

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Three-month and six-month periods ended
June 30, 2011 and 2010
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(Unaudited)

	Note	June 30, 2011	December 31, 2010
Assets			
Current:			
Cash and cash equivalents		\$ 11,718	\$ 14,728
Trade and other receivables	8	10,185	14,595
Mezzanine loans receivable	7	9,653	14,768
Capital funding receivable	9	3,784	3,537
Other assets	10	20,809	21,037
Assets held for sale	11	62,409	–
Total current assets		118,558	68,665
Non-current:			
Other assets	10	7,149	7,421
Mezzanine loans receivable	7	–	6,035
Capital funding receivable	9	56,961	59,059
Intangible assets	6	51,620	52,740
Property, plant and equipment	5	2,358,845	2,485,176
Total non-current assets		2,474,575	2,610,431
Total assets		\$ 2,593,133	\$ 2,679,096
Liabilities and Unitholders' Equity			
Current liabilities:			
Secured revolving operating credit facility ("Credit Facility")	12(b)	\$ 49,000	\$ 51,000
Accounts payable and other liabilities	13	93,221	95,501
Distributions payable		6,551	6,505
Mortgages payable	12(a)	136,070	116,864
Deferred consideration on business combinations	14	2,756	2,704
Liabilities related to assets held for sale	11	47,556	–
Total current liabilities		335,154	272,574
Non-current liabilities:			
Mortgages payable	12(a)	1,543,375	1,613,196
Employee benefits		796	810
Deferred consideration on business combinations	14	4,922	4,808
Convertible debentures		75,825	76,876
Class B Units of Chartwell Master Care LP ("Class B Units")	15	14,125	14,027
Deferred tax liabilities		32,982	40,451
Total non-current liabilities		1,672,025	1,750,168
Total liabilities		2,007,179	2,022,742
Unitholders' equity	16	585,954	656,354
Total liabilities and unitholders' equity		\$ 2,593,133	\$ 2,679,096

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Charles Moses" _____ Trustee

"Sidney Robinson" _____ Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

(Unaudited)

	Note	Three-month periods ended June 30,		Six-month periods ended June 30,	
		2011	2010	2011	2010
Revenue:					
Resident		\$ 183,795	\$ 172,958	\$ 365,851	\$ 335,541
Management and other fees		793	1,413	1,642	2,859
Mezzanine loan interest		459	1,302	1,056	2,801
		185,047	175,673	368,549	341,201
Expenses:					
Direct operating		129,406	119,825	258,869	232,736
General, administrative and trust		6,381	5,966	12,542	11,544
		135,787	125,791	271,411	244,280
Earnings before the undernoted		49,260	49,882	97,138	96,921
Finance costs	20	26,053	27,276	52,167	53,817
Other expense (income)	19	5,896	(9,683)	4,956	(11,063)
Depreciation of property, plant and equipment	5	40,849	39,657	81,026	76,562
Amortization of intangible assets	6	395	271	991	789
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	21	(1,755)	(2,722)	2,609	157
Loss before income taxes		(22,178)	(4,917)	(44,611)	(23,341)
Income taxes expense (benefit):	22				
Current		95	82	171	162
Deferred		(3,425)	(2,878)	(7,470)	(2,605)
		(3,330)	(2,796)	(7,299)	(2,443)
Loss for the period		(18,848)	(2,121)	(37,312)	(20,898)
Other comprehensive loss:					
Unrealized foreign currency gain (loss) on foreign operations		(1,147)	5,819	(3,104)	2,045
Total comprehensive income (loss) for the period		\$ (19,995)	\$ 3,698	\$ (40,416)	\$ (18,853)

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Unitholders' Equity

(In thousands of Canadian dollars)

(Unaudited)

Six-month period ended June 30, 2011	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2011	\$ 1,439,961	\$ 26,417	\$ (21,033)	\$ (336,614)	\$ (5,156)	\$ (451,638)	\$ 4,417	\$ 656,354
Loss for the period	–	–	–	(37,312)	–	–	–	(37,312)
Other comprehensive loss	–	–	–	–	(3,104)	–	–	(3,104)
Distributions to Unitholders	–	–	–	–	–	(38,628)	–	(38,628)
Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP")	7,825	–	–	–	–	–	–	7,825
Trust Units issued on exchange of Class B Units	272	–	–	–	–	–	–	272
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury	–	332	(428)	–	–	–	134	38
Interest on LTIP receivable	–	–	(104)	–	–	–	–	(104)
Distributions applied against LTIP receivable	–	–	613	–	–	–	–	613
Unitholders' equity, June 30, 2011	\$ 1,448,058	\$ 26,749	\$ (20,952)	\$ (373,926)	\$ (8,260)	\$ (490,266)	\$ 4,551	\$ 585,954

During the six-month period ended June 30, 2011, distributions were declared and paid at \$0.045 per unit per month. In July 2011, distributions were declared at \$0.045 per unit totalling \$6,483.

Six-month period ended June 30, 2010	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2010	\$ 1,307,016	\$ 28,728	\$ (23,460)	\$ (273,319)	\$ –	\$ (380,494)	\$ 2,788	\$ 661,259
Loss for the period	–	–	–	(20,898)	–	–	–	(20,898)
Other comprehensive loss	–	–	–	–	2,045	–	–	2,045
Distributions to Unitholders	–	–	–	–	–	(34,590)	–	(34,590)
Issuance of Trust Units under the DRIP	1,771	–	–	–	–	–	–	1,771
Trust Units issued on exchange of Class B Units	803	–	–	–	–	–	–	803
Trust Units issued under the LTIP, net of units transferred to Treasury	1,644	(1,739)	937	–	–	–	91	933
Interest on LTIP receivable	–	–	(91)	–	–	–	–	(91)
Distributions applied against LTIP receivable	–	–	616	–	–	–	–	616
Unitholders' equity, June 30, 2010	\$ 1,311,234	\$ 26,989	\$ (21,998)	\$ (294,217)	\$ 2,045	\$ (415,084)	\$ 2,879	\$ 611,848

During the six-month period ended June 30, 2010, distributions were declared and paid at \$0.045 per unit per month.

