Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month periods ended March 31, 2008 and 2007
(Unaudited)

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

	March 31, 2008	December 31, 2007
	(Unaudited)	(Audited)
Assets		
Properties (note 3)	$ 2,152,471	$ 2,110,985
Mezzanine loans receivable (note 4)	101,912	107,624
Management contracts, resident contracts, customer relationships and other intangibles (note 5)	107,818	109,814
Cash and cash equivalents	36,698	72,528
Other assets (note 6)	77,003	72,075
Capital funding receivable	47,577	48,078
Licenses	25,650	25,650
Goodwill	57,535	56,445
	$ 2,606,664	$ 2,603,199
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7(a))	$ 1,476,543	$ 1,445,711
Convertible debentures (note 8)	181,616	180,656
Accounts payable and other liabilities (note 9)	111,764	103,271
Deferred consideration on business combinations (note 10)	33,407	41,305
Distributions payable	6,244	8,915
Future income tax liabilities (note 19)	19,089	18,732
	1,828,663	1,798,590
Non-controlling interest (note 11)	44,774	47,005
Unitholders' equity	733,227	757,604
Commitments and contingencies (notes 4(b), 16 and 17)		
Subsequent events (notes 14, 17 and 22)		
	$ 2,606,664	$ 2,603,199

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee

"Sidney Robinson" Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations and Comprehensive Income
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

	Three-month periods ended March 31, 2008	2007
Revenue:		
Resident	$ 166,387	$ 128,455
Management and other fees (note 14)	2,339	3,866
Mezzanine loan interest (notes 4 and 14)	3,028	3,357
Bank interest and other	1,262	1,370
Equity income from variable interest entities	855	881
Below-market lease amortization	478	413
	174,349	138,342
Expenses:		
Direct operating	115,221	89,266
General, administrative and trust	5,200	4,934
	120,421	94,200
	53,928	44,142
Interest expense	25,352	17,142
Property lease expense	11,421	12,387
Gain on sale of land (note 14)	(8)	–
Unrealized and realized loss/(gain) on derivative financial instruments and unrealized and realized foreign exchange loss/(gain)	(2,849)	626
	33,916	30,155
	20,012	13,987
Depreciation of properties	16,468	11,840
Amortization of management contracts, resident contracts, customer relationships and other intangibles	14,594	12,007
	31,062	23,847
Loss before income taxes	(11,050)	(9,860)
Income taxes (note 19):		
Current	999	–
Future	237	–
	1,236	–
Loss before non-controlling interest	(12,286)	(9,860)
Non-controlling interest (note 11)	765	730
Loss for the period	(11,521)	(9,130)
Other comprehensive income (loss):		
Unrealized foreign currency gain (loss) on the translation of self-sustaining foreign operations	6,128	(1,210)
Net change in fair value of derivatives designated as cash flow hedges (net of future income taxes of $120; 2007 - nil)	(549)	59
Non-controlling interest	(347)	86
	5,232	(1,065)
Comprehensive loss	$ (6,289)	$ (10,195)
Loss per Unit:		
Basic and diluted (note 13)	$ (0.126)	$ (0.122)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month period ended March 31, 2008	Trust Units issued, net	LTIP Units	LTIP instalment loan receivable	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components	Total
	(note 12)	(note 12)	(note 12)				(note 8)	
Unitholders' equity, January 1, 2008	$ 1,102,573	$ 31,894	$ (25,633)	$ (100,644)	$ (28,351)	$ (237,113)	$ 14,878	$ 757,604
Loss for the period	–	–	–	(11,521)	–	–	–	(11,521)
Other comprehensive loss	–	–	–	–	5,232	–	–	5,232
Distributions to unitholders	–	–	–	–	–	(22,291)	–	(22,291)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	2,859	–	–	–	–	–	–	2,859
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	320	–	–	–	–	–	–	320
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of Units transferred to Treasury	–	4,543	(4,126)	–	–	–	22	439
Disposition of LTIP Units surrendered	782	(563)	–	–	–	–	–	219
Interest on instalment loan receivable	–	–	(252)	–	–	–	–	(252)
Distributions applied against instalment loan receivable	–	–	618	–	–	–	–	618
Unitholders' equity, March 31, 2008	$ 1,106,534	$ 35,874	$ (29,393)	$ (112,165)	$ (23,119)	$ (259,404)	$ 14,900	$ 733,227

Three-month period ended March 31, 2007	Trust Units issued, net	LTIP Units	LTIP instalment loan receivable	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures	Total
	(note 12)	(note 12)	(note 12)				(note 8)	
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	–	–	–	14	–	–	–	14
Loss for the period	–	–	–	(9,130)	–	–	–	(9,130)
Other comprehensive loss	–	–	–	–	(1,065)	–	–	(1,065)
Distributions to unitholders	–	–	–	–	–	(20,294)	–	(20,294)
Trust Units issued under the DRIP	906	–	–	–	–	–	–	906
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	1,636	–	–	–	–	–	–	1,636
Trust Units issued under the LTIP, net of Units transferred to Treasury	–	6,341	(6,160)	–	–	–	–	181
Deposits received under the LTIP	–	–	164	–	–	–	–	164
Trust Units issued on disposition of LTIP Units under subscription	166	(86)	70	–	–	–	–	150
Trust Units issued on disposition of Treasury Units	239	–	–	–	–	–	–	239
Interest on instalment loan receivable	–	–	(267)	–	–	–	–	(267)
Distributions applied against instalment loan receivable	–	–	622	–	–	–	–	622
Trust Units issued on conversion of convertible debentures	72	–	–	–	–	–	(3)	69
Unitholders' equity, March 31, 2007	$ 877,184	$ 33,922	$ (28,914)	$ (42,435)	$ (478)	$ (163,262)	$ 4,711	$ 680,728

