Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2007 and 2006

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AUDITORS' REPORT

To the Unitholders of Chartwell Seniors Housing
Real Estate Investment Trust

We have audited the consolidated balance sheets of Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell") as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Chartwell's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chartwell as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 6, 2008

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31, 2007 and 2006

	2007	2006
Assets		
Properties (note 3)	$ 2,110,985	$ 1,510,209
Mezzanine loans receivable (note 5)	107,624	101,290
Management contracts, resident contracts, customer relationships and other intangibles (note 6)	109,814	78,903
Cash and cash equivalents	72,528	125,939
Other assets (note 7)	72,075	99,266
Capital funding receivable (note 4)	48,078	13,000
Licenses	25,650	16,760
Goodwill (note 8)	56,445	32,383
	$ 2,603,199	$ 1,977,750
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 9)	$ 1,445,711	$ 987,046
Convertible debentures (note 10)	180,656	120,115
Loans payable (note 11)	2,386	2,303
Accounts payable and other liabilities (note 12)	142,190	98,995
Distributions payable	8,915	7,335
Future income tax liabilities (note 23)	18,732	–
	1,798,590	1,215,794
Non-controlling interest (note 13)	47,005	54,453
Unitholders' equity	757,604	707,503
Commitments and contingencies (notes 16, 20 and 21)		
Guarantees (note 25)		
Subsequent events (notes 12, 16, 18 and 26)		
	$ 2,603,199	$ 1,977,750

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" ____________________ Trustee

"Sidney Robinson" ____________________ Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Operations and Comprehensive Income
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

	2007	2006
Revenue:		
Resident	$ 604,195	$ 318,977
Management and other fees (note 18(a) and (b))	14,180	12,487
Mezzanine loan interest (notes 5 and 18(a) and (b))	13,342	10,361
Bank interest and other	8,152	3,271
Equity income from variable interest entities ("VIEs")	3,774	3,440
Below-market lease amortization	1,394	2,039
	645,037	350,575
Expenses:		
Direct operating	417,410	226,066
General, administrative and trust	21,830	16,818
	439,240	242,884
	205,797	107,691
Interest expense	90,982	47,043
Property lease expense (note 17)	46,468	–
Unrealized and realized loss/(gain) on derivative financial instruments and unrealized and realized foreign exchange loss/(gain)	10,925	126
	148,375	47,169
	57,422	60,522
Depreciation of properties	58,359	33,095
Amortization of management contracts, resident contracts, customer relationships and other intangibles	53,944	42,915
Write-down in carrying value of assets (notes 6 and 7)	1,456	858
	113,759	76,868
Loss before the undernoted	(56,337)	(16,346)
Gain (loss) on sale of assets (note 3)	(82)	396
Loss before income taxes	(56,419)	(15,950)
Income taxes (note 23):		
Current	2,004	–
Future	13,924	–
	15,928	–
Loss before non-controlling interest	(72,347)	(15,950)
Non-controlling interest (note 13)	5,008	1,252
Loss for the year	(67,339)	(14,698)
Other comprehensive income (loss):		
Unrealized foreign currency gain (loss) on the translation of self-sustaining foreign operations	(31,251)	1,761
Net change in fair value of derivatives designated as cash flow hedges (net of future taxes of $96) (note 24)	223	–
Non-controlling interest	2,090	(143)
	(28,938)	1,618
Comprehensive loss	$ (96,277)	$ (13,080)
Loss per unit:		
Basic and diluted (note 15)	$ (0.782)	$ (0.248)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2007 and 2006

2007	Trust Units issued, net (note 14)	LTIP Units under subscription (note 16)	LTIP instalment loan receivable (note 16)	Losses	Accumulated other comprehensive income (loss) (note 1(b))	Distributions	Convertible debentures (note 10)	Total
Unitholders' equity, January 1, 2007	$ 874,165	$ 27,667	$ (23,343)	$ (33,319)	$ 587	$ (142,968)	$ 4,714	$ 707,503
Cumulative impact of adopting new accounting standards for financial instruments (note 1(b))	–	–	–	14	–	–	–	14
Loss for the year	–	–	–	(67,339)	–	–	–	(67,339)
Other comprehensive loss	–	–	–	–	(28,938)	–	–	(28,938)
Distributions to unitholders	–	–	–	–	–	(94,145)	–	(94,145)
Trust Units issued pursuant to secondary public offering	200,925	–	–	–	–	–	–	200,925
Trust Units issued pursuant to exercise of over-allotment option	30,139	–	–	–	–	–	–	30,139
Issuance of 5.9% Convertible Debentures	–	–	–	–	–	–	10,563	10,563
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	4,317	–	–	–	–	–	–	4,317
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	3,657	–	–	–	–	–	–	3,657
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury	223	4,313	(4,054)	–	–	–	–	482
Repayment of instalment loan receivable	–	–	220	–	–	–	–	220
Trust Units issued on dispositions of LTIP Units under subscription	93	(86)	70	–	–	–	–	77
Trust Units issued on dispositions of Treasury Units	755	–	–	–	–	–	–	755
Issue costs	(11,773)	–	–	–	–	–	(396)	(12,169)
Interest on instalment loan receivable	–	–	(1,083)	–	–	–	–	(1,083)
Distributions applied against instalment loan receivable	–	–	2,557	–	–	–	–	2,557
Trust Units issued on conversion of convertible debentures	72	–	–	–	–	–	(3)	69
Unitholders' equity, December 31, 2007	$ 1,102,573	$ 31,894	$ (25,633)	$ (100,644)	$ (28,351)	$ (237,113)	$ 14,878	$ 757,604

2006	Trust Units issued, net (note 14)	LTIP Units under subscription (note 16)	LTIP instalment loan receivable (note 16)	Losses	Accumulated other comprehensive income (loss) (note 1(b))	Distributions	Convertible debentures (note 10)	Total
Unitholders' equity, January 1, 2006	$ 539,780	$ 19,138	$ (16,391)	$ (18,621)	$ (1,031)	$ (77,590)	$ –	$ 445,285
Loss for the year	–	–	–	(14,698)	–	–	–	(14,698)
Other comprehensive income	–	–	–	–	1,618	–	–	1,618
Distributions to unitholders	–	–	–	–	–	(65,378)	–	(65,378)
Trust Units issued pursuant to secondary public and private offerings	342,509	–	–	–	–	–	–	342,509
Issuance of 6.0% Convertible Debentures	–	–	–	–	–	–	4,954	4,954
Trust Units issued under the DRIP	2,476	–	–	–	–	–	–	2,476
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	2,233	–	–	–	–	–	–	2,233
Trust Units issued under the LTIP	–	9,415	(9,039)	–	–	–	–	376
Repayment of instalment loan receivable	–	–	220	–	–	–	–	220
Trust Units issued on dispositions of LTIP Units under subscription	867	(886)	818	–	–	–	–	799
Issue costs	(13,700)	–	–	–	–	–	(240)	(13,940)
Interest on instalment loan receivable	–	–	(799)	–	–	–	–	(799)
Distributions applied against instalment loan receivable	–	–	1,848	–	–	–	–	1,848
Unitholders' equity, December 31, 2006	$ 874,165	$ 27,667	$ (23,343)	$ (33,319)	$ 587	$ (142,968)	$ 4,714	$ 707,503

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (67,339)	$ (14,698)
Items not affecting cash:		
Depreciation and amortization	112,303	76,010
Write-down in carrying value of assets	1,456	858
Loss (gain) on sale of assets	82	(396)
Amortization of below-market resident contracts	(1,394)	(2,039)
Adjustment to record lease expense on a straight-line basis over the lease term	8,068	–
Option benefit granted under the LTIP	540	376
Income from long-term investments	(49)	(22)
Unrealized loss/(gain) on derivative financial instruments and unrealized foreign exchange loss/(gain)	10,925	(599)
Non-controlling interest	(5,008)	(1,252)
Amortization of financing expenses	4,484	3,194
Accretion adjustment to convertible debenture liability	2,075	–
Amortization of debt discounts	1,743	420
Amortization of mezzanine loan fees and costs	(1,384)	–
Future income taxes	13,924	–
Change in non-cash operating items (note 22)	21,009	1,569
	101,435	63,421
Financing activities:		
Proceeds from mortgage financing	500,177	336,925
Mortgage principal repayments	(221,785)	(68,165)
Proceeds from loans payable	136	40
Repayment of loans payable	–	(29,450)
6.0% convertible debentures issued, net of issue costs	–	120,313
Financing costs	(9,418)	(8,091)
Proceeds received from ING (note 2)	41,919	–
5.9% convertible debentures issued, net of issue costs	72,188	–
Trust units issued pursuant to:		
Public offering	231,064	342,509
Issue costs	(11,773)	(13,700)
Disposition of Treasury Units	755	–
Distributions paid	(86,797)	(66,632)
Distributions paid to non-controlling interest unitholders	(6,816)	(5,795)
Repayment of LTIP instalment loan receivable	220	1,038
	509,870	608,992