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three-month periods ended		Six-month periods ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (18,848)	\$ (2,121)	\$ (37,312)	\$ (20,898)
Items not affecting cash:				
Depreciation and amortization	41,244	39,928	82,017	77,351
Interest expense	25,007	26,088	50,008	51,251
Interest capitalized to properties under development	(330)	–	(573)	–
Interest income on loans and other receivables	(849)	(956)	(1,789)	(2,336)
Mezzanine loan interest	(459)	(1,302)	(1,056)	(2,801)
Gain recorded on remeasurement of previously held equity interest on acquisition	(2,090)	(9,639)	(2,090)	(9,639)
Gain on disposal of property, plant and equipment	–	(250)	–	(250)
Impairment on property, plant and equipment	8,500	–	8,500	–
Bargain purchase on acquisition	–	(750)	–	(750)
Non-cash compensation expense	600	222	1,090	412
Change in fair value of LTIP	(588)	349	1,412	704
Change in fair value of swap contract	(288)	143	(139)	51
Change in fair value of Deferred Trust Units	388	–	388	–
Amortization of finance costs and fair value adjustments on mortgages payable	884	698	1,589	1,517
Unrealized foreign exchange loss (gain)	291	(2,689)	1,628	(794)
Change in fair value of convertible debentures	(112)	(375)	(1,050)	(125)
Change in fair value of Class B Units	(1,446)	(150)	370	321
Current income taxes	95	82	171	162
Deferred income taxes	(3,425)	(2,878)	(7,470)	(2,605)
Change in trade and other receivables	(107)	1,039	3,951	1,419
Change in amounts due from Spectrum	821	(135)	173	(113)
Change in amounts due from ING	(87)	6	(20)	(48)
Change in other assets	227	4,725	(1,330)	3,939
Change in accounts payable and other liabilities	1,700	(3,925)	(3,426)	(9,298)
	51,128	48,110	95,042	87,470
Interest received	1,308	2,258	2,845	5,137
Interest paid	(26,205)	(28,969)	(50,224)	(53,138)
Income taxes paid	(95)	(82)	(171)	(162)
	26,136	21,317	47,492	39,307
Financing activities:				
Proceeds from mortgage financing	22,160	516	22,160	2,432
Repayments of Credit Facility	(4,000)	–	(2,000)	–
Mortgage principal repayments	(10,714)	(16,357)	(19,696)	(55,881)
Additions to finance costs	(1,939)	(908)	(2,618)	(1,912)
Distributions paid	(14,816)	(16,130)	(30,247)	(32,281)
Deposits and repayments received under LTIP	32	40	32	937
	(9,277)	(32,839)	(32,369)	(86,705)
Investing activities:				
Acquisition of assets under business combinations	(4,680)	(40,170)	(4,680)	(42,447)
Acquisition of land for development	–	–	(1,875)	–
Additions to property, plant and equipment	(13,793)	(9,308)	(22,015)	(14,461)
Proceeds from disposal of property, plant and equipment	–	2,786	–	2,786
Amounts received under income guarantees	–	64	–	133
Mezzanine loan repayments	600	397	8,187	2,780
Change in restricted cash	15	(1,475)	724	(1,368)
Proceeds from capital funding receivable	961	682	1,851	1,244
	(16,897)	(47,024)	(17,808)	(51,333)
Decrease in cash	(38)	(58,546)	(2,685)	(98,731)
Foreign exchange gain (loss) on U.S. dollar-denominated cash	(51)	218	(325)	49
Cash and cash equivalents, beginning of period	11,807	66,589	14,728	106,943
Cash and cash equivalents, end of period	\$ 11,718	\$ 8,261	\$ 11,718	\$ 8,261

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Ontario and was created pursuant to the Declaration of Trust dated July 7, 2003, as amended ("Declaration of Trust"), when one Trust Unit was issued for cash. Chartwell began operations on November 14, 2003. Chartwell's main business is ownership, operations and management of retirement and long term care communities in Canada and the United States.

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Trust's 2010 annual financial statements. In addition, for supplemental annual disclosures, see the Trust's condensed consolidated interim financial statements for the three-month period ended March 31, 2011. An explanation of how the transition from Canadian generally accepted accounting principles ("CGAAP") to International Financial Reporting Standards ("IFRS") as of January 1, 2010, the transition date, has affected the reported financial position, financial performance and cash flows of the Trust, including the mandatory exceptions and optional exceptions under First-time Adoption of International Financial Reporting Standards ("IFRS 1"), is provided in the condensed consolidated interim financial statements for the three-month period ended March 31, 2011. These are the Trust's second IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 has been applied.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of August 12, 2011, the date the Board of Trustees authorized the financial statements for issue. Any subsequent changes to IFRS that become effective and are adopted for the December 31, 2011 annual financial statements could result in revisions to accounting policies applied in these condensed consolidated interim financial statements and, if applicable, the opening balance sheet and reconciliations included herein.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

1. Basis of preparation (continued):

(b) Basis of presentation:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Trust's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand. The significant accounting policies as described in the Trust's condensed consolidated interim financial statements for the three-month period ended March 31, 2011 have been applied consistently in the preparation of these condensed consolidated interim financial statements.

(c) Basis of measurement:

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

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

(d) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the notes to the condensed consolidated interim financial statements for the three-month period ended March 31, 2011:

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

1. Basis of preparation (continued):

In the process of applying the accounting policies, Chartwell makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the condensed consolidated interim financial statements. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included in the notes to the condensed consolidated interim financial statements for the three-month period ended March 31, 2011:

- Note 2(d)(i) - Intangible assets - licenses; and
- Note 2(e) - Impairment.

2. Significant accounting policies:

(a) Segment reporting:

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

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

(b) Lease payments:

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

3. Transition to IFRS ("IFRS 1 reconciliation"):

The explanation of the IFRS 1 exemptions applied and differences in transitioning for CGAAP to IFRS can be found in the notes to the condensed consolidated interim financial statements for the three-month period ended March 31, 2011.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

3. Transition to IFRS ("IFRS 1 reconciliation") (continued):

(a) The following is a reconciliation of the Trust's total equity reported in accordance with previous CGAAP to its total equity in accordance with IFRS as at June 30, 2010:

	Note 3(d)	CGAAP	IFRS		June 30, 2010
		June 30, 2010	Reclassifications ⁽¹⁾	Adjustments	
Assets					
Current assets:					
Cash and cash equivalents		\$ 7,765	\$ –	\$ –	\$ 7,765
Trade and other receivables		50,619	(33,640)	–	16,979
Mezzanine loans receivable		–	24,930	–	24,930
Capital funding receivable		–	3,723	–	3,723
Other assets		–	25,477	–	25,477
Assets held for sale	(i)	90,821	–	(5,619)	85,202
Total current assets		149,205	20,490	(5,619)	164,076
Non-current assets:					
Other assets	(ii)	–	8,163	(525)	7,638
Mezzanine loans receivable		39,831	(24,930)	–	14,901
Capital funding receivable	(ii)	65,634	(3,723)	(1,269)	60,642
Intangible assets	(i), (ii)	41,025	40,484	(28,394)	53,115
Licenses		40,484	(40,484)	–	–
Property, plant and equipment	(i), (ii)	2,415,268	–	73,276	2,488,544
Total non-current assets		2,602,242	(20,490)	43,088	2,624,840
Total assets		\$ 2,751,447	\$ –	\$ 37,469	\$ 2,788,916
Liabilities and Unitholders' Equity					
Current liabilities:					
Accounts payable and other liabilities	(iii)	\$ 86,062	\$ (1,112)	\$ 7,372	\$ 92,322
Distributions payable		5,870	–	–	5,870
Mortgages payable		–	145,887	–	145,887
Deferred consideration on business combinations		–	5,342	–	5,342
Liabilities held for sale		63,855	–	–	63,855
Total current liabilities		155,787	150,117	7,372	313,276
Non-current liabilities:					
Mortgages payable	(ii)	1,740,413	(145,887)	(2,611)	1,591,915
Employee benefits	(iv)	–	1,112	(202)	910
Deferred consideration on business combinations		13,020	(5,342)	–	7,678
Convertible debentures	(v)	191,332	–	12,217	203,549
Class B units	(vi)	–	–	13,415	13,415
Deferred tax liabilities	(x)	21,666	–	24,659	46,325
Total non-current liabilities		1,966,431	(150,117)	47,478	1,863,792
Total liabilities		2,122,218	–	54,850	2,177,068
Non-controlling interests	(vi)	6,823	–	(6,823)	–
Unitholders' equity		622,406	–	(10,558)	611,848
Total equities and liabilities		\$ 2,751,447	\$ –	\$ 37,469	\$ 2,788,916

