

Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month and six-month periods
ended June 30, 2008 and 2007
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

(In thousands of Canadian dollars)

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Assets		
Properties (note 3)	\$ 2,161,175	\$ 2,110,985
Mezzanine loans receivable (note 4)	106,844	107,624
Management contracts, resident contracts, customer relationships and other intangibles (note 5)	95,563	109,814
Cash and cash equivalents	37,286	72,528
Other assets (note 6)	69,507	72,075
Capital funding receivable	47,053	48,078
Licenses	25,650	25,650
Goodwill	57,842	56,445
	\$ 2,600,920	\$ 2,603,199

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable (note 7(a))	\$ 1,504,193	\$ 1,445,711
Convertible debentures (note 8)	182,599	180,656
Accounts payable and other liabilities (note 9)	109,309	103,271
Deferred consideration on business combinations (note 10)	31,179	41,305
Distributions payable	6,257	8,915
Future income tax liabilities (note 19)	19,089	18,732
	1,852,626	1,798,590
Non-controlling interest (note 11)	20,810	47,005
Unitholders' equity	727,484	757,604
Commitments and contingencies (notes 4(b), 16 and 17)		
Subsequent events (notes 14, 17 and 23)		
	\$ 2,600,920	\$ 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		Six-month periods ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Revenue:				
Resident	\$ 167,920	\$ 147,105	\$ 334,307	\$ 275,560
Management and other fees (note 14)	2,257	1,485	4,596	5,351
Mezzanine loan interest (notes 4 and 14)	2,418	4,051	5,446	7,408
Bank interest and other	677	2,317	1,939	3,687
Equity income from variable interest entities	992	931	1,847	1,812
Below-market lease amortization	434	410	912	823
	174,698	156,299	349,047	294,641
Expenses:				
Direct operating	115,155	99,840	230,376	189,106
General, administrative and trust	5,302	5,129	10,502	10,063
	120,457	104,969	240,878	199,169
	54,241	51,330	108,169	95,472
Interest expense	25,841	23,426	51,193	40,568
Property lease expense	11,339	11,785	22,760	24,172
	37,180	35,211	73,953	64,740
	17,061	16,119	34,216	30,732
Unrealized and realized loss/(gain) on derivative financial instruments and unrealized and realized foreign exchange loss/(gain)	559	5,279	(2,290)	5,905
Depreciation of properties	17,042	14,184	33,510	26,024
Amortization of management contracts, resident contracts, customer relationships and other intangibles	13,149	13,685	27,743	25,692
Write-down in carrying values of assets	–	172	–	172
Loss/(gain) on sale of assets	102	(320)	94	(320)
	30,852	33,000	59,057	57,473
Loss before income taxes	(13,791)	(16,881)	(24,841)	(26,741)
Income taxes expense (recovery):				
Current	(133)	–	866	–
Future	–	16,389	237	16,389
	(133)	16,389	1,103	16,389
Loss before non-controlling interest	(13,658)	(33,270)	(25,944)	(43,130)
Non-controlling interest (note 11)	786	2,117	1,551	2,847
Loss for the period	(12,872)	(31,153)	(24,393)	(40,283)
Other comprehensive income/(loss):				
Unrealized foreign currency gain/(loss) on the translation of self-sustaining foreign operations	(1,031)	(15,521)	5,097	(16,731)
Net change in fair value of derivatives designated as cash flow hedges (note 20)	182	446	(367)	505
Non-controlling interest	64	1,070	(283)	1,156
	(785)	(14,005)	4,447	(15,070)
Comprehensive loss	\$ (13,657)	\$ (45,158)	\$ (19,946)	\$ (55,353)
Loss per Unit:				
Basic and diluted (note 13)	\$ (0.139)	\$ (0.358)	\$ (0.265)	\$ (0.498)

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)

Six-month period ended June 30, 2008	Trust Units issued, net (note 12)	LTIP Units (note 12)	LTIP instalment loan receivable (note 12)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures/ other equity components (note 8)	Total
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	-	-	-	(24,393)	-	-	-	(24,393)
Other comprehensive income	-	-	-	-	4,447	-	-	4,447
Distributions to unitholders	-	-	-	-	-	(39,764)	-	(39,764)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	5,434	-	-	-	-	-	-	5,434
Trust Units issued on exchange of Class B Units of Chartwell Master Care LP	22,471	-	-	-	-	-	-	22,471
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	6,296	(5,829)	-	-	-	-	467
Disposition of LTIP Units surrendered, net of Units transferred to Treasury	932	(1,045)	927	-	-	-	(190)	624
Interest on instalment loan receivable	-	-	(542)	-	-	-	-	(542)
Distributions applied against instalment loan receivable	-	-	1,136	-	-	-	-	1,136
Unitholders' equity, June 30, 2008	\$ 1,131,410	\$ 37,145	\$ (29,941)	\$ (125,037)	\$ (23,904)	\$ (276,877)	\$ 14,688	\$ 727,484