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2007 and 2006

	2007	2006
Investing activities:		
Acquisition of assets, net of debt assumed and units issued (note 2)	(599,447)	(471,163)
Payment of deferred consideration on acquisitions of properties	(29,494)	(2,871)
Additions to properties	(45,304)	(34,499)
Amounts received under income guarantees	1,548	757
Proceeds on sale of properties	5,010	1,907
Mezzanine loans advances	(17,478)	(30,119)
Mezzanine loans repayments	3,368	–
Distributions on long-term investments	1,020	1,731
Restricted cash and deposits in escrow	21,463	(32,009)
Proceeds from capital funding receivables	1,343	344
	(657,971)	(565,922)
Foreign exchange gain (loss) on U.S. dollar-denominated cash	(6,745)	4,603
Increase (decrease) in cash and cash equivalents	(53,411)	111,094
Cash and cash equivalents, beginning of year	125,939	14,845
Cash and cash equivalents, end of year	$ 72,528	$ 125,939

Supplemental cash flow information (note 22)

See accompanying notes to consolidated financial statements.

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

Chartwell owns 100% of the outstanding Trust Units and Series 1 Trust Notes of CSH Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, which in turn owns 100% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba. Class B Units of Master LP are held by non-controlling investors.

The Canadian assets of Chartwell are held by Master LP, which carries out the business of the Trust. Its activities are financed through equity contributed by CSH Trust, Class B Unitholders and third party lenders, including mortgages.

The United States assets of Chartwell are also owned indirectly by Master LP, through its wholly-owned United States subsidiary corporation, CSH Master Care USA Inc.

The Trust indenture for CSH Trust requires that it distribute amounts sufficient to ensure that it will not be liable to pay income taxes in any given year. The Trustees of the Trust are required to make cash distributions to all Trust unitholders in accordance with Declaration of Trust, as amended, at minimum equal to, on an annual basis, the greater of 80% of the Distributable income and its taxable income (note 23).

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The 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.

1. Significant accounting policies (continued):

(b) Impact of new accounting standards:

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

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

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

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

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

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

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

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

1. Significant accounting policies (continued):

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

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

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

(i) Deferred expenses:

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

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

1. Significant accounting policies (continued):

(ii) Deferred revenue:

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

(iii) Other comprehensive income (loss):

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

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

(c) Business combinations:

Upon the acquisition of properties, Chartwell allocates the purchase price to the fair value of assets and liabilities, including land, building, furniture, fixtures and equipment and intangibles, such as licenses, the value of the above- and below-market resident contracts, in-place resident contracts and the value of customer relationships.

1. Significant accounting policies (continued):

(d) Properties:

Properties include land, buildings, furniture, fixtures and equipment and are recorded at cost less accumulated depreciation. An impairment loss on an income property is required to be recognized when the carrying amount of any individual property exceeds the sum of the undiscounted cash flows expected from its use and disposal. An impairment loss is measured as the amount by which the carrying amount of a property exceeds its fair value.

Land held for development included in properties, is carried at the lower of cost and estimated net realizable value. The cost of land includes pre-development expense, interest, realty taxes and other directly related expenses.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	40 years
Furniture, fixtures and equipment	3 - 5 years

(e) Goodwill and other intangibles:

Goodwill represents the cost of acquired net assets in excess of their fair values. Goodwill is not amortized, but tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired, by comparing the carrying value of a reporting unit with its fair value.

Intangible assets are recorded at cost and consist of third party management contracts, resident contracts, above- and below-market resident contracts, customer relationships, other intangibles and licenses. Intangible assets with finite useful lives are amortized over their useful lives and are tested for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with indefinite lives are not amortized and are tested for impairment annually or more frequently if events or circumstances indicate that the assets might be impaired.

1. Significant accounting policies (continued):

(i) Management contracts and customer relationships:

Management contracts and customer relationships are amortized on a straight-line basis over the term of the contract or if no term is specified, over an estimated life not to exceed five years.

(ii) Above- and below-market resident contracts:

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 a decrease (in the case of above-market resident contracts) to revenue over the expected term of the associated resident occupancy, estimated at an average of three years for retirement homes and two years for long-term care properties.

(iii) Resident contracts:

The value associated with in-place resident contracts, which represents the avoided costs 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.

(iv) Other intangibles:

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

(v) Licenses:

Licenses for the operation of long-term care properties, when acquired, are recorded at cost.

These licenses are considered to have an indefinite life and are not amortized.

1. Significant accounting policies (continued):

(f) Long-term investments:

The long-term investments represent investments subject to significant influence and are accounted for under the equity method. An impairment loss on long-term investments is recognized when the carrying amount of the long-term investments exceeds their fair value.

(g) Cash and cash equivalents:

Cash and cash equivalents include unrestricted 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 net realizable value.

(h) Revenue recognition:

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

(i) Retirement home resident revenue:

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

(ii) Long-term care home resident revenue:

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian Long Term Care Properties are recognized when the rental or ancillary services are provided.

1. Significant accounting policies (continued):

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

Canadian 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.

(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.

1. Significant accounting policies (continued):

(b) Fee revenue from development services relates to building design and construction oversight. Development fee revenues are recognized on a project-specific basis using the percentage-of-completion method reflecting level of effort expended to achieve predetermined project milestones. Prior to submission to the municipality for a building permit, no development fees are recognized. At submission, 65% of the estimated fees are recognized. The remaining portion of fees revenue is recognized on a straight-line basis over the estimated period the services are provided.

(c) Fee revenue from financing and due diligence project management is recognized upon completion of the contracted services.

(v) Gains/losses on properties:

Gains/losses on long-lived income properties are recognized when the Trust has transferred to the purchaser the significant risks and rewards of ownership of the property and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

(vi) Multiple deliverables:

Chartwell earns revenue from contracts which include multiple deliverables. Under the Development Agreement with Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell by virtue of common management (note 5(a)), and agreements with Melior and others, the Trust earns interest from mezzanine loans as well as mezzanine placement fees, development fees, structuring fees, financing fees and operations management fees. These multiple-element arrangements are assessed on a case-by-case basis to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. The revenue recognition policies described above are then applied to each unit of accounting.

1. Significant accounting policies (continued):

Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell's lending activities and are 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.

(i) Long-Term Incentive Plan:

Chartwell accounts for its LTIP using the fair value-based method, under which a compensation expense is recognized, over the vesting period, for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes.

As the units issued under the LTIP are treated as options for accounting purposes, they are included in the diluted per unit calculations to the extent they are dilutive.

(j) Employee future benefits:

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

Employees belonging to the Hospital Employees Union are entitled to severance pay and a payout of 40% of accumulated sick pay benefits after 10 years of service under certain conditions of employment termination or on retirement. Chartwell accrues its obligations for these post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in direct operating expenses in the current year.

1. Significant accounting policies (continued):

(k) Income taxes:

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

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

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

Under the SIFT Rules, the new taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Chartwell does not meet the REIT Conditions and therefore is a SIFT.

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

1. Significant accounting policies (continued):

Under the existing SIFT Rules, certain flow-through subsidiaries of Chartwell may also themselves be SIFTs. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. Until such technical amendments are substantively enacted, as currently structured, certain subsidiaries of Chartwell may also be SIFTs.

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

The impact of the new SIFT Rules resulted in Chartwell recording a current income tax liability of $1,770 and a future tax liability of $18,732 as at December 31, 2007 (note 23).

(l) Foreign currency:

Financial statements of Chartwell's self-sustaining operations in the United States are translated into Canadian currency using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the consolidated balance sheet dates. Revenue and expenses are translated at rates in effect on the dates on which such items are recognized in income during the year.

Exchange gains and losses arising from the translation of the financial statements of Chartwell's self-sustaining foreign operations are deferred and included in other comprehensive income. When there is a reduction in Chartwell's net investment in a self-sustaining foreign operation, a proportionate amount of the accumulated other comprehensive income related to currency translation is included in the determination of loss for the year.

1. Significant accounting policies (continued):

(m) Derivative financial instruments:

Interest rate derivatives:

Chartwell enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Chartwell may designate its interest rate swap agreements as hedges of the underlying interest. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred on the consolidated balance sheets and recognized in loss for the year in the year in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in loss for the year.