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended March 31, 2008	2007
Cash provided by (used in):		
Operating activities:		
Loss for the period	$ (11,521)	$ (9,130)
Items not affecting cash:		
Depreciation and amortization	31,062	23,847
Amortization of below-market resident contracts	(478)	(413)
Gain on sale of land	(8)	–
Adjustment to record lease expense on a straight-line basis over the lease term	1,652	2,351
Non-cash LTIP compensation expense	120	253
Income from long-term investments	(25)	(68)
Unrealized loss/(gain) on derivative financial instruments and unrealized foreign exchange loss/(gain)	(2,849)	626
Non-controlling interest	(765)	(730)
Amortization of financing expenses	1,207	1,077
Accretion adjustment to convertible debenture liability	671	284
Amortization of debt discounts	350	357
Amortization of mezzanine placement fees	(285)	(688)
Amortization of legal costs integral to mezzanine lending activities	150	182
Future income taxes	237	–
Change in non-cash operating items (note 18)	5,566	(30,503)
	25,084	(12,555)
Financing activities:		
Proceeds from mortgage financing	18,828	163,052
Mortgage principal repayments	(6,938)	(55,062)
Financing costs	(1,110)	(1,925)
Redemption of non-voting preferred interests of CSH Master Care LLC	(971)	–
Disposition of Treasury Units	555	239
Distributions paid	(21,562)	(20,011)
Distributions paid to non-controlling interest unitholders	(1,666)	(1,746)
Repayment of LTIP instalment loan receivable	–	234
	(12,864)	84,781

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended March 31, 2008	2007
Investing activities:		
Acquisition of assets, net of debt assumed and Units issued (note 2)	(23,677)	(195,593)
Payment of deferred consideration on business combinations	(8,687)	(2,455)
Additions to properties	(14,958)	(6,089)
Amounts received under income guarantees	263	–
Proceeds on sale of properties	50	–
Mezzanine loans receivable	–	(3,944)
Distributions on long-term investments	–	700
Restricted cash and deposits in escrow	(2,089)	25,269
Proceeds from capital funding receivables	501	147
	(48,597)	(181,965)
Foreign exchange gain on U.S. dollar-denominated cash	547	197
Decrease in cash and cash equivalents	(35,830)	(109,542)
Cash and cash equivalents, beginning of period	72,528	125,939
Cash and cash equivalents, end of period	$ 36,698	$ 16,397

Supplemental cash flow information (note 18)

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 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 21).

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and are consistent with those policies and methods of application as disclosed in the annual audited consolidated financial statements prepared as at and for the year ended December 31, 2007, except as disclosed below.

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to annual financial statements and should be read in conjunction with the annual audited consolidated financial statements.

1. Significant accounting policies (continued):

(b) Impact of new accounting standards:

On January 1, 2008, Chartwell adopted the new recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The disclosure of information enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new guidance did not have an effect on the financial position, operating results and cash flows of the Trust. Disclosures required under Section 1535, not provided elsewhere in these financial statements, are provided in note 21.

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. Management has determined that the adoption of Sections 3862 and 3863 did not have any material effect on the Trust's operating results, financial position and cash flows. Disclosures required under Section 3862, not provided elsewhere in these financial statements, are provided in note 20.

1. Significant accounting policies (continued):

(c) Future accounting changes:

(i) Goodwill and intangible assets:

In February 2008, the CICA issued a new accounting standard, Handbook Section 3064, Goodwill and Intangible Assets, which will be effective retroactively for Chartwell's interim and annual consolidated financial statements commencing January 1, 2009.

The objectives of this new section are to:

(a) reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and

(b) clarify the application of the concept of matching revenue and expenses such that current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated.

Chartwell is assessing the impact of the new standard on its consolidated financial statements.

(ii) Harmonizing of Canadian and international standards:

In February 2008, the Canadian Accounting Standard Board issued an exposure draft proposing that accounting standards in Canada for publicly accountable profit-oriented enterprises will converge with International Financial Reporting Standards ("IFRS") for interim and annual reporting periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by Chartwell for the year ended December 31, 2010. The impact of the transition to IFRS on Chartwell's financial statements has not yet been determined. Chartwell will monitor the convergence process and adopt the new standards when required.

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

2. Acquisitions:

(a) Acquisitions during the three-month period ended March 31, 2008:

During the three-month period ended March 31, 2008, Chartwell acquired 100% interest in one seniors housing property in Gatineau, Quebec from Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell by virtue of common management, Le Groupe Melior ("Melior"), and their joint venture partners for a net consideration of $29,537.

The acquisition was accounted for by the purchase method of accounting, with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the allocation of the purchase price (including costs of acquisition) to each major class of the assets acquired and liabilities assumed at the date of acquisition.

Chartwell continues to assess the initial valuation of the net assets acquired. The purchase price allocation for accounting purposes may be adjusted in future periods.

	Three-month period ended March 31, 2008
Date of acquisition	January 9, 2008
Location	Gatineau, Quebec (one retirement home - 173 units)
Properties	$ 26,633
Management contracts, resident contracts, customer relationships and other intangibles	2,135
Goodwill	981
Other assets	66
Below-market resident contracts	(93)
Other liabilities	(185)
Net assets acquired	$ 29,537
Discharge of mezzanine loans receivable	$ 5,860
Cash consideration	23,323
Acquisition costs	354
Total consideration	$ 29,537

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

2. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2007:

During the year ended December 31, 2007, Chartwell acquired varying interests in 72 seniors housing communities (11,158 suites) and management contracts for six long-term care communities. The following table summarizes the net assets acquired, at fair value:

Properties	$ 718,164
Resident contracts, leasehold and other intangibles	105,480
Land held for development	2,500
Capital funding receivable	36,421
Licences	8,890
Goodwill	25,267
Asset held for sale	122,505
Other assets	14,936
Mortgages and loans payable	(277,886)
Other liabilities	(13,175)
Future income tax liability	(4,904)
Liabilities related to assets held for sale	(80,107)
Net assets acquired	$ 658,091
Issuance of Class B Units of Master LP	$ 10,145
Issuance of Class B Common Units of CSH Massapequa Inc.	663
Deferred consideration on business combinations	44,005
Discharge of mezzanine loans receivable	3,831
Cash consideration	599,447
Total consideration	$ 658,091

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

During the three-month period ended March 31, 2008, the purchase price allocation was adjusted to reduce the allocation to building by $8,062 with the corresponding increase to other intangible assets.