Six-month period ended June 30, 2007	Trust Units issued, net (note 12)	LTIP Units (note 12)	LTIP instalment loan receivable (note 12)	Losses	Accumulated other comprehensive income (loss)	Distributions	Convertible debentures (note 8)	Total
Unitholders' equity, January 1, 2007	\$ 874,165	\$ 27,667	\$ (23,343)	\$ (33,319)	\$ 587	\$ (142,968)	\$ 4,714	\$ 707,503
Cumulative impact of adopting new accounting standards for financial instruments (note 1(b))	-	-	-	14	-	-	-	14
Loss for the period	-	-	-	(40,283)	-	-	-	(40,283)
Other comprehensive loss	-	-	-	-	(15,070)	-	-	(15,070)
Distributions to unitholders	-	-	-	-	-	(44,743)	-	(44,743)
Issuance of Trust Units pursuant to public offering	231,064	-	-	-	-	-	-	231,064
Issuance of 5.9% Convertible Debentures	-	-	-	-	-	-	10,563	10,563
Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP")	1,863	-	-	-	-	-	-	1,863
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	-	6,437	(6,160)	-	-	-	-	277
Deposits received under the LTIP	-	-	206	-	-	-	-	206
Disposition of LTIP Units under Subscription	232	(846)	766	-	-	-	-	152
Disposition of Treasury Units	333	-	-	-	-	-	-	333
Issue costs	(11,773)	-	-	-	-	-	(396)	(12,169)
Interest on instalment loan receivable	-	-	(549)	-	-	-	-	(549)
Distributions applied against instalment loan receivable	-	-	1,286	-	-	-	-	1,286
Conversion of convertible debentures	72	-	-	-	-	-	(3)	69
Unitholders' equity, June 30, 2007	\$ 1,097,592	\$ 33,258	\$ (27,794)	\$ (73,588)	\$ (14,483)	\$ (187,711)	\$ 14,878	\$ 842,152

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		Six-month periods ended	
	2008	June 30, 2007	2008	June 30, 2007
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (12,872)	\$ (31,153)	\$ (24,393)	\$ (40,283)
Items not affecting cash:				
Depreciation and amortization	30,191	27,869	61,253	51,716
Write-down in carrying value of assets	–	172	–	172
Loss/(gain) on sale of assets	102	(320)	94	(320)
Amortization of below-market resident contracts	(434)	(410)	(912)	(823)
Adjustment to record lease expense on a straight-line basis over the lease term	1,593	2,049	3,245	4,400
Non-cash LTIP compensation expense	247	96	367	349
Income from long-term investments	(16)	(156)	(41)	(224)
Unrealized loss/(gain) on derivative financial instruments and unrealized foreign exchange loss/(gain)	559	5,279	(2,290)	5,905
Non-controlling interest	(786)	(2,117)	(1,551)	(2,847)
Amortization of financing expenses	1,205	1,187	2,412	2,264
Accretion adjustment to convertible debenture liability	685	233	1,356	517
Amortization of debt discounts	345	(210)	695	(651)
Amortization of mezzanine placement fees	300	(1,320)	15	(2,008)
Amortization of legal costs integral to mezzanine lending activities	262	201	412	383
Future income taxes	–	16,389	237	16,389
Change in non-cash operating items (note 18)	3,315	54,231	8,881	24,913
	24,696	72,020	49,780	59,852
Financing activities:				
Proceeds from mortgage financing	30,720	301,890	49,548	464,942
Proceeds/(repayment) from bank loan payable	(119)	21	(119)	31
Mortgage principal repayments	(7,093)	(151,786)	(14,031)	(207,245)
Financing costs	(949)	(5,526)	(2,059)	(7,451)
Proceeds from ING 5.9% convertible debenture issued, net of issue costs	–	41,919	–	41,919
Trust units issued pursuant to:				
Public offering	–	231,064	–	231,064
Issue costs	–	(11,773)	–	(11,773)
Redemption of non-voting preferred interests of CSH Master Care LLC	–	–	(971)	–
Disposition of Treasury Units	186	94	741	333
Distributions paid	(15,064)	(22,478)	(36,626)	(42,489)
Distributions paid to non-controlling interest unitholders	(1,153)	(1,646)	(2,819)	(3,392)
Deposits received under LTIP and repayment of LTIP instalment loan receivable	100	738	100	972
	6,628	454,705	(6,236)	539,099

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows (continued)

(In thousands of Canadian dollars)

(Unaudited)

	Three-month periods ended		Six-month periods ended	
	2008	June 30, 2007	2008	June 30, 2007
Investing activities:				
Acquisition of assets, net of debt assumed and Units issued (note 2)	(3,600)	(362,068)	(27,277)	(557,661)
Payment of deferred consideration on business combinations	(2,667)	–	(11,354)	(2,455)
Additions to properties	(20,120)	(9,154)	(35,078)	(15,243)
Amounts received under income guarantees	326	–	589	–
Proceeds on sale of properties	–	4,289	50	4,289
Mezzanine loan advances, net of fees	(5,507)	(5,714)	(5,507)	(9,658)
Distributions on long-term investments	–	320	–	1,020
Restricted cash and deposits in escrow	(287)	(7,281)	(2,376)	17,988
Proceeds from capital funding receivables	524	199	1,025	346
	(31,331)	(379,409)	(79,928)	(561,374)
Foreign exchange gain/(loss) on U.S. dollar-denominated cash	595	(419)	1,142	(222)
Increase (decrease) in cash and cash equivalents	588	146,897	(35,242)	37,355
Cash and cash equivalents, beginning of period	36,698	16,397	72,528	125,939
Cash and cash equivalents, end of period	\$ 37,286	\$ 163,294	\$ 37,286	\$ 163,294

Supplemental cash flow information (note 18)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Three-month and six-month periods ended June 30, 2008 and 2007

(Unaudited)

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.