(n) Convertible debentures:

Chartwell accounts for convertible debentures by valuing the holders' option to convert to units and classifying such value as equity. The remaining value of the convertible debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

(o) 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 includes estimates of the costs of both reported and claims incurred but not reported and is 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.

1. Significant accounting policies (continued):

(p) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. In determining the estimated construction period over which to recognize development fees, the estimated mezzanine loan term over which fee revenue for services considered integral to the Trust's lending activities is to be recognized, the fair value of assets and liabilities of businesses it acquires, the fair values of financial instruments, the expected gains and losses of VIEs, the recoverability of mezzanine loans, the estimated useful lives and net recoverable amounts for properties, the fair value of goodwill, as well as the reversal pattern of temporary differences related to future income tax, Chartwell relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

(q) Future accounting changes:

(i) There are four new accounting standards that are effective for Chartwell's 2008 fiscal year: Section 1535, Capital Disclosures; Section 3862, Financial Instruments - Disclosures; Section 3863, Financial Instruments - Presentation and Section 3031, Inventories.

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

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

1. Significant accounting policies (continued):

Section 3031 introduces changes to the measurement and disclosure of inventory and converges with international accounting standards. The standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Trust does not expect that the adoption of this standard will have a material impact on its financial statements.

(ii) In 2008, CICA issued Section 3064, Goodwill and Intangible Assets. Section 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2009. The Trust is currently assessing the impact of the new standard.

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

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

2. Acquisitions:

The following table summarizes the net assets acquired, at fair value:

	2007	2006
Assets		
Properties	$ 726,226	$ 534,204
Management contracts, resident contracts, customer relationships and other intangibles	97,418	57,334
Land held for development	2,500	7,757
Other assets	14,936	–
Capital funding receivable	36,421	4,184
Licenses	8,890	4,825
Goodwill	25,267	9,613
Assets held for sale	122,505	–
	1,034,163	617,917
Liabilities		
Mortgages and loans payable	277,886	98,828
Below-market resident contracts	–	3,364
Other liabilities	13,175	–
Future income tax liability	4,904	–
Liabilities related to assets held for sale	80,107	–
	376,072	102,192
Net assets acquired	$ 658,091	$ 515,725
Settled by:		
Issuance of Class B Units of Master LP (note 13)	$ 10,145	$ 11,091
Issuance of Class B Common Units of CSH Massapequa Inc.	663	–
Deferred consideration on business combinations (note 12)	44,005	27,206
Discharge of mezzanine loans receivable (note 5)	3,831	6,265
Cash	599,447	471,163
	$ 658,091	$ 515,725

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

2. Acquisitions (continued):

During the year ended December 31, 2007, Chartwell completed the following acquisitions:

(a) RegencyCare Portfolio:

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

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

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

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

In addition, Chartwell had acquired all of the outstanding shares of three management and consulting companies for a total consideration of $13,099. As a result of this acquisition and related agreements, Chartwell is the manager of the RegencyCare LTC Properties and two third-party long-term care properties. Chartwell continues to manage four other long-term care properties owned by third-parties on a month-by-month basis.

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

2. Acquisitions (continued):

Chartwell continues to assess the initial valuation of the net assets acquired and based on this evaluation, the purchase price allocation for accounting purposes may be adjusted.

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

Assets		
Properties	$	94,830
Management contracts, resident contracts, customer relationships and other intangibles		10,481
Capital funding receivable		27,991
Other assets		3,840
Land held for development		2,500
Licenses		6,920
		146,562
Liabilities		
Mortgages and loans payable		80,261
Other liabilities		5,095
Future income tax liability		4,904
		90,260
Net assets acquired	$	56,302

(b) Merrill Gardens Portfolio:

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

Chartwell continues to assess the initial valuation of the net assets acquired and based on this evaluation, the purchase price allocation for accounting purposes may be adjusted.

2. Acquisitions (continued):

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

(c) Horizon Bay Realty, L.L.C.:

On January 1, 2007, CSH Master Care LLC, an indirect, wholly owned subsidiary of the Trust ("CSH Master Care"), acquired a 49% interest in WHSLH Realty, L.L.C., subsequently renamed Horizon Bay Realty, L.L.C. ("HB Realty"), which through its subsidiaries owns leased interests in 25 seniors housing communities in the United States. In addition, HB Realty owns 100% of Horizon Bay Management LLC ("HBM"), which currently manages these seniors housing properties and has a 50% interest in Horizon Bay Chartwell LLC ("HBC"), which was formed by HBM and Chartwell as a 50/50 joint venture arrangement to manage certain of the Trust's properties in the United States. The value of the 49% interest in HB Realty's assets net of cash acquired was $29,988 (U.S. $25,744), which was satisfied by the assumption of accounts payable and other liabilities of $3,553 (U.S. $3,050), deferred purchase consideration of $4,077 (U.S. $3,500) and cash of $22,358 (U.S. $19,194). The deferred purchase consideration may first be applied to fund any cash shortfalls under the lease arrangements in the first two years following the closing.

(d) Bristal Portfolio:

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

2. Acquisitions (continued):

(e) Other:

During the year ended December 31, 2007, Chartwell acquired six seniors housing properties and one long-term care properties in Canada for a total purchase price of $93,626 and $30,676, respectively, from three different vendors and an interest in three seniors housing properties from Spectrum for consideration of $55,798. Chartwell assumed mortgages and loans payable totalling $63,177 and assumed other liabilities of $664 on these acquisitions. The net assets acquired in these acquisitions were financed with the issuance of $10,145 of Class B Units of Master LP, the discharge of $3,831 in mezzanine loans receivable, deferred consideration of $1,415 and the balance settled in cash.

(f) During the year ended December 31, 2006, Chartwell completed the acquisitions of 22 seniors housing properties and a 50% interest in 15 other properties for total net consideration of $515,725. Included in these acquisitions are the following:

(i) Acquisitions in the United States of America:

In 2006, Chartwell acquired a 50% interest in 13 properties and a 100% interest in one other property in the United States for a total purchase price of $209,483.

(ii) Other acquisitions:

Included in 2006 acquisitions are four properties acquired from Spectrum and its joint venture partner for a total purchase price of $58,436.

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

3. Properties:

			2007			2006
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 213,626	$ –	$ 213,626	$ 162,465	$ –	$ 162,465
Buildings	1,926,463	95,363	1,831,100	1,344,944	52,575	1,292,369
Furniture, fixtures and equipment	74,640	28,615	46,025	53,143	15,917	37,226
	2,214,729	123,978	2,090,751	1,560,552	68,492	1,492,060
Land held for development	20,234	–	20,234	18,149	–	18,149
	$ 2,234,963	$ 123,978	$ 2,110,985	$ 1,578,701	$ 68,492	$ 1,510,209

At December 31, 2007, building costs included $21,669 (2006 - $3,222) related to the development of additional units at existing properties.

During the year ended December 31, 2007, Chartwell sold three properties and miscellaneous equipment with a carrying value of $4,600. A loss of $82 was recognized on these sales.

Included in properties as at December 31, 2007, are assets under capital leases with a cost of $134,706 and accumulated depreciation of $3,137.

During the year ended December 31, 2006, Chartwell disposed of its 50% interest in the commercial section of a property as part of its acquisition of the remaining 50% interest in a seniors housing property from its joint venture partner. A gain of $296 was recognized on sale proceeds of $1,280.

During the year ended December 31, 2006, Chartwell disposed of land held for development with a carrying value of $527. This land was sold at an appraised value to an entity partially owned by Spectrum and Melior. A gain of $100 was recognized on this sale.

4. Capital funding receivable:

The capital funding receivable of $48,078 (2006 - $13,000) represents the discounted cash flows receivable from the Government of Ontario over a period of approximately 15 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 homes for the remaining period. The discount rate used is based upon long-term Ontario Government Bond rates.

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

5. Mezzanine loans receivable:

	2007			2006
	Principal amount	Fees, net of lending expenses (note 1(b))	Net balance	Principal amount
Spectrum	$ 50,128	$ 418	$ 50,546	$ 45,277
Melior	45,135	(3,986)	41,149	42,182
Others	16,774	(845)	15,929	13,831
	$ 112,037	$ (4,413)	$ 107,624	$ 101,290

(a) Spectrum:

In addition to providing development services, operations management services and financing services in relation to arranging construction loans, in accordance with the terms of the Development Agreement, Chartwell provides mezzanine loans to Spectrum. At December 31, 2007, the principal amount of mezzanine loans due from Spectrum amounted to $50,128 (2006 - $45,277). In accordance with the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Canada bonds plus 5% and Chartwell's annualized cash distribution yield for the most recent quarter, subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum and is payable monthly. The loans outstanding as at December 31, 2007 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 32 (2006 - 35) seniors housing development properties.