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

3. Transition to IFRS ("IFRS 1 reconciliation") (continued):

(b) The following is a reconciliation of the Trust's loss reported in accordance with CGAAP to its loss for the three-month and six-month periods ended June 30, 2010 in accordance with IFRS:

Note 3(d)	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010
Income (loss) for the period as reported under CGAAP	\$ 1,616	\$ (6,393)
Increases (decreases) to reported amount:		
Reversal of non-controlling interest	(vi) 26	(93)
Depreciation and amortization	(i) (16,690)	(29,541)
	(15,048)	(36,027)
Finance costs:		
Accretion and deferred financing on debentures	(v) 1,164	2,336
Interest expense (distributions) on Class B Units	(vi) (253)	(506)
Borrowing costs	(viii) (323)	(719)
Other	26	47
	614	1,158
Other income (expense):		
Remeasurement of previously held equity interest on acquisition	(ii) 9,639	9,639
Bargain purchase on acquisitions	(ii) 750	750
Reversal of impairment on property, plant and equipment under CGAAP	(i) 6,100	6,100
Remeasurement of gain on sale of property, plant and equipment	(i) (4,144)	(4,144)
Transaction costs on acquisition	(ii) (1,912)	(1,912)
	10,433	10,433
Changes in fair value of financial instruments:		
Changes in fair value of convertible debentures	(v) 375	125
Changes in fair value of interest rate swap	(vii) (143)	(51)
Changes in fair value of LTIP option component	(iii) (349)	(704)
Changes in fair value of Class B Units	(vi) 150	(321)
Changes in fair value remeasurement of mortgages	(ii) (33)	(33)
	-	(984)
Direct operating, general, administrative and trust expenses	(viii) (87)	(168)
Deferred taxes	(x) 1,967	4,690
Loss for the period as reported under IFRS	\$ (2,121)	\$ (20,898)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

3. Transition to IFRS ("IFRS 1 reconciliation") (continued):

(c) Reconciliation of other comprehensive income as reported under CGAAP to IFRS:

	Note 3(d)	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010
Other comprehensive loss as reported under CGAAP		\$ 5,107	\$ 1,874
Increase to reported amount:			
Change in fair value of interest rate swap	(vii)	143	51
Unrealized foreign exchange gains on foreign operations	(ix)	569	120
Other comprehensive income as reported under IFRS		\$ 5,819	\$ 2,045

(d) Explanation of transition:

(i) Fair value as deemed cost:

Depreciation and amortization adjustments to the carrying book values of property, plant and equipment ("PP&E") and intangible assets due to the deemed cost election as at January 1, 2010 and the reclassification of resident contracts and below-market land leases from intangible assets to PP&E.

Reversal of impairment under CGAAP and remeasurement of gain on sale of PP&E reflected in deemed cost on transition.

(ii) Business combinations:

Reflection of the remeasurement of receivables and payables in a business combination, bargain purchase gain on acquisition and transaction costs expensed through profit or loss (previously capitalized under CGAAP) in other expenses.

(iii) Unit-based payments:

Reclassification of the LTIP option component and Deferred Trust Units from equity to liability as they are now classified as liabilities and the fair value remeasurement of these financial instruments.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

3. Transition to IFRS ("IFRS 1 reconciliation") (continued):

(iv) Employee benefits:

Recognition of the cumulative unrecognized actuarial gains as at January 1, 2010.

(v) Convertible debentures:

Reversal of accretion and deferred financing costs recorded under CGAAP to fair value remeasurement of the financial instrument under IFRS.

(vi) Class B Units - non-controlling interests:

Reclassification of the financial instrument from non-controlling interest to a liability, fair value remeasurement of the liability and the distributions reclassified as interest expense recorded in finance costs.

(vii) Interest rate swap:

Effective portion of the swap contract reclassified from other comprehensive loss to profit or loss as the swap no longer qualifies for hedge accounting.

(viii) Borrowing costs and operating losses:

Reversal of ineligible borrowing costs and operating losses previously capitalized under CGAAP.

(ix) Unrealized foreign exchange gain (loss) on foreign operations:

Impact of foreign exchange on depreciation adjustments to United States Operations.

(x) Deferred tax liabilities:

Reflection of the tax impact of items described above.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

4. Acquisitions:

Business combination:

On May 10, 2011, Chartwell acquired a 50% interest in Chatsworth Retirement Suites and Bungalows ("Chatsworth") from its joint venture partner. The purchase price before closing costs was \$10,363 and was settled through the assumption of debt of \$5,793, settlement of outstanding mezzanine loan of \$1,063, settlement of \$280 in other amounts due to Chartwell from the vendor, with the remaining balance net of working capital adjustments settled in cash. Prior to completion of this transaction, Chartwell owned a 50% interest in the property. This transaction is in line with Chartwell's strategy to increase its ownership in existing properties it operates. Chartwell has accounted for this using the acquisition method with additional disclosures relating to this transaction found in note 4(a).

Joint ventures:

On April 1, 2011, Chartwell acquired a 33.3% interest in Chartwell Classic Robert Speck Seniors Housing ("Robert Speck") from Spectrum Seniors Holdings LP ("Spectrum"). The purchase price before closing costs was \$11,140 and was settled through the assumption of debt of \$7,605, settlement of outstanding mezzanine loan of \$1,050, settlement of outstanding accounts receivable of \$807, with the remaining balance, net of working capital adjustments, settled in cash. Chartwell has accounted for this using the proportionate consolidation method with additional disclosures relating to this transaction found in note 4(b).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

4. Acquisitions (continued):

The following table summarizes the allocation of the purchase to each major category of assets acquired and liabilities assumed at the date of acquisition:

Date of acquisition	April 1, 2011	May 10, 2011	
Segment	Canadian Retirement Operations		
Location	Province of Ontario (113 suites)	Province of British Columbia (103 suites)	Total
PP&E	\$ 11,137	\$ 12,453	\$ 23,590
Other liabilities	(222)	–	(222)
Mortgages assumed	(7,605)	(5,793)	(13,398)
Net assets acquired	\$ 3,310	\$ 6,660	\$ 9,970
Discharge of mezzanine loan receivable	\$ 1,050	\$ 1,063	\$ 2,113
Settlement of accounts receivable	807	280	1,087
Cash consideration	1,453	3,227	4,680
Gain recorded on remeasurement of previously held equity interest on acquisition	–	2,090	2,090
Total consideration	\$ 3,310	\$ 6,660	\$ 9,970

- (a) As this acquisition was completed in steps, under IFRS, Chartwell is required to remeasure its original 50% interest to fair value. This remeasurement has resulted in an increase in value of \$2,090, which has been recognized as a gain in other income in the condensed consolidated interim statements of comprehensive income (loss). The net book value on the original 50% interest prior to this acquisition was \$8,010.