Chartwell's Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year (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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

2. Acquisitions:

(a) Acquisitions during the six-month period ended June 30, 2008:

During the six-month period ended June 30, 2008, Chartwell completed the following acquisitions:

- (i) On May 29, 2008, Chartwell acquired the remaining 50% interest in the ownership of one seniors housing property for a purchase price, before closing costs, of \$4,565. Chartwell managed the property and had an ownership interest of 50%, acquired in December 2004. The purchase consideration on this acquisition was satisfied in part by the assumption of a mortgage of \$3,019 and other liabilities of \$926. Subsequent to the closing, Chartwell secured new mortgage financing of \$6,684 and discharged the mortgage assumed.
- (ii) On April 24, 2008, Chartwell acquired 100% interest in one retirement property in Elmira, Ontario for a purchase price, before closing costs, of \$6,700 adjacent to the long-term care property Chartwell already owns. The purchase consideration on this acquisition was satisfied in part by the assumption of a mortgage of \$4,820.
- (iii) On January 9, 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 purchase price of \$29,183.

These acquisitions were accounted for using the purchase method of accounting, with the results of operations included in these consolidated financial statements from the date of acquisition.

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

2. Acquisitions (continued):

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

	Spectrum, Melior and joint venture partners	Others		Total
Date of acquisition	January 9, 2008	April 24, 2008	May 29, 2008	
Segment	Canadian retirement operations	Canadian long-term care operations	Canadian retirement operations	
Location	Gatineau, Quebec (1 retirement home - 173 units)	Elmira, Ontario (1 long-term care home - 64 units)	Kanata, Ontario (50% interest in 1 retirement home - 80 units)	
Properties	\$ 26,633	\$ 6,406	\$ 4,075	\$ 37,114
Management contracts, resident contracts, customer relationships and other intangibles	2,135	822	575	3,532
Goodwill	981	–	402	1,383
Other assets	66	119	70	255
Mortgages assumed	–	(4,820)	(3,019)	(7,839)
Below-market resident contracts	(93)	–	–	(93)
Other liabilities	(185)	(104)	(926)	(1,215)
Net assets acquired	\$ 29,537	\$ 2,423	\$ 1,177	\$ 33,137
Discharge of mezzanine loans receivable	\$ 5,860	\$ –	\$ –	\$ 5,860
Cash consideration	23,323	1,880	1,091	26,294
Acquisition costs	354	543	86	983
Total consideration	\$ 29,537	\$ 2,423	\$ 1,177	\$ 33,137

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

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 six-month period ended June 30, 2008, the purchase price allocation was adjusted to reduce the allocation to building by \$7,862 with the corresponding increase to other intangible assets and accrued liabilities.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

3. Properties:

	June 30, 2008			December 31, 2007		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 217,892	\$ –	\$ 217,892	\$ 213,626	\$ –	\$ 213,626
Buildings	1,968,891	121,799	1,847,092	1,908,584	95,363	1,813,221
Furniture, fixtures and equipment	78,192	36,381	41,811	74,640	28,615	46,025
	2,264,975	158,180	2,106,795	2,196,850	123,978	2,072,872
Properties under development	34,494	–	34,494	17,879	–	17,879
Land held for development	19,886	–	19,886	20,234	–	20,234
	\$ 2,319,355	\$ 158,180	\$ 2,161,175	\$ 2,234,963	\$ 123,978	\$ 2,110,985

Included in properties as at June 30, 2008 are assets under capital leases with a cost of \$129,199 and accumulated depreciation of \$4,813.

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

4. Mezzanine loans receivable (continued):

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

				June 30, 2008	December 31, 2007
	Contractual interest rate	Principal amount	Lending expenses/ (deferred placement fees), net	Net balance	Net balance
Spectrum	10% - 14%	\$ 50,049	\$ 316	\$ 50,365	\$ 50,546
Melior	10% - 14%	45,035	(4,281)	40,754	41,149
Others	10% - 14%	16,696	(971)	15,725	15,929
		\$ 111,780	\$ (4,936)	\$ 106,844	\$ 107,624

(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 33 (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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

4. Mezzanine loans receivable (continued):

Both parties have a right to terminate the Development Agreement upon 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 27 (2007 - 28) mezzanine loans totalling \$61,731 (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 25 (2007 - 25) seniors housing development projects.

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:

	June 30, 2008			December 31, 2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	\$ 12,145	\$ 3,483	\$ 8,662	\$ 13,314	\$ 3,834	\$ 9,480
Resident contracts	130,477	75,753	54,724	159,794	87,196	72,598
Customer relationships	2,257	2,086	171	3,214	2,596	618
Other intangibles	38,693	6,687	32,006	29,175	2,057	27,118
	<u>\$ 183,572</u>	<u>\$ 88,009</u>	<u>\$ 95,563</u>	<u>\$ 205,497</u>	<u>\$ 95,683</u>	<u>\$ 109,814</u>

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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

During the six-month period ended June 30, 2008, Chartwell reduced the cost and accumulated balances for management contracts, resident contracts and customer relationships that were fully amortized by \$36,735 (2007 - \$35,873).

