031	\$ 1,443,811

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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15. Unitholders' equity (continued):

(b) Long-Term Incentive Plan:

	Number of Units under subscription		Amount
Balance, January 1, 2010	2,436,895	\$	28,728
Trust Units issued under LTIP	146,882		1,139
Trust Units issued under LTIP surrendered for cancellation under LTIP	(168,919)		(1,756)
Trust Units released on repayment of LTIP receivable	(170,000)		(1,694)
Balance, December 31, 2010	2,244,858		26,417
Trust Units issued under LTIP surrendered for cancellation under LTIP	(15,712)		(188)
Balance, March 31, 2011	2,229,146	\$	26,229

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16. Segmented information:

Chartwell monitors and operates its Canadian Retirement, Canadian Long-Term Care and United States Operations separately. Subsequent to December 31, 2010, Chartwell has changed the composition of its reportable segments as management operations no longer satisfies the threshold of a reportable segment. Prior periods have been restated to accommodate this change.

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.

Three months ended March 31, 2011							
Note	Canadian Retirement operations	Canadian Long-Term Care operations	United States operations	Segment total	Unallocated	Consolidated	
Revenue:							
	\$ 87,742	\$ 48,069	\$ 46,245	\$ 182,056	\$ -	\$ 182,056	
					849	849	
					597	597	
	87,742	48,069	46,245	182,056	1,446	183,502	
	(56,715)	(42,220)	(30,528)	(129,463)	-	(129,463)	
					(6,161)	(6,161)	
	(56,715)	(42,220)	(30,528)	(129,463)	(6,161)	(135,624)	
	31,027	5,849	15,717	52,593	(4,715)	47,878	
	(23,480)	(2,134)	(14,563)	(40,177)	-	(40,177)	
	(376)	(17)	(203)	(596)	-	(596)	
	7,171	3,698	951	11,820	(4,715)	7,105	
18	(10,951)	(3,162)	(10,668)	(24,781)	(4,757)	(29,538)	
					3,969	3,969	
	\$ (3,780)	\$ 536	\$ (9,717)	\$ (12,961)	\$ (5,503)	\$ (18,464)	
Expenditures for non-current assets:							
	\$ 1,875	\$ -	\$ -	\$ 1,875	\$ -	\$ 1,875	
	2,278	3,820	2,124	8,222	-	8,222	

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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(Unaudited)

16. Segmented information (continued):

Three months ended March 31, 2010							
Note	Canadian Retirement operations	Canadian Long-Term Care operations	United States operations	Segment total	Unallocated	Consolidated	
Revenue:							
	\$ 84,292	\$ 36,157	\$ 42,134	\$ 162,583	\$ –	\$ 162,583	
	–	–	–	–	1,446	1,446	
	–	–	–	–	1,499	1,499	
	84,292	36,157	42,134	162,583	2,945	165,528	
	(54,071)	(31,826)	(27,014)	(112,911)	–	(112,911)	
	–	–	–	–	(5,578)	(5,578)	
	(54,071)	(31,826)	(27,014)	(112,911)	(5,578)	(118,489)	
	30,221	4,331	15,120	49,672	(2,633)	47,039	
	(22,966)	(1,445)	(12,148)	(36,559)	(346)	(36,905)	
	(108)	(309)	(45)	(462)	(56)	(518)	
	7,147	2,577	2,927	12,651	(3,035)	9,616	
18	(10,636)	(2,269)	(10,026)	(22,931)	(5,109)	(28,040)	
	–	–	–	–	(353)	(353)	
	\$ (3,489)	\$ 308	\$ (7,099)	\$ (10,280)	\$ (8,497)	\$ (18,777)	
Expenditures for non-current assets:							
	\$ 87,880	\$ –	\$ –	\$ 87,880	\$ –	\$ 87,880	
	3,964	516	673	5,153	–	5,153	

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16. Segmented information (continued):

March 31, 2011						
	Canadian Retirement operations	Canadian Long-Term Care operations	United States operations	Segment total	Unallocated	Consolidated
Operating assets	\$ 1,486,513	\$ 340,510	\$ 762,178	\$ 2,589,201	\$ 25,750	\$ 2,614,771
Operating liabilities	\$ 933,687	\$ 250,909	\$ 614,629	\$ 1,799,225	\$ 194,789	\$ 1,994,012

December 31, 2010						
	Canadian Retirement operations	Canadian Long-Term Care operations	United States operations	Segment total	Unallocated	Consolidated
Operating assets	\$ 1,506,185	\$ 334,104	\$ 802,073	\$ 2,642,362	\$ 36,734	\$ 2,679,096
Operating liabilities	\$ 946,402	\$ 252,143	\$ 630,393	\$ 1,828,938	\$ 193,804	\$ 2,022,742

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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 regulation by provincial governments.

The Board of Trustees has overall responsibility for the establishment and oversight of the Trust's risk management framework. Management is responsible for developing and monitoring the Trust's 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, 2010.

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18. Finance income and finance cost:

	2011	2010
Interest income on loans and receivables	\$ 940	\$ 1,380
Changes in fair value of convertible debentures	938	–
Changes in fair value of interest rate on swap	–	92
Finance income	\$ 1,878	\$ 1,472
Interest expense of mortgages payable measured at amortized cost	\$ (23,252)	\$ (21,930)
Interest expense on convertible debentures	(1,106)	(2,980)
Credit facility and other interest expense	(416)	–
Total contractual interest expense	(24,774)	(24,910)
Amortization of financing costs and fair value adjustment on mortgage payable	(705)	(819)
Interest capitalized to properties under development	243	–
Distributions on Class B Units recorded as interest expense	(227)	(253)
Property lease expense	(651)	(559)
Changes in fair value of interest rate swap	(149)	–
Unrealized foreign exchange loss	(1,337)	(1,895)
Changes in fair value of LTIP	(2,000)	(355)
Changes in fair value of Class B Units	(1,816)	(471)
Changes in fair value of convertible debentures	–	(250)
Finance cost	\$ (31,416)	\$ (29,512)

19. Income taxes:

For the three months ended March 31, 2011, Chartwell recorded a current income tax expense of \$76 (2010 - \$80) and a deferred income tax expense (benefit) of (\$4,045) (2010 - \$273)

20. Subsequent events:

Subsequent to March 31, 2011, Chartwell acquired Spectrum's one-third interest in one property in Mississauga, Ontario for \$11,140 before closing costs. The purchase price was settled by the assumption of debt of \$7,605, settlement of the outstanding mezzanine loan of \$1,050, with the balance, net of working capital adjustments, paid in cash.

Subsequent to March 31, 2011, Chartwell completed mortgage financing on one of its properties in the amount of \$22,160 bearing interest at 4.82% and maturing in June 2036.