The Trust incurred acquisition-related costs of \$282 relating to external legal fees and due diligence costs. These costs have been expensed in other expenses in the condensed consolidated interim statements of comprehensive income (loss).

In the two-month period ended June 30, 2011, Chatsworth contributed revenue of \$595 and profit of \$171 at 100% ownership interest. If the acquisition had occurred on January 1, 2011, management estimates that the consolidated revenue would have been \$1,774 and the consolidated profit for the period would have been \$398 at 100% ownership interest. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2011.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

4. Acquisitions (continued):

- (b) The Trust incurred acquisition-related costs of \$236 relating to external legal fees and due diligence costs. These costs have been recognized in other expenses in the condensed consolidated interim statements of comprehensive income (loss).

Included in the condensed consolidated interim financial statements are the following amounts relating to Chartwell's 33.3% interest in the Robert Speck joint venture at June 30, 2011 and for the three-month period ended June 30, 2011:

- (i) Balance sheet:

Current assets	\$	15
Non-current assets		11,138
		<hr/>
	\$	11,153
		<hr/>
Current liabilities	\$	82
Non-current liabilities		7,584
		<hr/>
	\$	7,666

- (ii) Statement of comprehensive loss:

Revenue	\$	179
Expenses		317
		<hr/>
Loss for the period	\$	(138)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

4. Acquisitions (continued):

(c) Acquisitions during the year ended December 31, 2010:

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

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

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

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

	CGAAP	IFRS adjustment	IFRS
PP&E	\$ 290,814	\$ 28,142	\$ 318,956
Intangible assets	22,965	(22,965)	–
Capital funding receivable	23,054	(1,268)	21,786
Licenses	12,931	5,753	18,684
Deferred income tax liability	(2,274)	(3,901)	(6,175)
Mortgages assumed	(261,051)	2,645	(258,406)
Other liabilities	(6,694)	(2,651)	(9,345)
Net assets acquired	\$ 79,745	\$ 5,755	\$ 85,500
Discharge of mezzanine loans receivable	\$ 17,366	\$ –	\$ 17,366
Settlement of management contracts and accounts receivable	9,301	(2,028)	7,273
Cash consideration	49,783	–	49,783
Acquisition costs	3,295	(3,295)	–
Gain recorded on remeasurement of previously held equity interest on acquisition	–	9,639	9,639
Bargain purchase on acquisition	–	1,439	1,439
Total consideration	\$ 79,745	\$ 5,755	\$ 85,500

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

4. Acquisitions (continued):

The gain recorded on remeasurement of previously held equity interest on acquisition of \$9,639 resulted from acquisition of the Regency and Meridian Portfolios. The combined net book value of the portfolios, prior to the purchase of the second 50% interest was \$200,183.

Pro forma information:

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

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

5. Property, plant and equipment:

	Land	Building	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost or deemed cost:						
Balance, January 1, 2010	\$ 255,801	\$ 2,049,739	\$ 35,068	\$ 11,006	\$ 18,643	\$ 2,370,257
Additions	836	18,187	5,307	15,012	1,889	41,231
Additions through business combinations	42,906	414,574	16,507	839	10,934	485,760
Disposals	(17,485)	(179,644)	(3,192)	(419)	(5,017)	(205,757)
Transfers	3,171	10,669	233	(9,608)	(4,465)	–
Exchange differences on translation of United States Operations	(4,179)	(38,742)	(893)	(182)	(321)	(44,317)
Balance December 31, 2010	281,050	2,274,783	53,030	16,648	21,663	2,647,174
Additions	6	7,125	2,078	12,776	1,853	23,838
Additions through business combinations	3,144	27,822	632	–	–	31,598
Disposals	(926)	(7,550)	(185)	–	–	(8,661)
Transfers to assets held for sale	(6,600)	(57,404)	(1,434)	–	(5,400)	(70,838)
Exchange differences on translation of United States Operations	(2,298)	(21,699)	(420)	(121)	(201)	(24,739)
Balance, June 30, 2011	\$ 274,376	\$ 2,223,077	\$ 53,701	\$ 29,303	\$ 17,915	\$ 2,598,372
Depreciation and impairment losses:						
Balance, January 1, 2010	\$ –	\$ 5,062	\$ 3,346	\$ –	\$ –	\$ 8,408
Depreciation for the year	–	150,035	10,859	–	–	160,894
Disposals	–	(4,692)	(304)	–	–	(4,996)
Exchange differences on translation of United States Operations	–	(2,114)	(194)	–	–	(2,308)
Balance, December 31, 2010	–	148,291	13,707	–	–	161,998
Depreciation for the period	–	74,582	6,444	–	–	81,026
Disposals	–	(564)	(47)	–	–	(611)
Transfers to assets held for sale	–	(8,756)	(407)	–	–	(9,163)
Impairment	–	8,500	–	–	–	8,500
Exchange differences on translation of United States Operations	–	(1,899)	(324)	–	–	(2,223)
Balance, June 30, 2011	\$ –	\$ 220,154	\$ 19,373	\$ –	\$ –	\$ 239,527
Carrying amounts:						
Balance, January 1, 2010	\$ 255,801	\$ 2,044,677	\$ 31,722	\$ 11,006	\$ 18,643	\$ 2,361,849
Balance, December 31, 2010	\$ 281,050	\$ 2,126,492	\$ 39,323	\$ 16,648	\$ 21,663	\$ 2,485,176
Balance, June 30, 2011	\$ 274,376	\$ 2,002,923	\$ 34,328	\$ 29,303	\$ 17,915	\$ 2,358,845

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

5. Property, plant and equipment (continued):

During the six-month period ended June 30, 2011, the Trust purchased a parcel of development land in Hamilton, Ontario for cash consideration of \$1,875.

During the six-month period ended June 30, 2011, the Trust capitalized \$573 of borrowing costs related to development projects under construction with a capitalization rate of 5.43%.