6. Other assets:

	June 30, 2008	December 31, 2007
Accounts receivable	\$ 20,284	\$ 24,086
Deposits on acquisitions	—	111
Long-term investments	305	264
Due from Spectrum (note 14(a))	5,952	5,678
Due from ING	490	4,754
Prepaid expenses and deposits	12,990	10,251
Deposits in escrow	21,191	18,427
Other	8,295	8,504
	<hr/>	<hr/>
	\$ 69,507	\$ 72,075

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
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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 December 31:

	Regular principal payments	Principal due on maturity	Total
2008	\$ 13,148	\$ 65,767	\$ 78,915
2009	24,173	111,611	135,784
2010	23,700	56,264	79,964
2011	24,256	26,136	50,392
2012	25,948	70,710	96,658
2013	25,692	80,300	105,992
2014	23,450	33,704	57,154
2015	23,346	81,011	104,357
2016	19,907	173,856	193,763
2017	16,235	252,687	268,922
2018 - 2022	66,194	128,558	194,752
Thereafter	91,039	48,512	139,551
	<u>\$ 377,088</u>	<u>\$ 1,129,116</u>	1,506,204
Mark-to-market adjustment arising on acquisition			16,067
Financing costs			(18,078)
			<u>\$ 1,504,193</u>

	June 30, 2008	December 31, 2007
Mortgages at fixed rates	\$1,493,106	\$1,411,243
Interest rates	3.50% - 10.00%	3.50% - 10.00%
Weighted average interest rate	5.71%	5.78%
Mortgages at variable rates	\$13,098	\$35,038
Interest rates	Prime plus 1.25% - 3.00%	Prime plus 0.75% - 3.00%
Weighted average interest rate	6.22%	6.86%
Blended weighted average rate of maturing debt	5.72%	5.81%

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Three-month and six-month periods ended June 30, 2008 and 2007
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7. Secured debt (continued):

During the three-month and six-month periods ended June 30, 2008, interest expense on mortgages payable amounted to \$21,599 and \$42,664 (three-month and six-month periods ended June 30, 2007 - \$19,914 and \$34,711), respectively.

One of Chartwell's U.S. subsidiaries has not complied with certain financial covenants under the terms of a loan agreement for one of its individual properties. As at June 30, 2008, the amount of the loan was \$12,151 and bears interest at 6.24%, maturing on January 1, 2014. The loan payments are current. Discussions are in progress with the lender to remedy the covenant matters.

(b) Secured revolving operating credit facility:

Chartwell has arranged for a \$90,000 secured revolving operating credit facility (the "Credit Facility"). At June 30, 2008, the maximum available borrowing capacity under the Credit Facility was \$67,525 (December 31, 2007 - \$64,497) based on the security provided. The Credit Facility matured on June 28, 2008. Chartwell received syndicate lenders' approval to extend the term of the Credit Facility until June 27, 2009. Under the proposed revised terms and conditions, amounts outstanding under the Credit Facility will bear interest at the bank's prime rate plus 1% or at the applicable bankers' acceptance rate plus 2.25%. The proposed revised terms include minimum equity requirements and covenants requiring limitations on the amount of distributions that can be paid to unitholders. Chartwell is currently in the process of finalizing legal agreements with the syndicate lenders. No amounts were outstanding under the Credit Facility at June 30, 2008.

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 \$124,900, 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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(Unaudited)

8. Convertible debentures (continued):

(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 tradable Trust Units.

9. Accounts payable and other liabilities:

	June 30, 2008	December 31, 2007
Accounts payable and accrued liabilities	\$ 91,532	\$ 86,557
Income taxes payable	2,870	2,004
Below-market resident contracts, net of accumulated amortization of \$1,533 (December 31, 2007 - \$979)	1,162	1,578
Resident deposits	5,235	5,199
Deferred revenue	8,510	7,933
	<u>\$ 109,309</u>	<u>\$ 103,271</u>

10. Deferred consideration on business combinations:

Included in deferred consideration on business combinations at June 30, 2008 are the following:

Business combinations	June 30, 2008	December 31, 2007
Castel Royale	\$ 520	\$ 520
Elizabeth Towers (a)	918	1,180
Heritage Glen	16,176	15,801
Van Horne Manor	—	50
HB Realty (b)	833	1,784
Bristol Portfolio (c) and (d)	9,996	17,907
Jardins de la Gare (e)	—	1,471
Merrill Gardens Portfolio	2,736	2,592
	<u>\$ 31,179</u>	<u>\$ 41,305</u>

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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(Unaudited)

10. Deferred consideration on business combinations (continued):

During the six-month period ended June 30, 2008, Chartwell settled the following deferred consideration in cash:

- (a) In February 2008, \$262 was paid in respect of the Elizabeth Towers acquisition.
- (b) On January 1, 2007, Chartwell acquired a 49% interest in HB Realty. Under the purchase and sale agreement, a portion of the purchase price in the amount of \$3,470 (U.S. \$3,500) was deferred for two years following the closing to be applied first to fund cash shortfalls under the lease arrangements, with the remaining amount, if any, payable to the vendor.

During the six-month period ended June 30, 2008 and the year ended December 31, 2007, \$1,002 (U.S. \$983) and \$1,663 (U.S. \$1,700), respectively, were used to fund cash shortfalls under the lease arrangements.

- (c) \$3,469 (U.S. \$3,500) of the Series B Notes relating to the Bristol Portfolio acquisition, representing Chartwell's share of the principal and interest due on the first anniversary of acquisition.
- (d) \$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.
- (e) In April 2008, \$1,500 related to the acquisition of Jardins de la Gare in April 2007 was paid.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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11. Non-controlling interest:

The details of non-controlling interest are as follows:

	June 30, 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	(1,551)	(5,008)
Distributions on Class B Units of Master LP	(2,456)	(6,839)
Exchange of Class B Units of Master LP for Trust Units	(22,471)	(3,657)
Other comprehensive income (loss)	283	(2,090)
Balance, end of period	\$ 20,810	\$ 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.

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed \$50 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 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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(Unaudited)

12. 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, 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	578,397	5,434
Trust Units issued on exchange of Class B Units of Master LP	3,123,526	22,471
Disposition of LTIP Units surrendered	70,000	932
Units outstanding, June 30, 2008	95,397,624	\$ 1,131,410

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

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.