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

3. Properties:

			March 31, 2008			December 31, 2007
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 216,807	$ –	$ 216,807	$ 213,626	$ –	$ 213,626
Buildings	1,957,665	108,839	1,848,826	1,908,584	95,363	1,813,221
Furniture, fixtures and equipment	76,681	32,549	44,132	74,640	28,615	46,025
	2,251,153	141,388	2,109,765	2,196,850	123,978	2,072,872
Properties under development	22,794	–	22,794	17,879	–	17,879
Land held for development	19,912	–	19,912	20,234	–	20,234
	$ 2,293,859	$ 141,388	$ 2,152,471	$ 2,234,963	$ 123,978	$ 2,110,985

Included in properties as at March 31, 2008 are assets under capital leases with a cost of $130,037 and accumulated depreciation of $3,946.

4. Mezzanine loans receivable:

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 and Loan Agreements, Chartwell provides mezzanine loans to Spectrum, Melior and other joint venture partners. Under the Development Agreement with Spectrum and the Loan Agreement with Melior and other joint venture partners, the Trust earns interest from mezzanine loans as well as mezzanine placement fees, development fees, structuring fees, financing fees and operations management fees.

				March 31, 2008	December 31, 2007
	Contractual interest rate	Principal amount	Fees, net of lending expenses	Net balance	Net balance
Spectrum	10% - 14%	$ 48,174	$ 372	$ 48,546	$ 50,546
Melior	10% - 14%	43,182	(3,903)	39,279	41,149
Others	10% - 14%	14,821	(734)	14,087	15,929
		$ 106,177	$ (4,265)	$ 101,912	$ 107,624

4. Mezzanine loans receivable (continued):

(a) Spectrum:

In accordance with the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Government of Canada bonds plus 5% and Chartwell's annualized cash contribution yield for the most recent quarter subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum as indicated above and is payable monthly. The loans are secured by second charges or pledges of Spectrum's interest over 32 (2007 - 33) seniors housing development properties. In addition, the loans are cross collateralized and cross defaulted.

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.

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% 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.

The Development Agreement expires on November 14, 2008 and is subject to automatic renewal for successive five-year periods. Both parties have 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.

(b) Melior and other joint venture partners:

Chartwell has advanced 26 (2007 - 28) mezzanine loans totalling $58,003 (2007 - $61,909) to Melior and six other joint venture partners of Spectrum (the "Borrowers"). These loans are secured by second charges or pledges of the Borrowers' interest over 24 (2007 - 25) seniors housing development projects.

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

4. Mezzanine loans receivable (continued):

Chartwell has the first right to purchase the Borrowers' interest in these projects at fair market value upon properties reaching a stabilized occupancy. In addition, the Borrowers of 14 (2007 - 16) 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 and Loan Agreements with the Borrowers. No principal amounts are due prior to maturity of each loan.

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

	March 31, 2008			December 31, 2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 12,881	$ 4,052	$ 8,829	$ 13,314	$ 3,834	$ 9,480
Resident contracts	161,490	96,907	64,583	159,794	87,196	72,598
Customer relationships	3,214	2,810	404	3,214	2,596	618
Other intangibles	38,941	4,939	34,002	29,175	2,057	27,118
	$ 216,526	$ 108,708	$ 107,818	$ 205,497	$ 95,683	$ 109,814

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

6. Other assets:

	March 31, 2008	December 31, 2007
Accounts receivable	$ 29,071	$ 24,086
Deposits on acquisitions	111	111
Long-term investments	289	264
Due from Spectrum (note14(a))	6,732	5,678
Due from ING	469	4,754
Prepaid expenses and deposits	10,657	10,251
Deposits in escrow	21,138	18,427
Other	8,536	8,504
	$ 77,003	$ 72,075

7. Secured debt:

(a) Mortgages payable:

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

	Regular principal payments	Principal due on maturity	Total
2008	$ 18,395	$ 99,709	$ 118,104
2009	22,432	107,853	130,285
2010	22,031	56,591	78,622
2011	22,584	25,976	48,560
2012	24,098	70,710	94,808
2013	24,102	59,475	83,577
2014	22,095	33,777	55,872
2015	22,030	79,513	101,543
2016	19,337	173,999	193,336
2017	14,820	254,064	268,884
2018 - 2022	62,683	117,057	179,740
Thereafter	76,221	48,510	124,731
	$ 350,828	$ 1,127,234	1,478,062
Mark-to-market adjustment arising on acquisition			16,489
Financing costs			(18,008)
			$ 1,476,543

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

7. Secured debt (continued):

	March 31, 2008	December 31, 2007
Mortgages at fixed rates	$1,443,048	$1,411,243
Interest rates	3.50% - 10.00%	3.50% - 10.00%
Weighted average interest rate	5.75%	5.78%
Mortgages at variable rates	$35,014	$35,038
Interest rates	Prime plus 0.50% - 3.00%	Prime plus 0.75% - 3.00%
Weighted average interest rate	6.17%	6.86%
Blended weighted average rate of maturing debt	5.76%	5.81%

During the three-month period ended March 31, 2008, interest expense on mortgages payable amounted to $21,064 (March 31, 2007 - $13,900).