Included in buildings are assets under finance leases with a carrying value as at June 30, 2011 of \$108,159 (December 31, 2010 - \$103,045). The properties are leased for a nominal amount and at the expiry date, Chartwell is obliged to purchase the right, title and interest in the properties also for a nominal amount.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

6. Intangible assets:

	Management contracts	Licenses	Other ⁽¹⁾	Total
Cost:				
Balance, January 1, 2010	\$ 5,486	\$ 25,650	\$ 11,754	\$ 42,890
Additions	–	–	1,082	1,082
Additions through business combinations	–	18,684	–	18,684
Disposals	(4,506)	–	–	(4,506)
Exchange differences on translation of United States Operations	–	–	(491)	(491)
Balance, December 31, 2010	980	44,334	12,345	57,659
Additions	–	–	52	52
Exchange differences on translation of United States Operations	–	–	(277)	(277)
Balance, June 30, 2011	\$ 980	\$ 44,334	\$ 12,120	\$ 57,434
Amortization and impairment:				
Balance, January 1, 2010	\$ 2,412	\$ –	\$ 2,794	\$ 5,206
Amortization for the year	289	–	2,055	2,344
Disposals	(2,478)	–	–	(2,478)
Exchange differences on translation of United States Operations	–	–	(153)	(153)
Balance, December 31, 2010	223	–	4,696	4,919
Amortization for the period	31	–	960	991
Exchange differences on translation of United States Operations	–	–	(96)	(96)
Balance, June 30, 2011	\$ 254	\$ –	\$ 5,560	\$ 5,814
Carrying amounts:				
Balance, January 1, 2010	\$ 3,074	\$ 25,650	\$ 8,960	\$ 37,684
Balance, December 31, 2010	\$ 757	\$ 44,334	\$ 7,649	\$ 52,740
Balance, June 30, 2011	\$ 726	\$ 44,334	\$ 6,560	\$ 51,620

⁽¹⁾ Other intangibles consist of the allocated cost of acquired operating leases of seniors housing properties and software costs.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

7. Mezzanine loans receivable:

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

	Note	Contractual interest rate	Net balance (Principal amount less lending expenses)	
			June 30, 2011	December 31, 2010
Spectrum and Partners, outside Quebec	(a)	10% - 14%	\$ 11,605	\$ 17,603
Melior, Spectrum and Partners	(b)	10%	8,551	22,128
Seasons and Partners	(c)	10%	2,607	2,607
			22,763	42,338
Provision, opening balance			21,535	30,508
Settlement of mezzanine loans			–	(12,535)
Additions to provision/reallocated on collection of certain accounts receivable			851	3,562
Offset against principal amount of the loan	(b)		(9,276)	–
Provision, closing balance			13,110	21,535
			\$ 9,653	\$ 20,803
Current			\$ 9,653	\$ 14,768
Non-current			–	6,035
			\$ 9,653	\$ 20,803

(a) Spectrum and Partners, outside Quebec:

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

During the six-month period ended June 30, 2011, two mezzanine loans in the amount of \$3,886 were collected in cash and two other mezzanine loans totalling \$2,113 were settled on the acquisition of two properties.

Chartwell's settlement agreement with Spectrum expired on June 30, 2011. Chartwell is currently discussing with Spectrum a reinstatement and extension to the term of the settlement agreement. In the interim, Chartwell preserves all of its rights under the original development agreement with Spectrum.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

7. Mezzanine loans receivable (continued):

(b) Melior, Spectrum and Partners:

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

During the six-month period ended June 30, 2011, three mezzanine loans in the amount of \$9,276, which had previously been fully provided for, were deemed unrecoverable and were written off.

During the six-month period ended June 30, 2011, one mezzanine loan in the amount of \$4,301 was collected in cash.

(c) Seasons and Partners:

This loan is secured by a second charge over one (December 31, 2010 - one) operating long term care community.

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

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

	Spectrum and Partners, outside Quebec	Melior, Spectrum and Partners	Seasons and Partners	Total
Remainder of 2011	\$ 11,605	\$ 8,551	\$ –	\$ 20,156
2012	–	–	2,607	2,607
	\$ 11,605	\$ 8,551	\$ 2,607	\$ 22,763

As at June 30, 2011, Spectrum, Melior and certain other joint-venture partners were in default under these mezzanine loan agreements with Chartwell. As a result, the carrying amount of these loans was reduced by \$13,110 to their estimated recoverable amount.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

8. Trade and other receivables:

	June 30, 2011	December 31, 2010
Trade receivables	\$ 10,031	\$ 14,288
Due from Spectrum	–	173
Due from ING	154	134
	<u>\$ 10,185</u>	<u>\$ 14,595</u>

The Trust's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 18.

9. Capital funding receivable:

The capital funding receivable of \$60,745 (December 31, 2010 - \$62,596) represents the discounted cash flows due from the Government of Ontario over a remaining period of approximately 12 years in respect of construction costs of 12 long term care properties. The funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long term care communities for the remaining period. The discount rate used is based upon long term Ontario Government Bond rates.

10. Other assets:

	June 30, 2011	December 31, 2010
Prepaid expenses and deposits	\$ 11,441	\$ 10,659
Restricted cash	8,269	9,232
Lease purchase option	4,137	4,266
Other assets	4,111	4,301
	<u>\$ 27,958</u>	<u>\$ 28,458</u>
Current	\$ 20,809	\$ 21,037
Non-current	7,149	7,421
	<u>\$ 27,958</u>	<u>\$ 28,458</u>

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

11. Assets and liabilities held for sale:

During the three-month period ended June 30, 2011, the Trust committed to a plan to divest of one Canadian retirement community whose assets and liabilities were included in the Canadian Retirement Operations segment.

On July 31, 2011, Chartwell sold this property for \$70,000, of which \$1,500 was held in escrow to provide the purchaser with income protection until the expiration of current resident incentives and the achievement of 97% occupancy or higher for a three-month period. The purchaser assumed the outstanding debt of \$47,026 with the balance, net of working capital adjustments, received in cash. The Trust estimates that a gain on the sale of approximately \$6,700 will be realized on this transaction in the three-month period ended September 30, 2011.

	June 30, 2011
<hr/>	
Assets classified as held-for-sale:	
Trade and other receivables	\$ 55
Other assets	679
Property, plant and equipment	61,675
	<hr/>
	\$ 62,409
<hr/>	
Liabilities classified as held-for-sale:	
Accounts payable and other liabilities	\$ 544
Mortgages payable	47,012
	<hr/>
	\$ 47,556

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

12. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. For more information about the Trust's exposure to interest rates, foreign currency and liquidity risk, see note 18.