Subsequent to 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 or at the discretion of the trustees.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 3,136,490 were issued and 2,764,400 are available to be issued at June 30, 2008.

The following table summarizes LTIP Units issued under the LTIP as at June 30, 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	590,167	5,034
Compensation expense	—	367
Sale of units	(15,000)	(150)
Balance, June 30, 2008	2,911,490	\$ 37,145

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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12. Unitholders' capital (continued):

The market value of the Trust Units at June 30, 2008 was \$9.19 per Unit (June 30, 2007 - \$14.98).

The compensation expense attributable to the LTIP of \$247 and \$367 for the three-month and six-month periods ended June 30, 2008 (three-month and six-month periods ended June 30, 2007 - \$96 and \$349), respectively, 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 June 30,		Six-month periods ended June 30,	
	2008	2007	2008	2007
Numerator:				
Loss for the period	\$ (12,872)	\$ (31,153)	\$ (24,393)	\$ (40,283)
Denominator:				
Denominator for basic earnings per Unit - weighted average Units	92,374,769	86,900,263	92,087,343	80,814,661
Denominator for diluted earnings per Unit - weighted average Units	92,374,769	86,900,263	92,087,343	80,814,661
Loss per Unit:				
Basic and diluted	\$ (0.139)	\$ (0.358)	\$ (0.265)	\$ (0.498)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

13. Loss per Unit calculations (continued):

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2008	2007	2008	2007
LTIP Units under Subscription	2,817,001	2,485,568	2,569,368	2,454,617
Class B units of Master LP	6,027,491	6,518,013	6,137,652	6,384,899
Assumed conversion of convertible debentures	12,623,398	11,609,027	12,623,398	9,819,748

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 and six-month periods ended June 30:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2008	2007	2008	2007
Contractual mezzanine loan interest (note 4)	\$ 1,367	\$ 1,162	\$ 2,693	\$ 2,597
Effective interest rate adjustment	(88)	110	(135)	(45)
Development fees	403	305	814	1,409
Operations management fees	478	368	982	707
Other fees	67	–	84	–

During the six-month period ended June 30, 2008, 0.1 acres of land owned by Chartwell was sold to Spectrum, Melior and their joint venture partners for a purchase consideration of \$52.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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14. Related party transactions and balances (continued):

Other assets as at June 30, 2008 include \$5,952 (December 31, 2007 - \$5,678) due from Spectrum. Subsequent to June 30, 2008, \$940 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.

Included in distributions payable at June 30, 2008 is nil (December 31, 2007 - \$273) due to Spectrum.

(b) Melior:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2008	2007	2008	2007
Contractual mezzanine loan interest income (note 4)	\$ 1,186	\$ 1,020	\$ 2,370	\$ 2,435
Effective interest rate adjustment	(392)	1,477	(326)	1,708
Project management fees paid to Melior	(789)	–	(1,258)	–
Reimbursement of expenses paid to Melior	(22)	–	(182)	–
Deferred purchase consideration paid to Melior	–	–	(150)	–
Referral and due diligence fees paid	–	525	–	525

At June 30, 2008, accounts receivable and other assets include \$2,052 (December 31, 2007 - \$2,309) due from Melior. Subsequent to June 30, 2008, \$483 of the outstanding amounts receivable from Melior was collected.

At June 30, 2008, Chartwell had accounts payable due to Melior of \$323 related to management fees and other fees (December 31, 2007 - \$569).

(c) Included in accounts receivable at June 30, 2008 is \$66 (December 31, 2007 - \$66) due from an officer of Chartwell relating to the previous sale of a property to the Trust.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

14. Related party transactions and balances (continued):

- (d) Included in mortgages payable at June 30, 2008 is a vendor take-back mortgage of \$499 (December 31, 2007 - \$1,097) due to an officer of Chartwell. During the three-month and six-month periods ended June 30, 2008, the Trust incurred interest expense of \$11 and \$28 (three-month and six-month periods ended June 30, 2007 - \$30 and \$66), respectively, related to this mortgage.

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

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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(Unaudited)

15. Segmented information (continued):

	Three-month period ended June 30, 2008				Total
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	
Revenue	\$ 65,433	\$ 39,494	\$ 2,257	\$ 62,993	\$ 170,177
Equity income from variable interest entities	992	–	–	–	992
Below-market lease amortization	77	–	–	357	434
Direct operating expense	(40,147)	(34,159)	(1,027)	(39,822)	(115,155)
Income before the undernoted	26,355	5,335	1,230	23,528	56,448
Interest expense	(9,231)	(2,728)	–	(9,919)	(21,878)
Property lease expense	(40)	(52)	–	(11,247)	(11,339)
Income before the following	17,084	2,555	1,230	2,362	23,231
Depreciation and amortization	(14,276)	(3,020)	(536)	(12,359)	(30,191)
Loss on sale of land	(102)	–	–	–	(102)
	<u>\$ 2,706</u>	<u>\$ (465)</u>	<u>\$ 694</u>	<u>\$ (9,997)</u>	(7,062)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					3,095
General, administrative and trust expenses					(5,302)
Interest on convertible debentures					(3,963)
Unrealized and realized loss on derivative financial instruments and unrealized and realized foreign exchange loss					(559)
Non-controlling interest					786
Current income tax recovery					133
Loss for the period					\$ (12,872)
Expenditures for assets by segment:					
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	\$ 12,067	\$ –	\$ –	\$ –	\$ 12,067
Capital improvements	15,111	2,270	148	2,591	20,120