(b) Secured revolving operating credit facility:

Chartwell has arranged for a $90,000 secured revolving operating credit facility (the "Credit Facility"). At March 31, 2008, the maximum available borrowing capacity, under the Credit Facility, was $68,653 (December 31, 2007 - $64,497) based on the security provided. Under the terms of the Credit Facility, Chartwell's distributions may not exceed distributable income as defined in the agreement. For the years ended December 31, 2007 and 2006, distributions paid or payable in cash exceeded distributable income, as defined in this Credit Facility and in Chartwell's Declaration of Trust, and Chartwell has obtained waivers of this covenant from its lenders for each of these years. No amounts were outstanding under the Credit Facility as at March 31, 2008 and as at December 31, 2007.

Amounts outstanding under the Credit 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 matures on June 28, 2008. The term may be extended with the consent of the lenders for an additional 364-day period.

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

8. Convertible debentures:

The Trust has the following series of convertible debentures outstanding:

(a) 6.0% convertible debentures, unsecured, subordinated with a principal amount of $125,000, maturing on December 1, 2011, bearing contractual interest at 6.0% per annum and paid semi-annually. Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 6.0% convertible debenture on redemption or maturity, in whole or part, by issuance of freely tradable Trust Units.

(b) 5.9% convertible debentures, unsecured, subordinated with a principal amount of $75,000, maturing on May 1, 2012, bearing contractual interest at 5.9% per annum, paid semi-annually. Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.9% convertible debenture on redemption or maturity in whole or in part, by the issuance of freely tradeable Trust Units.

9. Accounts payable and other liabilities:

	March 31, 2008	December 31, 2007
Accounts payable and accrued liabilities	$ 93,812	$ 86,557
Income taxes payable	3,003	2,004
Below-market resident contracts, net of accumulated amortization of $1,457 (December 31, 2007 - $979)	1,437	1,578
Resident deposits	4,694	5,199
Deferred revenue	8,818	7,933
	$ 111,764	$ 103,271

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

10. Deferred consideration on business combinations:

Included in deferred consideration on business combinations at March 31, 2008 are the following:

Business combinations	March 31, 2008	December 31, 2007
Castel Royale	$ 520	$ 520
Elizabeth Towers (a)	918	1,180
Heritage Glen	15,987	15,801
Van Horne Manor	–	50
HB Realty	1,848	1,784
Bristal Portfolio	9,918	17,907
Jardins de la Gare	1,493	1,471
Merrill Gardens Portfolio	2,723	2,592
	$ 33,407	$ 41,305

(a) In February 2008, $262 was paid in respect of the Elizabeth Towers acquisition.

During the three-month period ended March 31, 2008, Chartwell settled the following deferred consideration in cash:

(b) $3,469 (U.S. $3,500) of the Series B Notes relating to the Bristal Portfolio acquisition, representing Chartwell's share of the principal and interest due on the first anniversary of acquisition.

(c) $4,956 (U.S. $5,000) plus accrued and unpaid dividends, representing Chartwell's share of the acquisition price of the Units. The payment was made pursuant to the put option for the third tranche (100,000 Units) of the Class B Preferred Units exercised by the vendor on October 10, 2007.

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

11. Non-controlling interest:

The details of non-controlling interest are as follows:

	March 31, 2008	December 31, 2007
Balance, beginning of period	$ 47,005	$ 54,453
Cumulative impact of adopting the New Standards	–	1
Issuance of Class B Units of Master LP (note 2)	–	10,145
Non-controlling interest's share of loss for the period	(765)	(5,008)
Distributions on Class B Units of Master LP	(1,493)	(6,839)
Exchange of Class B Units of Master LP for Trust Units	(320)	(3,657)
Other comprehensive income (loss)	347	(2,090)
Balance, end of period	$ 44,774	$ 47,005

12. 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.

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

12. Unitholders' capital (continued):

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 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.

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

	Number of voting Units	Amount
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
Dispositions of LTIP Units surrendered	71,250	755
Issue costs	–	(11,773)
Trust Units issued on conversion of convertible debentures	4,808	72
Units outstanding, January 1, 2008	91,625,701	1,102,573
Trust Units issued under the DRIP	307,762	2,859
Trust Units issued on exchange of Class B Units of Master LP	42,760	320
Dispositions of LTIP Units surrendered	55,000	782
Units outstanding, March 31, 2008	92,031,223	$ 1,106,534

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

12. Unitholders' capital (continued):

(b) 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 20 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 a 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's recourse is limited to the Units it holds as security.

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 3,213,667 were issued and 2,687,223 are available to be issued at March 31, 2008.

The following table summarizes LTIP Units issued under the LTIP as at March 31, 2008:

	Number of Units under subscription	Amount
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
Issuance of Units	484,167	4,103
Compensation expense	–	120
Balance, March 31, 2008	2,820,490	$ 36,117

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

12. Unitholders' capital (continued):

The market value of the Trust Units at March 31, 2008 was $9.25 per Unit (March 31, 2007 - $14.22).

The compensation expense attributable to the LTIP of $120 (March 31, 2007 - $253) is included in general, administrative and trust expenses with a corresponding amount included in unitholders' equity as Units under subscription. The LTIP instalment loans receivable are recognized as a deduction from LTIP Units under subscription. Distributions received under the LTIP are charged to unitholders' equity while interest received under the LTIP is credited to distributions.

13. Loss per Unit calculations:

The following table sets forth the calculations of the numerator and denominator of the basic and diluted loss per Unit computations.