The mortgages payable as at June 30, 2011 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total maturing debt	Weighted average interest rate %
Remainder of 2011	\$ 18,314	\$ 48,305	\$ 66,619	3.83	4.21
2012	36,994	146,073	183,067	11.59	4.94
2013	37,061	127,120	164,181	10.08	5.07
2014	32,483	132,203	164,686	10.49	4.36
2015	29,891	176,427	206,318	13.99	5.12
2016	26,698	156,536	183,234	12.42	6.00
2017	19,962	230,945	250,907	18.32	5.69
2018	21,110	32,625	53,735	2.59	5.55
2019	20,017	92,753	112,770	7.36	6.17
2020	19,873	34,734	54,607	2.75	4.54
2021	18,444	21,361	39,805	1.69	4.33
2022	17,715	9,161	26,876	0.73	5.60
2023	15,805	13,648	29,453	1.08	6.01
2024	11,054	17,394	28,448	1.38	7.13
Thereafter	99,991	21,485	121,476	1.70	4.93
	<u>\$ 425,412</u>	<u>\$ 1,260,770</u>	1,686,182	<u>100.00</u>	
Mark-to-market adjustments arising on assumption			12,257		
Financing costs			(18,994)		
			<u>\$ 1,679,445</u>		
Current			\$ 136,070		
Non-current			1,543,375		
			<u>\$ 1,679,445</u>		

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

12. Secured debt (continued):

	June 30, 2011	December 31, 2010
Mortgages at fixed rates:		
Mortgages	\$1,612,030	\$1,650,282
Interest rates	2.50% - 10.00%	2.50% - 10.00%
Weighted average interest rate	5.47%	5.48%
Mortgages at variable rates:		
Mortgages	\$74,152	\$85,775
Interest rates	Lenders COF + 2.00% to prime + 2.50%	BA +300 bps to prime + 2.25%
Weighted average interest rate	4.50%	4.73%
Blended weighted average rate	5.43%	5.44%

During the three-month and six-month periods ended June 30, 2011, interest expense on mortgages payable amounted to \$23,971 and \$47,845 (three-month and six-month periods ended June 30, 2010 - \$23,314 and \$45,804), respectively.

Chartwell owns a 50% interest in a group of properties in the United States which are financed through a mortgage pool in the amount of \$66,942 (U.S. \$69,406). At June 30, 2011, the joint venture did not meet two of the covenant requirements. Under terms of the loan agreement, the lenders' recourse is limited to a corporate guarantee in the amount of U.S. \$4,500 (U.S. \$2,250 at Chartwell's 50% share). Subsequent to June 30, 2011, the lender agreed to waive these covenant requirements to March 2013.

Chartwell owns one property in the United States which is financed with a mortgage in the amount of \$6,560 (U.S. \$6,801). At June 30, 2011, the property did not meet one of its covenant requirements. Under the terms of the loan agreement, Chartwell will be required to pay down this mortgage by an estimated \$385 (U.S. \$400) to remedy this breach.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

12. Secured debt (continued):

(b) Credit Facility:

Chartwell has arranged for a \$85,000 Credit Facility. At June 30, 2011, the maximum available borrowing capacity under the Credit Facility was \$72,625 (December 31 2010 - \$75,000) based on the security provided. Of this capacity, \$2,402 (December 31, 2010 - \$2,116) has been allocated to support various letters of credit issued by Chartwell. During the three-month period ended June 30, 2011, the Credit Facility was renewed and now matures June 24, 2012. As part of the renewal, the Credit Facility was increased to \$85,000 from the previous limit of \$75,000. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.65% or the applicable bankers' acceptance rate plus 2.65%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to Unitholders. The Credit Facility is secured by charges on specific properties. As at June 30, 2011, \$49,000 (December 31, 2010 - \$51,000) was outstanding under the Credit Facility.

13. Accounts payable and other liabilities:

	June 30, 2011	December 31, 2010
Accounts payable and accrued liabilities	\$ 71,165	\$ 76,244
Resident deposits	4,234	3,973
Deferred revenue	5,737	5,637
Fair value of LTIP option component	8,912	7,400
Other liabilities	311	646
Deferred Trust Units	2,386	1,363
Restricted Trust Units	476	238
	<u>\$ 93,221</u>	<u>\$ 95,501</u>

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

13. Accounts payable and other liabilities (continued):

(a) Deferred Unit Plan:

The Trust provides a Deferred Unit Plan for its independent directors. The plan entitles directors, at their option, to receive all, 75%, 50% or 25% of their directors' fees in the form of Deferred Trust Units. The Trust matches on a one-on-one basis the number of Trust Units earned by directors. The number awarded is based on the fair market value, as defined by the plan, of the Trust Units on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred Trust Units issued in regard to distributions is based on the fair market value of the Trust's Units, as defined in the plan, on the date distributions are paid. Deferred Trust Units are distributed to the directors after they retire from the board and must be distributed within two years of their retirement.

Under IFRS, this plan is considered a cash-settled plan with the value of issued units recorded as a liability on the condensed consolidated interim balance sheets. The liability is released to equity after retirement of the director. The liability is revalued at each reporting date based on the trading value of Trust Units. Distributions on Deferred Trust Units are included in general, administrative and trust expenses in the condensed consolidated interim statements of comprehensive income (loss).

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

	Units outstanding	Amount
Balance, January 1, 2010	120,592	\$ 644
Units granted	78,306	641
Reinvested distributions	9,936	78
Balance, December 31, 2010	208,834	1,363
Units granted	67,928	574
Reinvested distributions	7,222	61
Change in fair value	–	388
Balance, June 30, 2011	283,984	\$ 2,386

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

13. Accounts payable and other liabilities (continued):

(b) Restricted Unit Plan:

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

During the six-month period ended June 30, 2011, 73,167 Restricted Trust Units related to grants were issued, with 3,186 units subsequently being cancelled, and 4,915 units were issued related to reinvested distributions. As at June 30, 2011, the liability associated with Restricted Trust Units was \$476 (December 31, 2010 - \$238).

14. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

Business combination	June 30, 2011	December 31, 2010
Castel Royale	\$ 520	\$ 520
Heritage Glen	7,158	6,992
	<u>\$ 7,678</u>	<u>\$ 7,512</u>
Current	\$ 2,756	\$ 2,704
Non-current	4,922	4,808
	<u>\$ 7,678</u>	<u>\$ 7,512</u>

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

15. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability under IFRS. The Trust has elected to designate Class B Units as fair value through profit and loss. Fair value is determined by using market prices for listed Trust Units since there is a one-for-one exchange feature. The market price of Trust Units as at June 30, 2011 was \$8.40 (December 31, 2010 - \$8.18).

Holders of the Class B Units are entitled to receive distributions equal to those provided to holders of Trust Units. Under IFRS, these distributions are included in finance costs in the condensed consolidated interim statements of comprehensive income (loss).

