

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,<br>2011    | December 31,<br>2010 |
|---|-------|---------------------|----------------------|
| <b>Assets</b>   |       |                     |                      |
| 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              | –                    |
| <b>Total current assets</b>                                     |       | <b>118,558</b>      | <b>68,665</b>        |
| 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            |
| <b>Total non-current assets</b>                                 |       | <b>2,474,575</b>    | <b>2,610,431</b>     |
| <b>Total assets</b>   |       | <b>\$ 2,593,133</b> | <b>\$ 2,679,096</b>  |
| <b>Liabilities and Unitholders' Equity</b>                      |       |                     |                      |
| 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              | –                    |
| <b>Total current liabilities</b>                                |       | <b>335,154</b>      | <b>272,574</b>       |
| 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               |
| <b>Total non-current liabilities</b>                            |       | <b>1,672,025</b>    | <b>1,750,168</b>     |
| <b>Total liabilities</b>  |       | <b>2,007,179</b>    | <b>2,022,742</b>     |
| Unitholders' equity   | 16    | 585,954             | 656,354              |
| <b>Total liabilities and unitholders' equity</b>                |       | <b>\$ 2,593,133</b> | <b>\$ 2,679,096</b>  |

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<br>June 30, |            | Six-month periods ended<br>June 30, |             |
|--|------|---------------------------------------|------------|-------------------------------------|-------------|
|  |      | 2011                                  | 2010       | 2011                                | 2010        |
| <b>Revenue:</b>  |      |                                       |            |                                     |             |
| 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     |
| <b>Expenses:</b>   |      |                                       |            |                                     |             |
| 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)    |
| <b>Other comprehensive loss:</b>   |      |                                       |            |                                     |             |
| 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<br>June 30, 2011  | Trust<br>Units<br>issued in<br>dollars, net | Trust Units<br>issued<br>under<br>LTIP | LTIP<br>receivable | Accumulated<br>losses | Foreign<br>currency<br>translation<br>reserve | Distributions       | Other equity<br>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<br>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<br>Plan ("LTIP"), net of units transferred<br>to Treasury | —   | 332                                    | (428)              | —                     | —   | —                   | 134                        | 38                |
| Interest on LTIP receivable  | —   | —                                      | (104)              | —                     | —   | —                   | —                          | (104)             |
| Distributions applied against LTIP receivable  | —   | —                                      | 613                | —                     | —   | —                   | —                          | 613               |
| <b>Unitholders' equity, June 30, 2011</b>  | <b>\$ 1,448,058</b>                         | <b>\$ 26,749</b>                       | <b>\$ (20,952)</b> | <b>\$ (373,926)</b>   | <b>\$ (8,260)</b>                             | <b>\$ (490,266)</b> | <b>\$ 4,551</b>            | <b>\$ 585,954</b> |

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<br>June 30, 2010                                    | Trust<br>Units<br>issued in<br>dollars, net | Trust Units<br>issued<br>under<br>LTIP | LTIP<br>receivable | Accumulated<br>losses | Foreign<br>currency<br>translation<br>reserve | Distributions       | Other equity<br>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<br>transferred to Treasury | 1,644                                       | (1,739)                                | 937                | —                     | —   | —                   | 91                         | 933               |
| Interest on LTIP receivable  | —   | —                                      | (91)               | —                     | —   | —                   | —                          | (91)              |
| Distributions applied against LTIP receivable                              | —   | —                                      | 616                | —                     | —   | —                   | —                          | 616               |
| <b>Unitholders' equity, June 30, 2010</b>                                  | <b>\$ 1,311,234</b>                         | <b>\$ 26,989</b>                       | <b>\$ (21,998)</b> | <b>\$ (294,217)</b>   | <b>\$ 2,045</b>                               | <b>\$ (415,084)</b> | <b>\$ 2,879</b>            | <b>\$ 611,848</b> |

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)

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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)

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## 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)