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Notes to Consolidated Financial Statements (continued)
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(Unaudited)

15. Segmented information (continued):

	Three-month period ended June 30, 2007				Total
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	
Revenue	\$ 59,284	\$ 28,369	\$ 1,485	\$ 59,452	\$ 148,590
Equity income from variable interest entities	931	—	—	—	931
Below-market lease amortization	204	—	—	206	410
Direct operating expense	(36,684)	(24,804)	(832)	(37,520)	(99,840)
Income before the undernoted	23,735	3,565	653	22,138	50,091
Interest expense	(8,858)	(1,555)	—	(9,536)	(19,949)
Property lease expense	—	—	—	(11,785)	(11,785)
Income before the following	14,877	2,010	653	817	18,357
Depreciation and amortization	(14,725)	(1,835)	(243)	(11,066)	(27,869)
Write-down in the carrying value of assets	—	—	(172)	—	(172)
Gain on sale of assets	320	—	—	—	320
	<u>\$ 472</u>	<u>\$ 175</u>	<u>\$ 238</u>	<u>\$ (10,249)</u>	(9,364)
Items not allocated to operating segments:					
Mezzanine loan interest, bank interest and other income					6,368
General, administrative and trust expenses					(5,129)
Interest on convertible debentures					(3,477)
Unrealized and realized loss on derivative financial instruments and unrealized and realized foreign exchange loss					(5,279)
Non-controlling interest					2,117
Future income taxes					(16,389)
Loss for the period					<u>\$ (31,153)</u>
Expenditures for assets by segment:					
Acquisitions - properties, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	\$ 21,915	\$ 106,537	\$ —	\$ 367,732	\$ 496,184
Capital improvements	5,035	1,546	596	1,977	9,154

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Three-month and six-month periods ended June 30, 2008 and 2007
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15. Segmented information (continued):

	Six-month period ended June 30, 2008					Total
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations		
Revenue	\$ 130,658	\$ 78,228	\$ 4,596	\$ 125,421		\$ 338,903
Equity income from variable interest entities	1,847	–	–	–		1,847
Below-market lease amortization	155	–	–	757		912
Direct operating expense	(81,246)	(68,346)	(2,050)	(78,734)		(230,376)
Income before the undernoted	51,414	9,882	2,546	47,444		111,286
Interest expense	(18,236)	(5,467)	–	(19,587)		(43,290)
Property lease expense	(61)	(96)	–	(22,603)		(22,760)
Income before the following	33,117	4,319	2,546	5,254		45,236
Depreciation and amortization	(28,716)	(5,416)	(1,032)	(26,089)		(61,253)
Loss on sale of land	(94)	–	–	–		(94)
	<u>\$ 4,307</u>	<u>\$ (1,097)</u>	<u>\$ 1,514</u>	<u>\$ (20,835)</u>		(16,111)
Items not allocated to operating segments:						
Mezzanine loan interest, bank interest and other income						7,385
General, administrative and trust expenses						(10,502)
Interest on convertible debentures						(7,903)
Unrealized and realized gain on derivative financial instruments and unrealized and realized foreign exchange gain						2,290
Non-controlling interest						1,551
Current income taxes						(866)
Future income taxes						(237)
Loss for the period						\$ (24,393)
Expenditures for assets by segment:						
Acquisitions - properties, land held for development, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	\$ 40,901	\$ –	\$ –	\$ –		\$ 40,901
Capital improvements	24,213	6,129	496	4,240		35,078

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Three-month and six-month periods ended June 30, 2008 and 2007
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15. Segmented information (continued):

	Six-month period ended June 30, 2007					Total
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations		
Revenue	\$ 116,303	\$ 54,163	\$ 5,351	\$ 105,094		\$ 280,911
Equity income from variable interest entities	1,812	–	–	–		1,812
Below-market lease amortization	369	35	–	419		823
Direct operating and facility lease expenses	(72,570)	(47,872)	(1,890)	(66,774)		(189,106)
Income before the undernoted	45,914	6,326	3,461	38,739		94,440
Interest expense	(17,142)	(2,848)	–	(14,774)		(34,764)
Property lease expense	–	–	–	(24,172)		(24,172)
Income (loss) before the following	28,772	3,478	3,461	(207)		35,504
Depreciation and amortization	(28,839)	(3,560)	(946)	(18,371)		(51,716)
Write-down in the carrying value of assets	–	–	(172)	–		(172)
Gain on sale of assets	320	–	–	–		320
	<u>\$ 253</u>	<u>\$ (82)</u>	<u>\$ 2,343</u>	<u>\$ (18,578)</u>		(16,064)
Items not allocated to operating segments:						
Mezzanine loan interest, bank interest and other income						11,095
General, administrative and trust expenses						(10,063)
Interest on convertible debentures						(5,804)
Unrealized and realized loss on derivative financial instruments and unrealized and realized foreign exchange loss						(5,905)
Non-controlling interest						2,847
Future income taxes						(16,389)
Loss for the period						\$ (40,283)
Expenditures for assets by segment:						
Acquisitions - properties, management contracts, resident contracts, customer relationships and other intangibles, licenses and other assets	\$ 91,538	\$ 126,063	\$ –	\$ 567,748		\$ 785,349
Capital improvements	10,076	1,932	892	2,343		15,243

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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15. Segmented information (continued):