	Three-month periods ended March 31, 2008	Three-month periods ended March 31, 2007
Numerator:		
Loss for the period	$ (11,521)	$ (9,130)
Denominator:		
Denominator for basic earnings per Unit - weighted average Units	91,799,918	74,657,854
Denominator for diluted earnings per Unit - weighted average Units	91,799,918	74,657,854
Loss per Unit:		
Basic	$ (0.126)	$ (0.122)
Diluted	(0.126)	(0.122)

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

13. Loss per Unit calculations (continued):

Excluded from the calculation of diluted weighted average Units are the following as they are not dilutive to loss per unit:

	Three-month periods ended March 31, 2008	2007
LTIP Units under subscription	2,320,416	2,445,329
Class B Units of Master LP	6,247,813	6,250,305
Assumed conversion of convertible debentures	12,623,397	8,010,588

14. Related party transactions and balances:

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

(a) Spectrum:

The following table summarizes interest and fees earned from Spectrum for the three-month periods ended March 31:

	2008	2007
Mezzanine loan interest (note 4)	$ 1,280	$ 1,280
Development fees	412	1,104
Operations management fees	504	339
Other fees	17	–

During the three-month period ended March 31, 2008, 0.1 acres of land owned by Chartwell was sold to Spectrum, Melior and their joint venture partner for a purchase consideration of $52.

Other assets as at March 31, 2008 include $6,732 (December 31, 2007 - $5,678) due from Spectrum. Subsequent to March 31, 2008, $2,293 of this balance was collected. A portion of the remaining balance is past due as at the balance sheet date. Chartwell is working with Spectrum to collect past due amounts and management has concluded the amounts are collectible with no provision required.

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

14. Related party transactions and balances (continued):

Included in distributions payable at March 31, 2008 is $190 (December 31, 2007 - $273) due to Spectrum.

(b) Melior:

	Three-month periods ended March 31, 2008	2007
Mezzanine loan interest (note 4)	$ 1,250	$ 1,646
Project management fees paid to Melior	(469)	–
Reimbursed expenses paid to Melior	(160)	–
Deferred purchase consideration paid to Melior	(150)	–

At March 31, 2008, accounts receivable and other assets include $1,617 (December 31, 2007 - $2,309) due from Melior. Subsequent to March 31, 2008, $514 of the outstanding amounts receivable from Melior was collected.

At March 31, 2008, Chartwell had accounts payable due to Melior of $207 related to management fees and other fees (December 31, 2007 - $569).

(c) Included in accounts receivable at March 31, 2008 is $66 (December 31, 2007 - $66) due from an officer of Chartwell relating to the previous sale of a property to the Trust.

(d) Included in mortgages payable at March 31, 2008 is a vendor take-back mortgage of $798 (December 31, 2007 - $1,097) due to an officer of Chartwell. During the three-month period ended March 31, 2008, the Trust incurred interest expense of $16 (March 31, 2007 - $36) 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.

15. 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)

15. Segmented information (continued):

	Three-month period ended March 31, 2008				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 65,226	$ 38,735	$ 2,339	$ 62,426	$ 168,726
Equity income from variable interest entities	855	–	–	–	855
Below-market lease amortization	78	–	–	400	478
Direct operating expense	(41,098)	(34,188)	(1,023)	(38,912)	(115,221)
Income before the undernoted	25,061	4,547	1,316	23,914	54,838
Interest expense	(9,005)	(2,739)	–	(9,668)	(21,412)
Property lease expense	(21)	(44)	–	(11,356)	(11,421)
Income before the following	16,035	1,764	1,316	2,890	22,005
Depreciation and amortization	(14,440)	(2,396)	(496)	(13,730)	(31,062)
Gain on sale of land	8	–	–	–	8
	$ 1,603	$ (632)	$ 820	$ (10,840)	(9,049)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					4,290
General, administrative and trust expenses					(5,200)
Interest on convertible debentures					(3,940)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain/(loss)					2,849
Non-controlling interest					765
Current income tax expense					(999)
Future income tax expense					(237)
Loss for the period					$ (11,521)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 28,834	$ –	$ –	$ –	$ 28,834
Capital improvements	9,102	3,859	348	1,649	14,958

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

15. Segmented information (continued):

	Three-month period ended March 31, 2007				
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 57,020	$ 25,793	$ 3,866	$ 45,642	$ 132,321
Equity income from variable interest entities	881	–	–	–	881
Below-market lease amortization	166	35	–	212	413
Direct operating expenses	(35,886)	(23,068)	(1,058)	(29,254)	(89,266)
Income before the undernoted	22,181	2,760	2,808	16,600	44,349
Interest expense	(8,284)	(1,293)	–	(5,238)	(14,815)
Property lease expense	–	–	–	(12,387)	(12,387)
Income (loss) before the following	13,897	1,467	2,808	(1,025)	17,147
Depreciation and amortization	(14,114)	(1,725)	(703)	(7,305)	(23,847)
	$ (217)	$ (258)	$ 2,105	$ (8,330)	(6,700)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					4,727
General, administrative and trust expenses					(4,934)
Interest on convertible debentures					(2,327)
Unrealized and realized gain/(loss) on derivative financial instruments and unrealized and realized foreign exchange gain/(loss)					(626)
Non-controlling interest					730
Current income tax expense					–
Future income tax expense					–
Loss for the period					$ (9,130)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	$ 69,623	$ 19,526	$ –	$ 200,016	$ 289,165
Capital improvements	5,041	386	296	366	6,089

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

15. Segmented information (continued):

	March 31, 2008					
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,245,654	$ 336,870	$ 17,214	$ 867,847	$ 139,079	$ 2,606,664
Total liabilities	779,190	219,690	–	624,948	204,835	1,828,663

	December 31, 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

16. Joint venture operations and variable interest entities ("VIEs"):

(a) Joint venture operations:

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

	March 31, 2008	December 31, 2007
Assets	$ 713,010	$ 713,494
Liabilities	538,907	520,354

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

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

	Three-month periods ended March 31, 2008	2007
Revenue	$ 58,686	$ 46,452
Expenses, including depreciation and amortization of $10,666 (March 31, 2007 - $7,329)	66,569	55,037
Loss for the period	(7,883)	(8,585)
Cash provided by (used in):		
Operating activities	$ (5,272)	$ 50,918
Financing activities	(3,916)	149,602
Investing activities	6,609	(196,100)

Chartwell's joint venture operations are generally undertaken through entities in which it holds an indirect interest. The joint venture entities are borrowers of liabilities in excess of Chartwell's proportionate share amounting to $538,907 (December 31, 2007 - $520,354), which have not been recorded in the Trust's consolidated financial statements. The assets of these joint ventures are available and sufficient to satisfy these liabilities.