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## 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 <sup>(1)</sup> | Adjustments |               |
| <b>Assets</b>                                   |           |               |                                  |             |               |
| 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  |
| <b>Liabilities and Unitholders' Equity</b>      |           |               |                                  |             |               |
| 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  |

<sup>(1)</sup> 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<br>period ended<br>June 30,<br>2010 | Six-month<br>period ended<br>June 30,<br>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<br>period ended<br>June 30,<br>2010 | Six-month<br>period ended<br>June 30,<br>2010 |
|--|-----------|---|---|
| Other comprehensive loss as reported<br>under CGAAP        |           | \$ 5,107  | \$ 1,874                                      |
| Increase to reported amount:                               |           |   |   |
| Change in fair value of interest rate swap                 | (vii)     | 143   | 51  |
| Unrealized foreign exchange<br>gains on foreign operations | (ix)      | 569   | 120   |
| Other comprehensive income as<br>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)

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### **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)

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### **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,<br>2011                       | May 10,<br>2011                                    |                 |
|--|--|--|-----------------|
| Segment  | Canadian Retirement Operations         |  |                 |
| Location   | Province of<br>Ontario<br>(113 suites) | Province of<br>British<br>Columbia<br>(103 suites) | Total           |
| PP&E   | \$ 11,137                              | \$ 12,453  | \$ 23,590       |
| Other liabilities  | (222)                                  | –  | (222)           |
| Mortgages assumed  | (7,605)                                | (5,793)  | (13,398)        |
| <b>Net assets acquired</b>   | <b>\$ 3,310</b>                        | <b>\$ 6,660</b>                                    | <b>\$ 9,970</b> |
| 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<br>previously held equity interest on<br>acquisition | –                                      | 2,090  | 2,090           |
| <b>Total consideration</b>   | <b>\$ 3,310</b>                        | <b>\$ 6,660</b>                                    | <b>\$ 9,970</b> |

- (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)

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## 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:

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|                         |    |        |
|-------------------------|----|--------|
| 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:

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|                     |    |       |
|---------------------|----|-------|
| 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<br>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)          |
| <b>Net assets acquired</b>   | <b>\$ 79,745</b> | <b>\$ 5,755</b>    | <b>\$ 85,500</b> |
| Discharge of mezzanine loans receivable  | \$ 17,366        | \$ –               | \$ 17,366        |
| Settlement of management contracts<br>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<br>of previously held equity<br>interest on acquisition | –                | 9,639              | 9,639            |
| Bargain purchase on acquisition  | –                | 1,439              | 1,439            |
| <b>Total consideration</b>   | <b>\$ 79,745</b> | <b>\$ 5,755</b>    | <b>\$ 85,500</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)

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## 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.

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

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## 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,<br>fixtures and<br>equipment | Properties<br>under<br>development | Land<br>held for<br>development | Total        |
|---|------------|--------------|---|------------------------------------|---------------------------------|--------------|
| <b>Cost or deemed cost:</b>                                     |            |              |   |                                    |                                 |              |
| 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 |
| <b>Depreciation and impairment losses:</b>                      |            |              |   |                                    |                                 |              |
| 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   |
| <b>Carrying amounts:</b>  |            |              |   |                                    |                                 |              |
| 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)

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### **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<br>contracts | Licenses  | Other <sup>(1)</sup> | Total     |
|--|-------------------------|-----------|----------------------|-----------|
| <b>Cost:</b>   |                         |           |                      |           |
| 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<br>United States Operations | –                       | –         | (491)                | (491)     |
| Balance, December 31, 2010   | 980                     | 44,334    | 12,345               | 57,659    |
| Additions  | –                       | –         | 52                   | 52        |
| Exchange differences on translation of<br>United States Operations | –                       | –         | (277)                | (277)     |
| Balance, June 30, 2011   | \$ 980                  | \$ 44,334 | \$ 12,120            | \$ 57,434 |
| <b>Amortization and impairment:</b>                                |                         |           |                      |           |
| 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<br>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<br>United States Operations | –                       | –         | (96)                 | (96)      |
| Balance, June 30, 2011   | \$ 254                  | \$ –      | \$ 5,560             | \$ 5,814  |
| <b>Carrying amounts:</b>   |                         |           |                      |           |
| 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 |