June 30, 2008						
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	\$ 1,254,977	\$ 343,308	\$ 18,280	\$ 839,735	\$ 144,620	\$ 2,600,920
Total liabilities	835,040	217,371	–	608,489	191,726	1,852,626

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:

	June 30, 2008	December 31, 2007
Assets	\$ 701,186	\$ 713,494
Liabilities	536,224	520,354

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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16. Joint venture operations and variable interest entities ("VIEs") (continued):

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 58,775	\$ 50,904	\$ 117,461	\$ 97,356
Expenses, including depreciation and amortization of \$9,556 and \$20,622 (2007 - \$8,136 and \$15,465), respectively	64,485	56,901	131,054	111,938
Loss for the period	(5,710)	(5,997)	(13,593)	(14,582)
Cash provided by (used in):				
Operating activities	\$ 1,789	\$ (32,481)	\$ (3,483)	\$ 18,437
Financing activities	(2,357)	36,456	(6,272)	186,058
Investing activities	(1,830)	1,877	4,779	(194,223)

Chartwell's joint venture operations are generally undertaken through entities in which it holds an indirect interest. The joint venture entities have liabilities in excess of Chartwell's proportionate share amounting to \$536,224 (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 June 30, 2008, Chartwell holds variable interests in 19 (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 total development costs of approximately \$482,039 (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 June 30, 2008, Chartwell had mezzanine loans receivable of \$70,012 (December 31, 2007 - \$69,105) from these entities. During the three-month and six-month periods ended June 30, 2008, Chartwell earned \$1,219 and \$3,032 (three-month and six-month periods ended June 30, 2007 - \$2,924 and \$5,141), respectively, in interest from these entities.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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

- (ii) At June 30, 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 June 30, 2008, Chartwell recognizes its proportionate direct interest in these properties which have a cost of \$67,296 (December 31, 2007 - \$66,704) and accumulated amortization of \$6,958 (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 of the VIEs 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	\$ 19,188
2009	39,606
2010	41,057
2011	42,378
2012	43,743
Thereafter	312,137
	<hr/>
	\$ 498,109

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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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 June 30, 2008, Chartwell is committed to acquire two seniors housing properties in the United States for an aggregate purchase price of approximately \$24,677 (U.S. \$24,200).

(d) Purchase obligations:

Chartwell has entered into various construction contracts related to various internal growth projects. As at June 30, 2008, the remaining commitments under these contracts amounted to approximately \$35,033.

As at June 30, 2008, Chartwell has entered into fixed-price natural gas contracts with a third-party natural gas supplier for \$1,319 to provide gas for its own use at its properties. Subsequent to June 30, 2008, the supplier defaulted in the supply of gas to Chartwell and obtained creditors' protection under the Companies Creditors Agreement Act. Chartwell does not have any material financial exposure due to this default and is currently working with its energy advisor to establish replacement contracts with different suppliers. Chartwell has also entered into fixed-price electricity contracts with local utilities in the United States for \$1,138 (U.S. \$1,116) to provide electricity for its own use at its properties.

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Notes to Consolidated Financial Statements (continued)
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17. Commitments and contingencies (continued):

(e) Contingent consideration on acquisition of properties:

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

At June 30, 2008, contingent consideration on acquisitions of properties amounted to \$6,095.

(f) Mezzanine loans receivable:

As at June 30, 2008, Chartwell has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of \$9,637 (December 31, 2007 - \$10,690) (note 4).

(g) Letters of credit:

As at June 30, 2008, Chartwell was contingently liable for letters of credit in the amount of \$2,198 (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 Horizon Bay Chartwell LLC ("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.

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Notes to Consolidated Financial Statements (continued)
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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 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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18. Supplemental cash flow information:

During the three-month and six-month periods ended June 30, 2008, interest paid amounted to \$27,433 and \$48,145 (three-month and six-month periods ended June 30, 2007 - \$19,903 and \$35,516), respectively. Distributions payable of \$6,257, including distributions payable to non-controlling interests of \$194 (2007 - \$578), were excluded from financing and operating activities on the consolidated statements of cash flows for the three-month and six-month periods ending June 30, 2008 (three-month and six-month periods ended June 30, 2007 - \$8,897).

The change in non-cash operating items for the three-month and six-month periods ending June 30 are as follows:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2008	2007	2008	2007
Change in non-cash operating items:				
Accounts receivable	\$ 8,787	\$ 4,872	\$ 3,802	\$ (3,352)
Deposits on acquisitions	111	16,476	111	10,694
Due from Spectrum	780	(851)	(274)	(878)
Due from ING	(21)	33,203	4,264	1,458
Accounts payable and other liabilities	(4,870)	(11,566)	2,256	(27,124)
Prepaid expenses	(2,333)	(5,679)	(2,739)	(6,001)
Deferred purchase consideration payable	—	2,140	—	39,480
Other	861	15,636	1,461	10,636
	\$ 3,315	\$ 54,231	\$ 8,881	\$ 24,913

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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18. Supplemental cash flow information (continued):

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

	Three-month period ended		Six-month periods ended	
	2008	June 30, 2007	2008	June 30, 2007
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	518	664	1,136	1,286
Interest on instalment loans receivable related to LTIP	290	282	542	549
Trust Units issued pursuant to the DRIP	2,575	957	5,434	1,863

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. On July 14, 2008, the draft SIFT legislation was released.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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19. Income taxes (continued):

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

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

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 \$689 using an effective tax rate applicable for SIFTs of 32.5% and a future income tax expense of \$237 for the six-month period ended June 30, 2008.