(b) VIEs:

(i) At March 31, 2008, Chartwell holds variable interests in 18 (December 31, 2007 - 19) 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 $450,695 (December 31, 2007 - $471,803).

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 March 31, 2008, Chartwell had mezzanine loans receivable of $63,245 (December 31, 2007 - $69,105) from these entities. During the three-month period ended March 31, 2008, Chartwell earned $1,814 (March 31, 2007 - $2,217) in interest from these entities.

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

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

(ii) At March 31, 2008, Chartwell, through a holding company, holds variable interests in seven (2007 - seven) VIEs. These entities are structured to lease the respective properties from Chartwell and an entity controlled by Melior. At March 31, 2008, Chartwell recognizes its proportionate direct interest in these properties which have a cost of $67,049 (December 31, 2007 - $66,704) and accumulated amortization of $6,411 (December 31, 2007 - $5,871). 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.

17. 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 and a leasehold interest in two properties acquired with the Merrill Gardens Portfolio in 2007. 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	$ 28,973
2009	39,870
2010	41,331
2011	42,660
2012	52,232
Thereafter	306,021
	$ 511,087

17. 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, 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 leases. Further, Chartwell has an operating lease in the United States which expires on April 30, 2013. Annual payments on this lease vary from U.S. $770 to U.S. $884 over the term of the lease. Chartwell's share is 49% of the amounts due under this lease.

(c) Acquisitions:

As of March 31, 2008, Chartwell is committed to acquire two seniors housing properties in the United States for an aggregate purchase price of approximately $24,841 (U.S. $24,200) and one seniors housing property in Canada for an aggregate purchase price of $6,700. The seniors housing property in Canada was acquired in April 2008.

(d) Purchase obligations:

Chartwell has entered into various construction contracts related to various internal growth projects. As at March 31, 2008, the remaining commitments under these contracts amounted to approximately $16,305.

As at March 31, 2008, Chartwell has entered into fixed-price natural gas contracts with third-party natural gas suppliers for $1,564 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 $1,803 (U.S. $1,756) to provide electricity for its own use at its properties.

17. Commitments and contingencies (continued):

(e) Contingent consideration on acquisition of properties:

Under the respective Purchase and Sale Agreements, the contingent consideration is payable upon the property achieving predetermined operating targets over the set time periods.

At March 31, 2008, contingent consideration on acquisitions of properties amounted to $7,095.

(f) Mezzanine loans receivable:

As at March 31, 2008, Chartwell has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of $14,440 (December 31, 2007 - $10,690) (note 4).

(g) Letters of credit:

As at March 31, 2008, Chartwell was contingently liable for letters of credit in the amount of $1,940 (December 31, 2007 - $1,940).

(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 an incentive fee based on certain operating targets. Through Chartwell's acquisition of HB Realty, Chartwell owns a 74.5% effective interest in HBC. Chartwell also owns a 75% interest in HBC II.

17. Commitments and contingencies (continued):

(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 14).

(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.

(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.

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

18. Supplemental cash flow information:

The following amounts recognized during the three-month periods ended March 31 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

	Three-month periods ended March 31, 2008	2007
Distributions payable, including distributions payable to non-controlling interests of $384 (March 31, 2007 - $533)	$ 6,244	$ 7,452
Non-cash consideration on acquisitions:		
Class B Units of Master LP	–	10,145
Class B Common Units of CSH-INGRE LLC	–	663
Discharge of mezzanine loans receivable	5,860	1,688
Distributions applied against instalment loans receivable related to LTIP	618	622
Interest on instalment loans receivable related to LTIP	252	267
Trust Units issued pursuant to the DRIP	2,859	906
Change in non-cash operating items:		
Accounts receivable	$ (4,985)	$ (32,718)
Deposits on acquisitions	–	(5,782)
Due from Spectrum	(1,054)	(27)
Due from ING	4,285	–
Accounts payable and other liabilities	7,126	12,788
Other	194	(4,764)
	$ 5,566	$ (30,503)

During the three-month period ended March 31, 2008, interest paid amounted to $20,711 (March 31, 2007 - $15,613).

19. 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.

19. Income taxes (continued):

Due to the SIFT Rules, 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. In addition, the SIFT Rules resulted in Chartwell recording a current income tax expense of $938 using an effective tax rate applicable for SIFTs of 32.5% and a future income tax expense of $237.

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At March 31, 2008, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately $36,667 (U.S. $35,721). Of these losses, approximately $971 (U.S. $946) expire in 2025, $2,136 (U.S. $2,081) expire in 2026, $30,942 (U.S. $30,143) expire in 2027, and $2,618 (U.S. $2,551) expire in 2028.

As at March 31, 2008, 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 $20,511 (U.S. $19,981) against which a valuation allowance of $20,511 (U.S. $19,981) has been recorded.

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

20. Financial instruments and financial risk management:

(a) Classification:

The classification of financial instruments, other than derivative financial instruments designated as hedges, as well as their carrying amounts and fair values as at March 31, 2008, are shown in the table below.