Chartwell has the first option to provide mezzanine financing to Spectrum for future development properties under the terms and conditions specified in the Development Agreement.

Spectrum has a right to terminate the Development Agreement upon providing six-months' notice. Under such circumstances, certain rights of Chartwell in respect of existing mezzanine loans and options on related projects will continue.

5. Mezzanine loans receivable (continued):

Under the terms of the Development Agreement, Chartwell has the first right to purchase Spectrum's interest in each development property provided that Spectrum must offer Chartwell the opportunity to purchase any development property within one year of such property reaching a stabilized occupancy. If Chartwell elects to purchase a development property, Chartwell will acquire the property at an amount equal to 95%, 92.5% or 90% of appraised fair market value, depending upon the amount of mezzanine financing provided on the development property or at 100% of the appraised fair market value if no mezzanine financing had been advanced.

(b) Melior and other joint venture partners:

In addition to providing development services, structuring services, operations management services and financing services in relation to arranging construction loans, Chartwell has advanced 28 (2006 - 25) mezzanine loans totalling $61,909 (2006 - $56,013) to seven of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling $45,135 at December 31, 2007 (2006 - $42,182), advanced to entities controlled by Melior. These loans bear interest at rates ranging from 10% to 14% per annum payable monthly and are secured by second charges or pledges of the Borrowers' interests over 25 (2006 - 23) seniors housing development projects.

Chartwell has the first right to purchase the Borrowers' interests in these projects at fair market value upon properties reaching a stabilized occupancy.

In addition, the Borrowers of 17 (2006 - 13) of these mezzanine loans can obligate Chartwell to acquire their interests in the projects at the appraised value, subject to certain conditions being satisfied.

Each mezzanine loan matures on the earliest of: the fifth anniversary of the initial advance of the funds; the date of sale of the related development property; or on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development Agreement with Spectrum and loan agreements with the Borrowers. No principal is due prior to maturity of each loan.

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

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

			2007			2006
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 13,314	$ 3,834	$ 9,480	$ 6,277	$ 2,714	$ 3,563
Resident contracts	159,794	87,196	72,598	150,668	76,642	74,026
Customer relationships	3,214	2,596	618	3,497	2,183	1,314
Other intangibles	29,175	2,057	27,118	–	–	–
	$ 205,497	$ 95,683	$ 109,814	$ 160,442	$ 81,539	$ 78,903

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

During the year ended December 31, 2007, the termination of two (2006 - seven) management contracts resulted in a write-down of $106 (2006 - $539) and $67 (2006 - $319) in the carrying value of management contracts and customer relationships, respectively.

During the year ended December 31, 2007, $75 (2006 - $115) and $14 (2006 - $34) of management contracts and customer relationships, respectively, were transferred to goodwill following the acquisition of the related seniors housing properties by Chartwell.

During the year ended December 31, 2007, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and customer relationships that were fully amortized by $35,873 (2006 - nil).

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

7. Other assets:

	2007	2006
Accounts receivable	$ 24,086	$ 15,183
Deferred financing costs, net of accumulated amortization of nil (2006 - $7,086) (note 1(b))	–	16,834
Deposits on acquisitions	111	11,683
Long-term investments	264	2,518
Due from Spectrum (note 18(a))	5,678	2,515
Due from ING	4,754	1,458
Prepaid expenses and deposits	10,251	8,974
Deposits in escrow	18,427	34,308
Other	8,504	5,793
	$ 72,075	$ 99,266

During the year ended December 31, 2007, the Trust wrote-down its long-term investment in a senior housing property by $1,283.

8. Goodwill:

	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
December 31, 2005	$ 6,839	$ 6,463	$ 9,319	$ –	$ 22,621
Goodwill acquired during the year (note 2)	9,613	–	–	–	9,613
Management contracts and customer relationships transferred to goodwill (note 6)	149	–	–	–	149
December 31, 2006	16,601	6,463	9,319	–	32,383
Goodwill acquired during the year (note 2)	7,323	2,720	–	15,224	25,267
Contingent consideration payments allocated to goodwill	150	–	–	487	637
Management contracts and customer relationships transferred to goodwill (note 6)	89	–	–	–	89
Effect of foreign exchange translation of self-sustaining foreign operations	–	–	–	(1,931)	(1,931)
December 31, 2007	$ 24,163	$ 9,183	$ 9,319	$ 13,780	$ 56,445

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

9. Mortgages payable:

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

	Regular principal payments	Principal due on maturity	Total
2008	$ 24,515	$ 107,570	$ 132,085
2009	22,181	102,305	124,486
2010	21,739	56,592	78,331
2011	22,167	25,976	48,143
2012	23,669	70,710	94,379
2013	23,697	56,515	80,212
2014	21,698	33,396	55,094
2015	21,629	77,167	98,796
2016	19,001	170,010	189,011
2017	14,578	246,935	261,513
2018 - 2021	62,507	96,819	159,326
Thereafter	76,394	48,511	124,905
	$ 353,775	$ 1,092,506	1,446,281
Mark-to-market adjustment arising on acquisition			17,147
Financing costs (note 1(b))			(17,717)
			$ 1,445,711

	2007	2006
Mortgages at fixed rates	$1,411,243	$899,511
Interest rates	3.50% - 10.00%	3.50% - 10.00%
Weighted average interest rate	5.78%	5.71%
Mortgages at variable rates	$35,038	$78,563
Interest rates	Prime plus 0.75% - 3.00%	Bankers' acceptance plus 0.65% - prime plus 3.00%
Weighted average interest rate	6.86%	5.58%

During the year ended December 31, 2007, interest expense on mortgages payable amounted to $75,676 (2006 - $44,576).

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

10. Convertible debentures:

			2007			2006
	6.0% Convertible Debentures	5.9% Convertible Debentures	Total	6.0% Convertible Debentures	5.9% Convertible Debentures	Total
Principal	$ 124,925	$ 75,000	$ 199,925	$ 125,000	$ –	$ 125,000
Debt component	$ 117,266	$ 63,390	$ 180,656	$ 120,115	$ –	$ 120,115

(a) 5.9% Convertible Debentures:

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

10. Convertible debentures (continued):

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

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

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

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

10. Convertible debentures (continued):

(b) 6.0% Convertible Debentures:

On November 28, 2006, Chartwell issued $125,000,000 of convertible, unsecured subordinated debentures ("6.0% Convertible Debentures") pursuant to a prospectus dated November 16, 2006 for proceeds of $120,313, net of issue costs. The 6.0% Convertible Debentures bear interest at an annual rate of 6.0% payable semi-annually in arrears on December 1 and June 1 in each year commencing December 1, 2006. Each 6.0% Convertible Debenture is convertible into freely-tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of December 1, 2011 and the last business day immediately preceding the date specified by Chartwell for redemption of the 6.0% Convertible Debentures, at a conversion price of $15.60 per Trust Unit. Holders converting their 6.0% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 6.0% Convertible Debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell has suspended regular distributions, then a 6.0% Convertible Debentures holder, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion.

The 6.0% Convertible Debentures will not be redeemable by Chartwell before December 1, 2009 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after December 1, 2009 but prior to December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the Indenture is not less than 125% of the conversion price. On or after December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

10. Convertible debentures (continued):

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 6.0% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely-tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the Indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 6.0% Convertible Debentures trustee to satisfy the obligations to pay interest on the 6.0% Convertible Debentures.

As Chartwell's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell requires a variable number of Trust Units to be issued to satisfy the obligation, the 6.0% Convertible Debentures are recorded primarily as a liability. On issuance, Chartwell has recorded a liability of $120,046 and equity, which represents the holders' option to convert the 6.0% Convertible Debentures into Trust Units, of $4,954. Chartwell incurred issue costs of $4,688, of which $240 has been recorded as a reduction of the equity component of the 6.0% Convertible Debentures. The remaining $4,448 of issue costs will be amortized to interest expense over the term of the 6.0% Convertible Debentures.

Interest expense is recorded on the liability component of the 6.0% Convertible Debentures as a charge to income and is calculated at the effective rate of approximately 8.0% with the difference between the coupon interest rate of 6.0% and the effective rate of 8.0% credited to the liability component of the 6.0% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 6.0% Convertible Debentures.

During the year ended December 31, 2007, 6.0% Convertible Debentures with a principal amount of $75 were converted into 4,808 Trust Units at a conversion price of $15.60.