	Units outstanding	Amount
Balance, January 1, 2010	1,976,859	\$ 13,897
Exchange of Class B Units into Trust Units	(262,207)	(2,239)
Change in fair value	–	2,369
Balance, December 31, 2010	1,714,652	14,027
Exchange of Class B Units into Trust Units	(33,127)	(272)
Change in fair value	–	370
Balance, June 30, 2011	1,681,525	\$ 14,125

16. Unitholders' equity and LTIP:

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

	Number of voting units	Amount
Balance, January 1, 2010	125,762,133	\$ 1,307,016
Trust Units issued under DRIP	628,792	4,795
Trust Units issued in exchange of Class B Units	262,207	2,239
Trust Units released on settlement of LTIP receivable	170,000	1,694
Trust Units issued pursuant to public offering	13,775,000	124,217
Balance, December 31, 2010	140,598,132	1,439,961
Trust Units issued under DRIP	961,347	7,825
Trust Units issued in exchange of Class B Units	33,127	272
Balance, June 30, 2011	141,592,606	\$ 1,448,058

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

16. Unitholders' equity and LTIP (continued):

(b) LTIP:

	Number of units under subscription	Amount
Balance, January 1, 2010	2,436,895	\$ 28,728
Trust Units issued under LTIP	146,882	1,139
Trust Units issued under LTIP surrendered for cancellation under LTIP	(168,919)	(1,756)
Trust Units released on repayment of LTIP receivable	(170,000)	(1,694)
Balance, December 31, 2010	2,244,858	26,417
Trust Units issued under LTIP	138,483	1,221
Trust Units issued under LTIP surrendered for cancellation under LTIP	(78,993)	(889)
Balance, June 30, 2011	2,304,348	\$ 26,749

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

17. Segmented information:

Chartwell monitors and operates its Canadian Retirement, Canadian Long term Care and United States Operations separately. Subsequent to December 31, 2010, Chartwell has changed the composition of its reportable segments as management operations no longer satisfy the threshold of a reportable segment.

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

Three-month period ended June 30, 2011						
	Canadian Retirement Operations	Canadian Long term Care Operations	United States Operations	Segment total	Unallocated	Total
Revenue:						
Resident Management and other fees	\$ 88,923	\$ 49,335	\$ 45,537	\$ 183,795	\$ -	\$ 183,795
Mezzanine loan interest	-	-	-	-	793	793
	-	-	-	-	459	459
	88,923	49,335	45,537	183,795	1,252	185,047
Expenses:						
Direct operating	(56,340)	(42,627)	(30,439)	(129,406)	-	(129,406)
General, administrative and trust	-	-	-	-	(6,381)	(6,381)
	(56,340)	(42,627)	(30,439)	(129,406)	(6,381)	(135,787)
Earnings (loss) before the undernoted	32,583	6,708	15,098	54,389	(5,129)	49,260
Finance costs	(11,210)	(2,964)	(10,545)	(24,719)	(1,334)	(26,053)
Other income (expense)	1,572	183	(8,500)	(6,745)	849	(5,896)
Depreciation and amortization	(23,891)	(2,497)	(14,856)	(41,244)	-	(41,244)
Changes in fair value of financial instruments and unrealized foreign exchange gains	-	-	-	-	1,755	1,755
Earnings (loss) before income taxes	(946)	1,430	(18,803)	(18,319)	(3,859)	(22,178)
Income tax benefit	-	-	-	-	3,330	3,330
Net earnings (loss)	\$ (946)	\$ 1,430	\$ (18,803)	\$ (18,319)	\$ (529)	\$ (18,848)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 23,590	\$ -	\$ -	\$ 23,590	\$ -	\$ 23,590
Capital additions	4,438	5,872	3,483	13,793	-	13,793

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

17. Segmented information (continued):

Six-month period ended June 30, 2011						
	Canadian Retirement Operations	Canadian Long term Care Operations	United States Operations	Segment total	Unallocated	Total
Revenue:						
Resident	\$ 176,664	\$ 97,404	\$ 91,783	\$ 365,851	\$ –	\$ 365,851
Management and other fees	–	–	–	–	1,642	1,642
Mezzanine loan interest	–	–	–	–	1,056	1,056
	176,664	97,404	91,783	365,851	2,698	368,549
Expenses:						
Direct operating	(113,055)	(84,847)	(60,967)	(258,869)	–	(258,869)
General, administrative and trust	–	–	–	–	(12,542)	(12,542)
	(113,055)	(84,847)	(60,967)	(258,869)	(12,542)	(271,411)
Earnings (loss) before the undernoted	63,609	12,557	30,816	106,982	(9,844)	97,138
Finance costs	(22,160)	(6,127)	(21,213)	(49,500)	(2,667)	(52,167)
Other income (expense)	1,572	183	(8,500)	(6,745)	1,789	(4,956)
Depreciation and amortization	(47,748)	(4,648)	(29,621)	(82,017)	–	(82,017)
Changes in fair value of financial instruments and unrealized foreign exchange losses	–	–	–	–	(2,609)	(2,609)
Earnings (loss) before income taxes	(4,727)	1,965	(28,518)	(31,280)	(13,331)	(44,611)
Income tax benefit	–	–	–	–	7,299	7,299
Net earnings (loss)	\$ (4,727)	\$ 1,965	\$ (28,518)	\$ (31,280)	\$ (6,032)	\$ (37,312)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 23,590	\$ –	\$ –	\$ 23,590	\$ –	\$ 23,590
Capital additions	8,591	9,692	5,607	23,890	–	23,890

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

17. Segmented information (continued):

Three-month period ended June 30, 2010						
	Canadian Retirement Operations	Canadian Long term Care Operations	United States Operations	Segment total	Other	Total
Revenue:						
Resident Management and other fees	\$ 87,216	\$ 40,685	\$ 45,057	\$ 172,958	\$ –	\$ 172,958
Mezzanine loan interest	–	–	–	–	1,413	1,413
	–	–	–	–	1,302	1,302
	87,216	40,685	45,057	172,958	2,715	175,673
Expenses:						
Direct operating	(55,546)	(34,800)	(29,479)	(119,825)	–	(119,825)
General, administrative and trust	–	–	–	–	(5,966)	(5,966)
	(55,546)	(34,800)	(29,479)	(119,825)	(5,966)	(125,791)
Earnings (loss) before the undernoted	31,670	5,885	15,578	53,133	(3,251)	49,882
Finance costs	(10,631)	(2,633)	(10,451)	(23,715)	(3,561)	(27,276)
Other income (expense)	821	3,489	4,417	8,727	956	9,683
Depreciation and amortization	(25,856)	(963)	(12,950)	(39,769)	(159)	(39,928)
Changes in fair value of financial instruments and unrealized foreign exchange gains	–	–	–	–	2,722	2,722
Earnings (loss) before income taxes	(3,996)	5,778	(3,406)	(1,624)	(3,293)	(4,917)
Income tax benefit	–	–	–	–	2,796	2,796
Net earnings (loss)	\$ (3,996)	\$ 5,778	\$ (3,406)	\$ (1,624)	\$ (497)	\$ (2,121)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 17,750	\$ 95,622	\$ 113,224	\$ 226,596	\$ –	\$ 226,596
Capital additions	7,508	1,402	398	9,308	–	9,308