Classification, carrying value and fair value of financial instruments:

Fair value represents management's estimates of the market value at a given point in time. The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated balance sheets, are as follows:

	March 31, 2008		December 31, 2007	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and receivables, recorded at amortized cost:				
Mezzanine loans receivable (i)	$ 101,912	$ 98,194	$ 107,624	$ 103,411
Capital funding receivable (ii)	47,577	49,893	48,078	49,999
Financial liabilities:				
Financial liabilities, recorded at amortized cost:				
Mortgages payable (iii)	1,476,543	1,476,353	1,445,711	1,469,280
Debt component of convertible debentures (iv)	181,616	188,367	180,656	190,547

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

The Trust's other financial assets are classified as loans and receivables, which include amounts receivable and deposits and are measured at amortized cost. The Trust's other financial liabilities are measured at amortized cost which include accounts payable, accrued liabilities and deposits. The carrying values of these other financial instruments approximate their fair values due to their short period to receipt or payment of cash. Cash and cash equivalents are classified as held-for-trading and are measured at fair value.

Basis for determining fair values:

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above:

(i) The fair value of mezzanine loans receivable is estimated based on discounted expected future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. 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 and these loans have not been identified as impaired.

(ii) The fair value of capital funding receivable is estimated by discounting the expected future cash flows using the yield of the applicable bonds issued by the Province of Ontario.

(iii) The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities.

(iv) The fair value of the convertible debentures is based on market quotes, which includes both the debt and equity components.

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

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

The carrying value of the convertible debentures is recorded as a financial liability and equity as follows:

	March 31, 2008	December 31, 2007
Liability	$ 181,616	$ 180,656
Equity	14,878	14,878
	$ 196,494	$ 195,534

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

Fair value estimates represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(b) Financial risk management objectives and policies:

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

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

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

These risks are managed as follows:

(i) Credit risk:

Chartwell is exposed to credit risk arising from the possibility that parties responsible for payment of fees or the borrowers of mezzanine loans may experience financial difficulty and be unable to fulfill their contractual obligations. Chartwell has five significant categories of receivables: resident receivables, mezzanine loans, funding from various provincial governments, development fees and asset and operations management fees receivable from Spectrum, Melior and ING.

Chartwell regularly monitors the credit risk exposure and take steps to mitigate the likelihood that these exposures will result in an actual loss.

Chartwell's exposure to credit risk from resident receivables is influenced mainly by the individual characteristics of each resident, the demographics of its resident base and general economic conditions. Due to the nature of the Trust's business and geographic spread of its resident base, there is no significant concentration of receivables from residents.

In addition to project specific security, all Spectrum mezzanine loans contain cross-default provisions and are secured by Spectrum's corporate guarantee. All loans to entities affiliated with Melior are guaranteed by the Residences Melior Inc. Chartwell is involved in the development and operations management of these development projects. The mezzanine loan compliance group monitors performance and risk of each loan on an on-going basis and reports quarterly to the investment committee of Chartwell.

At March 31, 2008, Spectrum was in technical default of certain provisions of the Development Agreement. Chartwell is currently working with Spectrum to have these defaults corrected. These defaults are not expected to have any adverse effect on the collectibility of outstanding accounts receivable and mezzanine loans. Chartwell's management has evaluated its mezzanine loan portfolio and determined that no impairment exists on any of its mezzanine loans at March 31, 2008.

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

Receivables from provincial governments represent capital and operating funding for licensed long-term care properties primarily from the agencies of the Government of Ontario. Management believes that collection risk on these receivables is not significant.

Generally, the carrying amount on the consolidated balance sheet of the Trust's financial assets exposed to credit risk, net of applicable loss allowances, represents the Trust's maximum exposure to credit risk.

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible. As at March 31, 2008 and December 31, 2007, the Trust does not have material past due resident receivables.

(ii) Liquidity risk:

Liquidity risk is the risk that Chartwell will encounter difficulty in meeting its financial obligations, described in notes 7, 8, 9 and 17, when they become due. Chartwell manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Trust's policy is to ensure adequate funding is available from operations, established lending facilities and other sources as required.

(iii) Market risk:

Market risk is the risk of an adverse financial impact due to a change in market conditions, such as foreign exchange rates, interest rates and equity prices that will affect Chartwell's income or the value of its holdings of financial instruments. Chartwell may buy derivative instruments in the ordinary course of business, and also may incur financial liabilities, in order to manage potential market risks.

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

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to cash flow risk due to floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At March 31, 2008, $35,014 (December 31, 2007 - $35,038) 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.

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 March 31, 2008 is a loss position of $1,108 (December 31, 2007 - $689), which is included in accrued liabilities on the consolidated balance sheet (note 9). Included in other comprehensive loss for the three months ended March 31, 2008 is a loss of $549 (net of future taxes of $120) that relates to the effective portion of the net change in fair value of the interest rate swap designated as a hedge.

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

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

At March 31, 2008, the Trust's interest-bearing financial instruments was:

	Carrying amount	
	March 31, 2008	December 31, 2007
Fixed rate instruments:		
Financial assets	$ 101,912	$ 107,624
Financial liabilities	1,624,664	1,591,899
Variable rate instruments:		
Financial liabilities	$ 35,817	$ 35,779

A change in interest rates at March 31, 2008 would not affect net income with respect to the fixed rate instruments. Therefore, no sensitivity analysis is provided for the fixed rate instruments. An increase of 100 basis points in interest rates at March 31, 2008 for the variable rate mortgages would have decreased equity by $89 and increased the loss for the period by $89 (on a pre-tax basis).