<sup>(1)</sup> 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<br>interest<br>rate | Net balance<br>(Principal amount less<br>lending expenses) |                      |
|--|------|---------------------------------|--|----------------------|
|  |      |                                 | June 30,<br>2011   | December 31,<br>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<br>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<br>Partners,<br>outside<br>Quebec | Melior,<br>Spectrum<br>and<br>Partners | Seasons<br>and<br>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,<br>2011 | December 31,<br>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,<br>2011 | December 31,<br>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)

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## 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     |

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## 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<br>principal<br>payments | Principal<br>due on<br>maturity | Total<br>debt       | % of total<br>maturing<br>debt | Weighted<br>average<br>interest<br>rate % |
|---|----------------------------------|---------------------------------|---------------------|--------------------------------|---|
| Remainder<br>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<br>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,<br>2011                        | December 31,<br>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%<br>to prime + 2.50% | BA +300 bps to<br>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,<br>2011 | December 31,<br>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<br>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)

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(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,<br>2011 | December 31,<br>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<br>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<br>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<br>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<br>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<br>for cancellation under LTIP | (168,919)                             | (1,756)   |
| Trust Units released on repayment of LTIP<br>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<br>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              |
| <b>Revenue:</b>  |                                |                                    |                          |                    |                 |                    |
| 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            |
| <b>Expenses:</b>   |                                |                                    |                          |                    |                 |                    |
| 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              |
| <b>Net earnings (loss)</b>   | <b>\$ (946)</b>                | <b>\$ 1,430</b>                    | <b>\$ (18,803)</b>       | <b>\$ (18,319)</b> | <b>\$ (529)</b> | <b>\$ (18,848)</b> |
| <b>Expenditures for non-current assets:</b>  |                                |                                    |                          |                    |                 |                    |
| 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)

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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              |
| <b>Revenue:</b>  |                                |                                    |                          |                    |                   |                    |
| 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            |
| <b>Expenses:</b>   |                                |                                    |                          |                    |                   |                    |
| 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              |
| <b>Net earnings (loss)</b>   | <b>\$ (4,727)</b>              | <b>\$ 1,965</b>                    | <b>\$ (28,518)</b>       | <b>\$ (31,280)</b> | <b>\$ (6,032)</b> | <b>\$ (37,312)</b> |
| <b>Expenditures for non-current assets:</b>  |                                |                                    |                          |                    |                   |                    |
| 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)

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(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             |
| <b>Revenue:</b>  |                                |                                    |                          |                   |                 |                   |
| 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           |
| <b>Expenses:</b>   |                                |                                    |                          |                   |                 |                   |
| 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             |
| <b>Net earnings (loss)</b>   | <b>\$ (3,996)</b>              | <b>\$ 5,778</b>                    | <b>\$ (3,406)</b>        | <b>\$ (1,624)</b> | <b>\$ (497)</b> | <b>\$ (2,121)</b> |
| <b>Expenditures for non-current assets:</b>  |                                |                                    |                          |                   |                 |                   |
| 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              |
| <b>Revenue:</b>  |                                |                                    |                          |                    |                   |                    |
| 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            |
| <b>Expenses:</b>   |                                |                                    |                          |                    |                   |                    |
| 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              |
| <b>Net earnings (loss)</b>   | <b>\$ (7,487)</b>              | <b>\$ 6,086</b>                    | <b>\$ (10,505)</b>       | <b>\$ (11,906)</b> | <b>\$ (8,992)</b> | <b>\$ (20,898)</b> |
| <b>Expenditures for non-current assets:</b>  |                                |                                    |                          |                    |                   |                    |
| 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              |
| <b>Other expenses (income)</b>   | <b>\$ 5,896</b>           | <b>\$ (9,683)</b> | <b>\$ 4,956</b>         | <b>\$ (11,063)</b> |

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)

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### **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.