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At June 30, 2008, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately \$44,088 (U.S. \$43,237). Of these losses, approximately \$964 (U.S. \$946) expire in 2025, \$2,122 (U.S. \$2,081) expire in 2026, \$30,737 (U.S. \$30,143) expire in 2027, and \$10,265 (U.S. \$10,067) expire in 2028.

As at June 30, 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 \$23,980 (U.S. \$23,517) against which a valuation allowance of \$23,980 (U.S. \$23,517) has been recorded.

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Notes to Consolidated Financial Statements (continued)
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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 June 30, 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:

	June 30, 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)	\$ 106,844	\$ 102,910	\$ 107,624	\$ 103,411
Capital funding receivable (ii)	47,053	48,649	48,078	49,999
Financial liabilities:				
Financial liabilities, recorded at amortized cost:				
Mortgages payable (iii)	1,504,193	1,468,369	1,445,711	1,469,280
Convertible debentures (iv)	197,477	192,790	195,534	190,547

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Notes to Consolidated Financial Statements (continued)
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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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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20. Financial instruments and financial risk management (continued):

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

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

	June 30, 2008	December 31, 2007
Liability	\$ 182,599	\$ 180,656
Equity	14,878	14,878
	<u>\$ 197,477</u>	<u>\$ 195,534</u>

Chartwell 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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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 takes 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 June 30, 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 has evaluated its mezzanine loan portfolio and determined that no impairment exists on any of its mezzanine loans at June 30, 2008.

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Notes to Consolidated Financial Statements (continued)
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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 June 30, 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, 10 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.

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Notes to Consolidated Financial Statements (continued)
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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 interest rate risk on its floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At June 30, 2008, \$13,719 (December 31, 2007 - \$35,779) 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 current notional principal amount of \$12,058 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 5.6% 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 June 30, 2008 is a loss position of \$888 (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-month and six-month periods ended June 30, 2008 is a gain of \$182 and a loss of \$367 (net of future taxes of nil and \$120) (three-month and six-month periods ended June 30, 2007 - \$446 and \$505, respectively (net of future taxes of \$159 and \$159, respectively)), that relates to the effective portion of the net change in fair value of the interest rate swap designated as a hedge.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

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

At June 30, 2008, the Trust's interest-bearing financial instruments were:

	Carrying amount	
	June 30, 2008	December 31, 2007
Fixed rate instruments:		
Financial assets	\$ 106,844	\$ 107,624
Financial liabilities	1,675,707	1,591,899
Variable rate instruments:		
Financial liabilities	\$ 13,719	\$ 35,779

A change in interest rates at June 30, 2008 would not affect net income with respect to the fixed rate instruments, including hedged loans. Therefore, no sensitivity analysis is provided for the fixed rate instruments. An increase of 100 basis points in interest rates at June 30, 2008 for the variable rate mortgages would have decreased equity by \$34 and increased the loss for the period by \$34 (on a pre-tax basis).

(b) Foreign currency exchange risk:

At June 30, 2008, through its self-sustaining United States operations, 33% (December 31, 2007 - 32%) of Chartwell's assets and 37% (December 31, 2007 - 37%) of Chartwell's mortgages payable were held in the United States and, for the three-month and six-month periods ended June 30, 2008, 36% and 36% (three-month and six-month periods ended June 30, 2007 - 40% and 38%), respectively, 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 or part of the net investment in self-sustaining U.S. operations.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

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 June 30, 2008.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining U.S. operations at June 30, 2008:

	U.S. dollar
Cash	\$ 9,310
Loans receivable from self-sustaining U.S. operations	66,462
Loan payable to self-sustaining U.S. operations	(15,500)
Net investment in self-sustaining U.S. operations	160,318
Net exposure	\$ 220,590

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:

	June 30, 2008
Decrease in loss for the period	\$ (603)
Decrease in other comprehensive loss for the period	(1,603)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

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

(iv) Reliance on government funding:

Chartwell holds licenses related to each of its long-term care properties. Holders of these licenses receive funding from the relevant provincial government. During the three-month and six-month periods ended June 30, 2008, the Trust received approximately \$23,298 and \$46,320 (three-month and six-month periods ended June 30, 2007 - \$16,623 and \$31,423), respectively, 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

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 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, its net income for tax purposes.

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). Chartwell received syndicate lenders' approval to extend the term of its Credit Facility until June 27, 2009. Under the terms of the current proposal, Chartwell expects future terms will contain a covenant to limit distributions to unitholders and would provide for minimum equity requirements. The Trust is required by its lenders for the mortgages on certain of its properties to maintain certain debt service coverage ratios at the individual property level. One of Chartwell's U.S. subsidiaries has not complied with certain financial covenants under the terms of a loan agreement for one of its individual properties. As at June 30, 2008, the amount of the loan was \$12,151 and bears interest at 6.24%, maturing on January 1, 2014. The loan payments are current. Discussions are in progress with the lender to remedy the covenant matters.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2008 and 2007
(Unaudited)

21. Capital structure financial policies (continued):

The following are the debt leverage ratios at June 30, 2008 and at December 31, 2007:

	June 30, 2008	December 31, 2007	Increase (decrease)
Debt to adjusted gross book value ratio (excluding convertible debentures)	54.3%	53.8%	0.5%
Debt to adjusted gross book value ratio (including convertible debentures)	61.3%	60.9%	0.4%

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 June 30, 2008 was consistent with December 31, 2007.

22. Comparative figures:

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

23. Subsequent event:

Subsequent to June 30, 2008, Chartwell advanced \$800 of mezzanine loans to Spectrum.