(b) Foreign currency exchange risk:

At March 31, 2008, through its self-sustaining United States operations, 33% (December 31, 2007 - 32%) of Chartwell's assets and 38% (December 31, 2007 - 37%) of Chartwell's mortgages payable were held in the United States and, for the three-month period ended March 31, 2008, 37% (March 31, 2007 - 33%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in the exchange rate 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 and net investment in self-sustaining U.S. operations.

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

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

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency fluctuation risk. For example, cash flow from U.S. operating activities is first used to fund U.S. dollar distributions required on U.S. dollar equity instruments and for repayment of loans denominated in U.S. dollars. Chartwell may use derivative financial instruments to hedge its net 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. There were no foreign exchange hedge contracts outstanding as at March 31, 2008.

Chartwell is exposed to the following currency risk on cash, intercompany balances and net investment in self-sustaining U.S. operations at March 31, 2008:

	U.S. dollar
Cash	$ 5,322
Loans receivable from self-sustaining U.S. operations	66,462
Net investment in self-sustaining U.S. operations	169,851
Net exposure	$ 241,635

A $0.01 reduction in the foreign exchange translation rate of U.S. dollars to Canadian dollars would have decreased the loss for the period and decreased other comprehensive loss (on a pre-tax basis) for the period by the amounts shown below:

	March 31, 2008
Decrease in loss for the period	$ (717)
Decrease in other comprehensive loss for the period	(1,698)

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

(iv) Reliance on government funding:

Chartwell holds licenses related to each of is long-term care properties. Holders of these licenses receive funding from the relevant provincial government. During the three-month period ended March 31, 2008, the Trust received approximately $23,022 (December 31, 2007 - $78,754) in funding in respect of these licenses, which has been recorded as resident revenue. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

21. Capital structure financial policies:

The Trust's primary objectives in managing capital are:

- to continue as a going concern and to provide returns to unitholders;
- to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements by ensuring that the Trust complies with externally imposed capital requirements.
- to ensure that the Trust has sufficient capital to meet its targeted capital maintenance expenditures;
- to ensure that the Trust has sufficient capital to meet its internal growth requirements; and
- to ensure that the Trust has access to sufficient capital for strategic acquisitions.

In managing its capital structure, the Trust takes into consideration various factors, including changes in economic conditions, growth of its business and risk characteristics of the underlying assets.

Management defines capital as the Trust's total unitholders' equity and long-term debt. The Trust's long-term debt primarily includes mortgages payable and convertible debentures. The issued and outstanding convertible debentures may be converted into Trust Units at the option of the holder at the specified conversion price. At the maturity date, the Trust may elect to issue Units in lieu of cash to satisfy its convertible debenture obligations. The Trust has access to a revolving credit facility that is secured by first and second charges on certain of its properties.

21. Capital structure financial policies (continued):

The Board of Trustees is responsible for overseeing the Trust's capital management and does so through quarterly Trustees' meetings, review of financial information and regular communication with officers and senior management of the Trust (note 7(b)). The Board of Trustees also reviews on a quarterly basis the level of any distributions that should be made. The Declaration of Trust requires that the Trust 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 distributions to all Trust unitholders in accordance with the Declaration of Trust, as amended, at a minimum equal to, on an annual basis, the greater of 80% of the Distributable Income (as defined in the Declaration of Trust) and its taxable income.

Chartwell will seek permission from Unitholders at its Annual General Meeting to amend its distribution policy by eliminating any reference to Distributable Income from the Declaration of Trust and to provide that distribution will be within the discretion of the Trustees.

In order to maintain or adjust the capital structure, the Trust may issue new Units, buy back Units, issue new debt or issue new debt to replace existing debt with different characteristics, adjust the amount of distributions paid to unitholders or by undertaking other activities as deemed appropriate under specific circumstances.

The Trust monitors capital based on the debt to adjusted gross book value ratio.

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

The maximum debt leverage permitted by the Declaration of Trust is 60% (65% including convertible debentures). The Trust is also required by the Credit Facility agreement and the Declaration of Trust, to limit distributions to unitholders to 100% of Distributable Income as defined in the Declaration of Trust and the Credit Facility on an annual basis. The Trust is required by its lenders for the mortgages on certain of its properties to maintain a debt service coverage ratio above 1.2 times at the individual property level.

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

21. Capital structure financial policies (continued):

The Trust complied with all restrictions except for the limitation on distributions under the Credit Facility. In 2007, distributions paid or payable in cash exceeded Distributable Income by approximately $12,200. Chartwell obtained a waiver of this covenant from the lender. During the three-month period ended March 31, 2008, the Trust reduced its per annum, per Unit distribution to $0.74 from $1.065.

The following are the debt leverage ratios at March 31, 2008 and at December 31, 2007:

	March 31, 2008	December 31, 2007	Increase (decrease)
Debt to adjusted gross book value ratio (excluding convertible debentures)	54.0%	53.8%	0.2%
Debt to adjusted gross book value ratio (including convertible debentures)	60.9%	60.9%	–

Debt includes guarantees and is determined on a consolidated basis for the Trust and its consolidated subsidiaries.

Adjusted gross book value means, at any time, the consolidated book value of the assets of the Trust, as shown on the Trust's most recent consolidated balance sheet (or if approved by a majority of the Independent Directors of the General Partner at any time, the appraised value thereof), plus the amount of accumulated depreciation and amortization shown thereon or in the notes thereto less the carrying value of any deferred consideration on business combinations in the notes thereto.

The debt to adjusted gross book value ratio at March 31, 2008 was consistent with December 31, 2007.

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22. Subsequent events:

(a) Subsequent to March 31, 2008, Chartwell acquired an assisted living community in Ontario, which is adjacent to a long-term care community already owned by Chartwell for a purchase price of approximately $6,700.

(b) Subsequent to March 31, 2008, Chartwell advanced $3,750 of mezzanine loans to Spectrum and Spectrum's joint venture partners.

23. Comparative figures:

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in 2008.