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

11. Loans payable:

	2007	2006
Non-voting Series A preferred interests of CSH Master Care (a)	$ 1,645	$ 2,013
Other loans	741	290
	$ 2,386	$ 2,303

Chartwell has arranged for a $90,000 secured revolving operating facility. At December 31, 2007, the maximum available borrowing capacity was $64,497 (2006 - $75,737) based on the security provided. Under the terms of the operating facility, Chartwell's distributions may not exceed distributable income as defined in the agreement. In 2007 and 2006, distributions paid or payable in cash exceeded distributable income, as defined in this credit agreement and in Chartwell's Declaration of Trust, on an accrual basis and Chartwell has obtained waivers of this covenant from its lenders for each of these years. No amounts were outstanding under this facility as at December 31, 2007.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific properties. The credit facility is due on June 28, 2008. The term may be extended with the consent of the lenders for an additional 364-day period.

(a) On October 1, 2005, CSH Master Care LLC, a U.S. subsidiary of Chartwell, issued 144,405 Series A Interests to the vendors of two seniors housing properties acquired in the United States at $14.87 per unit interest. These vendors are joint venture partners of Chartwell in other projects.

Series A Interests become redeemable at the option of the holders at specific points in time over three years ending September 30, 2008. The redemption price is payable in Canadian dollars and will be based on the closing price of Chartwell Trust Units (note 14). Series A Interests are classified as a liability in these consolidated financial statements and are measured at their redemption value. Unrealized and realized gains and losses resulting from changes in the redemption value of Series A Interests are recorded in income. At December 31, 2007, the redemption price of Series A Interests was $11.35 (2006 - $13.94) per unit interest; consequently, a gain of $73 (2006 - loss of $298) was recorded in these consolidated financial statements. Series A Interests receive monthly distributions equal to distributions on Chartwell Trust Units. For the year ended December 31, 2007, these distributions are recorded as interest expense in the consolidated financial statements and amounted to $154 (2006 - $154).

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

12. Accounts payable and other liabilities:

	2007	2006
Accounts payable and accrued liabilities	$ 84,171	$ 50,808
Income taxes payable	2,004	–
Below-market resident contracts, net of accumulated amortization of $979 (2006 - $5,197)	1,578	3,260
Resident deposits	5,199	4,805
Deferred consideration on business combinations	41,305	29,820
Deferred revenue	7,933	10,302
	$ 142,190	$ 98,995

Included in deferred consideration on business combinations at December 31 are the following:

Acquisition	2007	2006
Castel Royale (a)	$ 520	$ 520
Elizabeth Towers (b)	1,180	1,180
Heritage Glen (c)	15,801	20,365
Van Horne Manor (d)	50	50
Domaine Bellerive (e)	–	5,250
Devonshire Seniors Residence (f)	–	2,455
HB Realty (note 2(c) and (g))	1,784	–
Bristal Portfolio (note 2(d) and (h)):		
Series A notes	3,014	–
Series B notes	9,877	–
Class B Preferred Units	5,016	–
Jardins de la Gare (i)	1,471	–
Merrill Gardens Portfolio (note 2(b) and (j))	2,592	–
	$ 41,305	$ 29,820

(a) $520 related to the acquisition of Castel Royale in 2006, which is due between the third and the seventh anniversary of the closing upon conversion of certain apartment units into seniors' housing units.

(b) $1,180 related to the acquisition of Elizabeth Towers in 2006, which is due each anniversary date starting on July 31, 2007 upon conversion of certain apartment units into seniors' housing units. $262 of this amount was paid in February 2008.

12. Accounts payable and other liabilities (continued):

(c) $15,801 representing the net present value of $18,000 of deferred purchase consideration related to the acquisition of Heritage Glen in 2006 with $4,500 due on the second anniversary, $3,500 due on the third anniversary, $2,500 due on the fourth anniversary, $2,500 due on the fifth anniversary and $5,000 due on the sixth anniversary of closing. The portion of the purchase price being deferred is in connection with the conversion of the units into seniors' housing suites and the implementation of seniors housing property programs. A discount rate of 4.81% was used to determine the net present value of the deferred consideration. During the year ended December 31, 2007, the amount of $5,500, due on the first anniversary of closing, was paid.

(d) $50 related to the acquisition of Van Horne Manor in 2006. This amount was paid in February 2008.

(e) $5,250 related to the acquisition of Domaine Bellerive in 2006, which is due each anniversary date starting on November 9, 2007 upon conversion of certain apartment units to seniors' housing suites and the implementation of seniors housing facility programs. This amount was paid during the year ended December 31, 2007.

(f) $2,455 related to the acquisition of Devonshire Seniors Residence in 2003 which achieved predetermined operating targets in 2006, at which time this portion of the deferred consideration became due. This amount was paid during the year ended December 31, 2007.

(g) In connection with the HB Realty acquisition (note 2(c)) CSH Master Care issued deferred consideration of $3,470 (U.S. $3,500). The deferred consideration may first be applied to fund cash short falls under the lease arrangements in the first two years following closing. During the year ended December 31, 2007, $1,663 (U.S. $1,700) of this amount was used to fund cash short falls under the lease arrangements.

(h) In connection with the Bristal Portfolio acquisition (note 2(d)), non-interest bearing Series A and Series B notes were issued as deferred consideration for the four stabilized properties. At acquisition the Series A notes had a principal value (Trust's share) of $3,857 (U.S. $3,308) and mature on the third anniversary of the date of the acquisition. The Series B notes had a principal value (Trust's share) of $12,469 (U.S. $10,693) and mature as to 25.0%, 32.1% and 42.9% of the principal on the first, second and third anniversary dates of the date of the acquisition, respectively. On February 21, 2008, Chartwell paid $3,469 of the Series B notes (U.S. $3,500), representing its share of the principal and interest due on the first anniversary of acquisition.

12. Accounts payable and other liabilities (continued):

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

The Class A Preferred Units were redeemable by the holders at their principal amount during the period from August 1, 2007 to October 30, 2007. These units paid a dividend equal to the interest rate negotiated for the mortgage on the Massapequa facility until August 1, 2007 and subsequently at this rate less 50 basis points. During the year ended December 31, 2007, pursuant to the option exercised by the vendor, CSH-INGRE LLC acquired all the outstanding Class A Preferred Units. Chartwell's portion of the consideration was \$8,478 (U.S. \$8,475) plus accrued and unpaid dividends.

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

During the year ended December 31, 2007, pursuant to the put options exercised by the vendor, CSH-INGRE LLC acquired the first tranche (50,000 units) and second tranche (50,000 units) of the outstanding Class B Preferred Units. Chartwell's portion of the consideration was \$5,027 (U.S. \$5,000) plus accrued and unpaid dividends.

CSH-INGRE LLC also received the put option notice for the third tranche (100,000 units) of the Class B Preferred Units on October 10, 2007. CSH-INGRE LLC has 90 days from receipt of the notice to acquire the units. Chartwell's share of the acquisition price of the units is \$4,956 (U.S. \$5,000) plus accrued and unpaid dividends. This amount was paid on January 8, 2008.

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

12. Accounts payable and other liabilities (continued):

(i) $1,471 representing the net present value of $1,500 of deferred purchase consideration related to the acquisition of Jardins de la Gare in April 2007 due on the first anniversary of closing. A discount rate of 5.81% was used to determine the net present value of the deferred consideration.

(j) $2,592 (U.S. $2,615) representing the present value of a $2,612 (U.S. $2,633) 4.62% promissory note due January 2, 2011 related to the acquisition of the leasehold interest in two senior housing properties in Florida. A discount rate of 5.83% was used to determine the net present value of the deferred consideration.

13. Non-controlling interest:

Non-controlling interest represents the interest of the holders of the Class B Units of Master LP, which is consolidated in these consolidated financial statements. Class B Units of Master LP are exchangeable, at the option of the holder, into Trust Units. Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Class B Units are transferable to third parties with Chartwell's consent.

The details of non-controlling interest are as follows:

	2007	2006
Balance, beginning of year	$ 54,453	$ 52,448
Cumulative impact of adopting the New Standards	1	–
Issuance of Class B Units of Master LP (note 2)	10,145	11,091
Non-controlling interest's share of loss for the year	(5,008)	(1,252)
Distributions on Class B Units of Master LP	(6,839)	(5,744)
Exchange of Class B Units of Master LP for Trust Units	(3,657)	(2,233)
Other comprehensive income (loss)	(2,090)	143
Balance, end of year	$ 47,005	$ 54,453

14. Unitholders' capital:

Chartwell is authorized to issue unlimited Trust Units.