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

17. Segmented information (continued):

Six-month period ended June 30, 2010						
	Canadian Retirement Operations	Canadian Long term Care Operations	United States Operations	Segment total	Other	Total
Revenue:						
Resident Management and other fees	\$ 171,508	\$ 76,842	\$ 87,191	\$ 335,541	\$ –	\$ 335,541
Mezzanine loan interest	–	–	–	–	2,859	2,859
	–	–	–	–	2,801	2,801
	171,508	76,842	87,191	335,541	5,660	341,201
Expenses:						
Direct operating	(109,617)	(66,626)	(56,493)	(232,736)	–	(232,736)
General, administrative and trust	–	–	–	–	(11,544)	(11,544)
	(109,617)	(66,626)	(56,493)	(232,736)	(11,544)	(244,280)
Earnings (loss) before the undernoted	61,891	10,216	30,698	102,805	(5,884)	96,921
Finance costs	(21,269)	(4,902)	(20,477)	(46,648)	(7,169)	(53,817)
Other income (expense)	821	3,489	4,417	8,727	2,336	11,063
Depreciation and amortization	(48,930)	(2,717)	(25,143)	(76,790)	(561)	(77,351)
Changes in fair value of financial instruments and unrealized foreign exchange losses	–	–	–	–	(157)	(157)
Earnings (loss) before income taxes	(7,487)	6,086	(10,505)	(11,906)	(11,435)	(23,341)
Income tax benefit	–	–	–	–	2,443	2,443
Net earnings (loss)	\$ (7,487)	\$ 6,086	\$ (10,505)	\$ (11,906)	\$ (8,992)	\$ (20,898)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 105,630	\$ 95,622	\$ 113,224	\$ 314,476	\$ –	\$ 314,476
Capital additions	11,472	1,918	1,071	14,461	–	14,461

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

17. Segmented information (continued):

June 30, 2011						
	Canadian Retirement Operations	Canadian Long term Care Operations	United States Operations	Segment total	Unallocated	Consolidated
Operating assets	\$ 1,487,510	\$ 344,322	\$ 738,754	\$ 2,570,586	\$ 22,547	\$ 2,593,133
Operating liabilities	\$ 960,716	\$ 249,240	\$ 611,497	\$ 1,821,453	\$ 185,726	\$ 2,007,179

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

18. Financial instruments and financial risk management:

Financial risk management objectives and policies:

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

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

There have been no significant changes to the Trust's risk management policies and strategies since December 31, 2010.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

19. Other expenses (income):

	Three-month periods ended		Six-month periods ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Gain recorded on remeasurement of previously held equity interest on acquisition	\$ (2,090)	\$ (9,639)	\$ (2,090)	\$ (9,639)
Bargain purchase on acquisition	–	(750)	–	(750)
Gain on disposal of properties	–	(250)	–	(250)
Interest income on loans and receivables	(849)	(956)	(1,789)	(2,336)
Other income	(2,939)	(11,595)	(3,879)	(12,975)
Impairment on property, plant and equipment	8,500	–	8,500	–
Transaction costs arising on business acquisitions	335	1,912	335	1,912
Other expenses	8,835	1,912	8,835	1,912
Other expenses (income)	\$ 5,896	\$ (9,683)	\$ 4,956	\$ (11,063)

Gain recorded on remeasurement of previously held equity interest on acquisition relates to Chartwell's step acquisitions of one property in British Columbia in 2011 and the Meridian and Regency portfolios in 2010.

Impairment on PP&E relates to the existing 50% interest in a 15 property portfolio in the United States (note 23). The remaining 50% interest in this portfolio is expected to be acquired later in 2011 and the agreed upon purchase price of certain properties in the portfolio is lower than Chartwell's carrying value of these properties. As a result, Chartwell recorded an impairment of \$8,500 in the three-month period ended June 30, 2011 being the difference between the carrying amount of these assets and the estimated recoverable amount.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

20. Finance costs:

	Three-month periods ended		Six-month periods ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Contractual mortgage interest expense	\$ 23,171	\$ 22,855	\$ 46,423	\$ 44,785
Interest expense on convertible debentures	1,106	2,980	2,212	5,960
Credit facility and other interest expense	502	–	918	–
	24,779	25,835	49,553	50,745
Interest capitalized to properties under development	(330)	–	(573)	–
Amortization of financing costs and mark-to-market adjustments on assumption of mortgages payable	884	698	1,589	1,517
Distributions on Class B Units recorded as interest expense	228	253	455	506
Property lease expense	492	490	1,143	1,049
	\$ 26,053	\$ 27,276	\$ 52,167	\$ 53,817

21. Fair values of financial instruments and foreign exchange (gains) losses:

	Three-month periods ended		Six-month periods ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Change in fair value of convertible debentures	\$ (112)	\$ (375)	\$ (1,050)	\$ (125)
Change in fair value of interest rate swap	(288)	143	(139)	51
Unrealized foreign exchange loss (gain)	291	(2,689)	1,628	(794)
Changes in fair value of LTIP option component	(588)	349	1,412	704
Changes in fair value of Class B Units	(1,446)	(150)	370	321
Changes in fair value of deferred Trust Units	388	–	388	–
Fair value of financial instruments and foreign exchange (gains) losses	\$ (1,755)	\$ (2,722)	\$ 2,609	\$ 157

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except unit amounts)

Three-month and six-month periods ended June 30, 2011 and 2010

(Unaudited)

22. Income taxes:

For the three-month and six-month periods ended June 30, 2011, Chartwell recorded a current income tax expense of \$95 and \$171 (three-month and six-month periods ended June 30, 2010 - \$82 and \$162) and a deferred income tax benefit of (\$3,425) and (\$7,470) (three-month and six-month periods ended June 30, 2010 - (\$2,878) and (\$2,605)), respectively. The average effective tax recovery rate for the six-month period ended June 30, 2010 was less than the comparable rate for the six-month period ended June 30, 2011 due to the deferred tax treatment of certain acquisition in the prior period.

23. Subsequent events:

In addition to the events identified elsewhere in these financial statements, the following events occurred subsequent to June 30, 2011:

Subsequent to June 30, 2011, Chartwell entered into an agreement with ING Real Estate Community Living Group ("ING") to acquire its 50% interest in 15 properties in the United States which are jointly owned with the Trust. The purchase price is U.S. \$169,000, net of debt mark-to-market adjustment of U.S. \$2,500 and will be settled by the assumption of debt of approximately U.S. \$135,800 at June 30, 2011 with the balance, net of working capital adjustment, paid in cash.

Chartwell expects that in the second half of 2011, management of its 45 communities in the United States will be transferred to Brookdale Senior Living Inc. ("Brookdale") as a result of Brookdale's acquisition of Horizon Bay Realty LLC.

Subsequent to June 30, 2011, Chartwell completed mortgage financing on one of its unencumbered properties in the amount of \$23,900, bearing interest at 5.15% and maturing in August 2021.