Trust Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Chartwell, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

(i) 90% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period ending immediately prior to the date on which the Units were surrendered for redemption; and

(ii) 100% of the "closing market price" on the principal market on which the Units are listed for trading on the redemption date.

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed $50,000 unless waived at the discretion of the Trust Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the redemption price payable in respect of Trust Units surrendered for redemption exceeds $50,000 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell.

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

14. Unitholders' capital (continued):

(a) The following units are issued and outstanding and exclude the issuance of LTIP Units:

	Number of voting units	Amount
Units outstanding, January 1, 2006	49,218,102	$ 539,780
May 9, 2006:		
Trust Units issued pursuant to secondary public offering	13,310,000	185,009
November 28, 2006:		
Trust Units issued pursuant to secondary public offering	3,676,475	50,000
Trust Units issued pursuant to private placement	7,150,000	97,240
November 30, 2006:		
Trust Units issued pursuant to exercise of over-allotment option	551,470	7,500
Trust Units issued pursuant to private placement	202,941	2,760
Trust Units issued under the DRIP	181,626	2,476
Trust Units issued on exchange of Class B Units of Master LP	223,425	2,233
Trust Units issued on dispositions of LTIP Units under subscription	62,500	867
Issue costs	–	(13,700)
Units outstanding, January 1, 2007	74,576,539	874,165
Trust Units issued pursuant to secondary public offering	14,100,000	200,925
Trust Units issued pursuant to exercise of over-allotment option	2,115,000	30,139
Trust Units issued under the DRIP	328,065	4,317
Trust Units issued on exchange of Class B Units of Master LP	425,039	3,657
LTIP Units transferred to Treasury	–	223
Trust Units issued on dispositions of LTIP Units under subscription	5,000	93
Trust Units issued on dispositions of Treasury Units	71,250	755
Issue costs	–	(11,773)
Trust Units issued on conversion of convertible debentures	4,808	72
Units outstanding, December 31, 2007	91,625,701	$ 1,102,573

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

14. Unitholders' capital (continued):

(b) DRIP:

Chartwell has established a DRIP for its unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

15. Loss per unit calculation:

	2007		2006	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the year	86,134,046	$ (67,339)	59,165,726	$ (14,698)
Loss per unit (basic and diluted)		$ (0.782)		$ (0.248)

The calculation of per unit information on a diluted basis considers the potential exercise of outstanding unit options to the extent that the exercise of the option is dilutive and the potential conversion of outstanding convertible debentures to the extent that such conversion is dilutive.

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

	2007	2006
LTIP Units under subscription	2,421,472	1,766,962
Class B Units of Master LP	6,394,515	5,367,091
Assumed conversion of convertible debentures	11,233,099	724,447

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

16. Long-Term Incentive Plan:

Chartwell has established an LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of issuance, which will be payable in cash instalments, over a term not to exceed 10 years. Participants are required to pay interest on the LTIP instalment loan receivable at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time LTIP Units are issued over 10 year fixed period. Cash distributions received on the LTIP Units issued are to be applied as payment of the interest and principal against the LTIP instalment loan receivable. Participants may prepay any principal at their discretion. Units issued under the LTIP are held as security for the outstanding LTIP instalment loan receivable. If a participant fails to pay interest and/or any principal, Chartwell may elect to reacquire or sell the Trust LTIP Units in satisfaction of the outstanding amounts. Chartwell has no recourse to the participants' assets.

In 2005, the LTIP was amended to include vesting provisions for subsequent issuances of LTIP Units under the LTIP, where Trust Units vest as to 1/3 in the first year of employment, 1/3 in the third year of employment and 1/3 in the fifth year of employment.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,707,000 were issued and 2,336,323 were outstanding at December 31, 2007.

The following table summarizes LTIP Units issued under LTIP in 2007 and 2006:

	Number of Units under subscription	Amount
Balance, December 31, 2005	1,475,000	$ 19,138
Sale of Trust Units	(62,500)	(886)
Issuance of Trust Units	657,875	9,039
Compensation expense	–	376
Balance, December 31, 2006	2,070,375	27,667
Sale of Units	(76,250)	(86)
Issuance of Units	342,198	3,773
Compensation expense	–	540
Balance, December 31, 2007	2,336,323	$ 31,894

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

16. Long-Term Incentive Plan (continued):

The market value of the Trust Units at December 31, 2007 was $11.35 per Unit (2006 - $13.94).

The compensation expense attributable to the LTIP of $540 (2006 - $376) is charged against earnings with a corresponding amount included in unitholders' equity as Units under subscription. The unit instalment loans receivable are recognized as a deduction from Units under subscription. Distributions received under the LTIP are charged to unitholders' equity while interest received under the LTIP is credited to distributions.

The fair value of the LTIP on the date of issuance in 2006 and 2007 was estimated using the Black-Scholes option pricing model with the following assumptions:

	October 4, 2005 and subsequent issuances
Dividend yield	7.0%
Volatility	10.0% - 12.0%
Risk-free interest rate	3.34% - 3.94%
Expected life	1 - 10 years
Average expected employee tenure	6.7 years
Imputed interest benefit	4.60%

At December 31, 2007, Chartwell was committed to issue an additional 971,177 (2006 - 557,875 units) units for eligible employees subject to board approval.

17. Property lease expense:

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

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

17. Property lease expense (continued):

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

A summary of property lease expense is as follows:

	2007	2006
Lease payments	$ 38,400	$ –
Adjustment to record lease expense on a straight-line basis over the lease term	8,068	–
Property lease expense	$ 46,468	$ –

18. Related party transactions and balances:

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

(a) Spectrum:

	2007	2006
Mezzanine loan interest (note 5(a))	$ 5,228	$ 5,144
Development fees	4,477	4,523
Operations management fees	1,591	863
Financing fees	–	662
Other fees	501	627

Other assets as at December 31, 2007 include $5,678 (2006 - $2,515) due from Spectrum. Subsequent to December 31, 2007, $423 of this balance was collected.

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

Included in accounts payable is $600 in deferred consideration due to Spectrum with respect to a property acquired from Spectrum in 2006.

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

18. Related party transactions and balances (continued):

(b) Melior:

	2007	2006
Mezzanine loan interest (note 5(b))	$ 6,364	$ 4,120
Development fees	–	1,981
Referral and due diligence fees paid (note 21(h))	(959)	(3,241)
Fees paid for net increase in economic value created (note 21(h))	(3,486)	(216)
Reimbursed expenses paid	(98)	(245)

At December 31, 2007, accounts receivable and other assets include $2,309 (2006 - $2,613) due from Melior. Subsequent to December 31, 2007, $804 of the outstanding amounts receivable from Melior was collected.

At December 31, 2007, Chartwell had accounts payable due to Melior of $569 (2006 - nil) relating to referral fees, management fees, incentive fees and legal fees.

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

(d) Included in mortgages payable at December 31, 2007 is a vendor take-back mortgage of $1,097 (2006 - $2,270) due to an officer of Chartwell. During the year ended December 31, 2007, the Trust incurred interest expense of $114 (2006 - $189) related to this mortgage.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

19. Segmented information:

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

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

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

19. Segmented information (continued):

2007	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 240,602	$ 133,749	$ 14,180	$ 229,844	$ 618,375
Equity income from VIEs	3,774	–	–	–	3,774
Below-market lease amortization	560	35	–	799	1,394
Direct operating expense	151,032	116,890	3,996	145,492	417,410
Income before the undernoted	93,904	16,894	10,184	85,151	206,133
Interest expense	33,984	8,331	–	35,048	77,363
Property lease expense	–	39	–	46,429	46,468
Income before the following	59,920	8,524	10,184	3,674	82,302
Depreciation and amortization	57,196	10,065	2,254	42,788	112,303
Write-down in carrying value of assets	1,284	–	172	–	1,456
Loss on sale of assets	82	–	–	–	82
	$ 1,358	$ (1,541)	$ 7,758	$ (39,114)	(31,539)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					21,494
General, administrative and trust expenses					(21,830)
Interest on convertible debentures					(13,619)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain/(loss)					(10,925)
Non-controlling interest					5,008
Current income tax expense					(2,004)
Future income tax expense					(13,924)
Loss for the year					$ (67,339)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 142,101	$ 138,097	$ –	$ 569,772	$ 849,970
Capital improvements	30,586	6,298	1,529	6,891	45,304

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

19. Segmented information (continued):

2006	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 181,068	$ 85,580	$ 12,487	$ 52,329	$ 331,464
Equity income from VIEs	3,440	–	–	–	3,440
Below-market lease amortization	1,329	211	–	499	2,039
Direct operating expense	114,556	74,755	4,027	32,728	226,066
Income before the undernoted	71,281	11,036	8,460	20,100	110,877
Interest expense	30,170	4,473	–	11,628	46,271
Income before the following	41,111	6,563	8,460	8,472	64,606
Depreciation and amortization	51,741	5,140	2,573	16,556	76,010
Write-down in carrying value of assets	–	–	858	–	858
Gain on sale of assets	(396)	–	–	–	(396)
	$ (10,234)	$ 1,423	$ 5,029	$ (8,084)	(11,866)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					13,632
General, administrative and trust expenses					(16,818)
Interest on convertible debentures					(772)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain/(loss)					(126)
Non-controlling interest					1,252
Loss for the year					$ (14,698)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 350,968	$ 43,669	$ –	$ 209,483	$ 604,120
Capital improvements	29,277	3,305	–	1,917	34,499

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

19. Segmented information (continued):

2007	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,234,363	$ 330,297	$ 16,680	$ 836,953	$ 184,906	$ 2,603,199
Total liabilities	784,783	216,358	–	592,046	205,403	1,798,590

2006	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,192,399	$ 155,884	$ 18,393	$ 383,845	$ 227,229	$ 1,977,750
Total liabilities	680,336	110,791	6,813	290,404	127,450	1,215,794

20. Joint venture operations and variable interest entities:

(a) Joint venture operations:

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

	2007	2006
Assets	$ 713,494	$ 439,660
Liabilities	520,354	323,517

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

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

	2007	2006
Revenue	$ 214,572	$ 59,129
Expenses, including depreciation and amortization of $37,118 (2006 - $20,219)	244,186	68,801
Loss for the year	(29,614)	(9,672)
Cash provided by (used in):		
Operating activities	$ 10,395	$ 21,181
Financing activities	259,167	198,626
Investing activities	(259,090)	(217,707)

Chartwell's joint venture operations are generally undertaken through entities in which the Trust holds an indirect interest. The joint venture entities are borrowers of liabilities in excess of Chartwell's proportionate share amounting to $520,534 (2006 - $323,517), which have not been recorded in the Trust's financial statements. The assets of these joint ventures are available and sufficient to satisfy these liabilities.

(b) VIEs:

(i) At December 31, 2007, Chartwell holds variable interests in 20 (2006 - 18) VIEs. Chartwell provides development services, mezzanine loans, structuring services and consulting services to these entities. These VIEs are expected to incur development costs of approximately $471,803 (2006 - $419,187).

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

As of December 31, 2007, Chartwell had mezzanine loans receivable of $69,105 (2006 - $62,708) from these entities. During the year ended December 31, 2007, Chartwell earned $8,600 (2006 - $5,316) in interest from these entities.

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

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

(ii) At December 31, 2007, Chartwell, through a holding company, holds variable interests in seven (2006 - seven) VIEs. These entities are structured to lease the respective properties from Chartwell and an entity controlled by Melior. At December 31, 2007, Chartwell recognizes its proportionate direct interest in these properties which have a cost of $66,704 (2006 - $61,140) and accumulated amortization of $5,871 (2006 - $3,781). Under the terms of the operating lease, Chartwell and an entity controlled by Melior will receive the net revenue of the properties less $1 per property.

Chartwell is not considered to be the primary beneficiary and is required to account for its interest in these entities using the equity method of accounting.

(iii) At December 31, 2007, Chartwell through its acquisition of CPAC (Care) Holdings Inc., held a variable interest in one VIE. This entity was created to construct a condominium development project in Langley, British Columbia and is jointly owned by Chartwell and a third party. At December 31, 2006, this investment was accounted for using the equity method of accounting with a cost of $978.

During 2007, Chartwell acquired the remaining 50% of the entity it did not already hold. At December 31, 2007, CPAC (Care) Holdings Inc. is no longer considered a VIE and is now consolidated in the financial statements.

21. Commitments and contingencies:

(a) Operating leases of seniors housing properties:

Chartwell has a leasehold interest in 25 properties through the acquisition of a 49% interest in HB Realty (note 2(c)) and a leasehold interest in two properties acquired with the Merrill Gardens Portfolio (note 2(b)). Chartwell's share of the aggregate amount of all future minimum lease payments under the leases are as follows for the years ending December 31:

2008	$ 37,305
2009	38,502
2010	39,739
2011	41,017
2012	50,255
Thereafter	293,251
	$ 500,069

21. Commitments and contingencies (continued):

(b) Other leases:

Chartwell has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of $126.

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

In addition, Chartwell has operating leases on office space in Canada which expire on various dates up to May 31, 2015. Annual payments in aggregate on these leases vary from $958 to $1,004 over the term of the lease. Further, Chartwell has an operating lease in the United States which expires on April 30, 2013. Annual payments on this lease vary from $763 to $875 over the term of the lease. Chartwell's share is 49% of the amounts due under the lease.

(c) Acquisitions:

As of December 31, 2007, Chartwell is committed to acquire varying interests in two seniors housing properties in the United States for an aggregate purchase price of approximately $23,989 (U.S. $24,200) and two seniors housing properties in Canada for an aggregate purchase price of $35,683.

(d) Purchase obligations:

Chartwell has entered into various construction contracts related to various internal growth projects. As at December 31, 2007, the remaining commitments under these contracts amounted to approximately $23,112.

As at December 31, 2007, Chartwell has entered into fixed-price natural gas contracts with a third-party natural gas supplier for $1,806 to provide gas for its own use at its properties. Chartwell has also entered into fixed-price electricity contracts with local utilities in the United States for $2,377 (U.S. $2,398) to provide electricity for its own use at its properties.

21. Commitments and contingencies (continued):

(e) At December 31, 2007, contingent consideration on acquisitions of properties amounted to $7,095 and consisted of the following:

(i) The vendor of one property is entitled to receive an additional $1,795 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually.

(ii) Spectrum is entitled to receive additional consideration of $300 with respect to one property sold to Chartwell in 2006 contingent upon the property achieving certain earnings targets within three years following the close of the acquisition.

(iii) The vendor of one property is entitled to receive an additional $4,000 in respect of certain suites that had been added to the property.

(iv) The vendor of one property is entitled to receive an additional $1,000 contingent upon the property achieving predetermined operating income increases over the three-year period following acquisition.

(f) Mezzanine loans receivable:

As at December 31, 2007, Chartwell has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of $10,690 (2006 - $41,577) (note 5).

Borrowers of 16 mezzanine loans (2006 - 13) can obligate Chartwell to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

(g) Letters of credit:

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

21. Commitments and contingencies (continued):

(h) Other contracts:

(i) Chartwell's properties in the Province of Quebec are managed by CM Management Limited Partnership ("CM"), a joint venture between Chartwell and Melior. The properties' management agreements are for a term of five years and call for payment of management fees between 4% and 5% of gross revenue. Chartwell owns a 50% interest in CM.

(ii) Properties Chartwell owns in the United States are managed by HBC and HBC II Manager LLC ("HBC II"). The properties' management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenue plus incentive fee based on certain operating targets. Through Chartwell's acquisition of HB Realty, Chartwell owns a 74.5% effective interest in HBC (note 2(c)). Chartwell also owns a 75% interest in HBC II.

(iii) In accordance with contracts between Chartwell and Melior, Chartwell has committed to the following:

(a) For a period of 10 years, expiring February 5, 2016, payment of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell in the Province of Quebec whether or not such acquisition is introduced, presented or referred by Melior and 2.0% of the purchase amount of each and every acquisition by Chartwell of properties in Canada, excluding the Province of Quebec, which is introduced, presented or referred by Melior.

(b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of $50,000 and 3% of total budgeted development costs for the related project (note 18(b)).

(c) For as long as Chartwell and Melior are co-owners of at least one property in the Province of Quebec, payment of 25% of net increased economic value created on Chartwell's internal growth projects in the Province of Quebec, as determined by independent appraisals.

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

21. Commitments and contingencies (continued):

(i) Litigation and claims:

In the ordinary course of business activities, Chartwell may be contingently liable for litigation and claims from, among others, residents, partners and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of Chartwell.

22. Supplemental cash flow information:

The following amounts recognized during the year ended December 31 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

	2007	2006
Distributions payable, including distributions payable to non-controlling interests of $557 (2006 - $553)	$ 8,915	$ 7,335
Non-cash consideration on acquisitions:		
Class B Units of Master LP	10,145	11,091
Class B Common Units of CSH Massapequa Inc.	663	–
Deferred consideration	44,005	27,206
Discharge of mezzanine loans receivable	3,831	6,265
Distributions applied against instalment loans receivable related to LTIP	2,557	1,848
Interest on instalment loans receivable related to LTIP	1,083	799
Trust Units issued pursuant to the DRIP	4,317	2,476

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

22. Supplemental cash flow information (continued):

	2007	2006
Change in non-cash operating items:		
Accounts receivable	$ (1,450)	$ (7,780)
Deposits on acquisitions	11,572	(11,019)
Due from Spectrum	(3,163)	149
Due from ING	(3,296)	(1,458)
Accounts payable and other liabilities	11,548	20,300
Other	5,798	1,377
	$ 21,009	$ 1,569

In accordance with Chartwell's Third Amended and Restated Declaration of Trust, the Trust may distribute to the Trust unitholders such percentage of the Distributable Income of the Trust as the Trustees in their discretion may determine and declare. Notwithstanding the foregoing, the Trust shall distribute in each year an amount equal to at least 80% of the distributable income of the Trust provided that the Trust receives amounts equal to such distributions from its investments. While the Trustees have discretion over the determination of Distributable Income to be distributed, Chartwell is required under the Declaration of Trust to distribute an amount at least equal to the income of Chartwell for tax purposes.

During the year ended December 31, 2007, interest paid amounted to $83,230 (2006 - $45,296).

During the year ended December, 2007, cash distributions on Trust Units amounted to $86,797 (2006 - $66,632).

During the year ended December 31, 2007, Chartwell applied $41,919 received from ING against net assets of $42,398, related to the RegencyCare LTC Properties, acquired by ING from Chartwell. These amounts have been excluded from the consolidated statement of cash flows.

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

23. Income taxes:

Due to the SIFT Rules (note 1(k)), Chartwell commenced recognizing current and future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, including those related to its subsidiary trust, that are expected to reverse after 2007. The SIFT Rules resulted in Chartwell recording a current income tax expense of $1,770 and a future income tax expense of $13,924 for the year ended December 31, 2007.

The tax effects of temporary differences that give rise to significant portions of the Canadian future tax assets and liabilities are as follows as at December 31, 2007:

Future income tax assets:	
Mortgages payable	$ 5,467
Issue costs	8,623
Losses carried forward	2,823
Other	4,831
Valuation allowance	(3,900)
	17,844
Future income tax liabilities:	
Properties	(21,874)
Management contracts, resident contracts customer relationships and other intangibles	(11,357)
Other	(3,345)
	(36,576)
Net future income tax liability	$ (18,732)

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

23. Income taxes (continued):

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At December 31, 2007, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately $32,882 (U.S. $33,170). Of these losses, approximately $938 (U.S. $946) expire in 2025, $2,063 (U.S. $2,081) expire in 2026 and $29,881 (U.S. $30,143) expire in 2027.

As at December 31, 2007, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of $16,407 (U.S. $16,551) against which a valuation allowance of $16,407 (U.S. $16,551) has been recorded.

The provision for income taxes in the consolidated statement of operations and comprehensive income represents an effective income tax rate different than the Canadian SIFT tax rate of 34%. The differences are as follows:

Loss before income taxes	$ (56,419)
Computed income tax recovery at Canadian SIFT tax rate	(19,182)
Increase (decrease) resulting from:	
Future income taxes resulting from a change in tax status with the enactment of the SIFT rules	16,389
Reduction of future income taxes arising from a change in tax rate	(1,118)
Effect of permanent differences	1,688
Income of trust taxed directly to unitholders	760
Change in valuation allowance	18,501
International income tax rate differences	(1,686)
Other	576
Income tax expense	$ 15,928

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

24. Financial instruments and financial risk management:

In the normal course of business, Chartwell is exposed to various financial risks, including changes in interest rates, changes in foreign currency exchange rates and government regulatory controls. The following describes these financial risks and how they are managed by Chartwell and the fair values of these financial instruments:

(a) Foreign currency exchange risk:

At December 31, 2007, through its self-sustaining United States operations, 32% (2006 - 19%) of Chartwell's assets and 37% (2006 - 26%) of Chartwell's mortgages payable were held in the United States and for the year ended December 31, 2007, 37% (2006 - 16%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in exchange rates between Chartwell's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. dollar-denominated financial instruments which are not a component of the self-sustaining U.S. operations.

Chartwell may use derivative financial instruments to hedge its foreign currency exposures. Chartwell's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the consolidated financial statements. The U.S. operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk.

(b) Interest rate risk:

Interest rate risk arises with changes in interest costs, which affect Chartwell's floating rate debt on an ongoing basis and its fixed-rate debt upon renewal. At December 31, 2007, $35,038 (2006 - $78,563) of Chartwell's mortgages and loans payable, excluding hedged loans, bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell fixes the term of long-term debt within a range from 5 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed-rate long-term debt over time.

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

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell entered into an interest rate swap contract with a notional principal amount of $13,836 that entitles Chartwell to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.95% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on an estimate of the cost to close the contract as at December 31, 2007 is a loss position of $689 (2006 - $934), which is included in accrued liabilities on the consolidated balance sheet (note 12). Included in other comprehensive loss for the year ended December 31, 2007 is a gain of $223 (net of future taxes of $96) that relates to the effective portion of the net change in fair value of interest rate swaps designated as hedges.

(c) Credit and collection risk:

Chartwell has four significant categories of receivables: mezzanine borrowers, various provincial governments, resident clients and retirement homes and long-term care properties to which it provides management services. Chartwell is exposed to credit risk in the collection of its mezzanine loans receivable and the normal credit risk from residents. Collection risk associated with these residents relates to their ability to potentially challenge certain charges. Chartwell provides management and other services to the borrowers of mezzanine loans and through such activities, monitors the status of the underlying development projects securing these loans for signs of possible impairment.

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

(d) Fair value:

Fair value represents management's estimates of the market value at a given point in time. The fair values of Chartwell's financial assets and financial liabilities, except as noted, approximate their carrying values due to their short-term nature.

	Carrying value of loans and receivable and non-trading liabilities	Fair value of loans and receivable and non-trading liabilities
Financial assets:		
Mezzanine loans receivable (i)	$ 107,624	$ 103,411
Capital funding receivable (ii)	48,078	49,999
Financial liabilities:		
Mortgages payable (iii)	1,445,711	1,469,280
Debt component of convertible debentures (iv)	180,656	190,547

(i) The fair value of mezzanine loans receivable is an estimate based on the rates currently charged on Chartwell's mezzanine loans. The carrying value of the mezzanine loans has not been written down as management intends to hold them to maturity such that it will recover the carrying amount.

(ii) The fair value of capital funding receivable is an estimate based on the yield of the applicable bonds issued by the Province of Ontario.

(iii) The fair value of mortgages payable is an estimate based on the rates currently prevailing for similar instruments of similar maturities.

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

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

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

Liability	$ 180,656
Equity	14,878
	$ 195,534

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

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

(e) Reliance on government subsidies:

Chartwell holds licenses related to each of its long-term care properties, which receive funding from the relevant provincial government. During the year ended December 31, 2007, the Trust received approximately $78,754 (2006 - $60,176) in respect of these licenses, which has been recorded as resident revenue.

25. Guarantees:

At December 31, 2007, Chartwell remains as a guarantor on the debt of two properties to a maximum amount of $23,850 (2006 - $23,850). As at December 31, 2007, $18,197 (2006 - $18,560) of the loans was outstanding. The guarantees are in relation to the properties that were sold to Spectrum for $3,865. Spectrum has indemnified Chartwell for these guarantees and pays an annual guarantee fee, subject to rental achievement provisions.

At December 31, 2007, Chartwell remains as a guarantor of the debt of one managed property with a balance of $3,100. The borrower has indemnified Chartwell for this guarantee.

25. Guarantees (continued):

At December 31, 2007, Chartwell and its joint venture partners provided joint and several guarantees of the debt of the co-owned properties. Effectively, Chartwell guarantees its partners' 50% share of this debt to a maximum amount of $53,437, of which $45,692 (2006 - $45,516) was outstanding at December 31, 2007. In the opinion of management, at December 31, 2007, the value of each of these properties exceeds the respective total amount of debt outstanding.

26. Subsequent event:

Subsequent to December 31, 2007, Chartwell acquired a senior housing facility in Canada for a purchase price of approximately $29,183 from Spectrum, Melior and Spectrum joint venture partners.

27. Comparative figures:

Certain 2006 figures have been reclassified to conform with the financial statement presentation adopted in 2007.