

Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

**CHARTWELL SENIORS  
HOUSING REAL ESTATE  
INVESTMENT TRUST**

Three-month and nine-month periods  
ended September 30, 2011 and 2010  
(Unaudited)

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(Unaudited)

	Note	September 30, 2011	December 31, 2010
<b>Assets</b>			
Current:			
Cash and cash equivalents		\$ 13,895	\$ 14,728
Trade and other receivables	8	11,372	14,595
Mezzanine loans receivable	7	9,653	14,768
Capital funding receivable	9	3,690	3,537
Other assets	10	23,237	21,037
<b>Total current assets</b>		<b>61,847</b>	<b>68,665</b>
Non-current:			
Other assets	10	7,493	7,421
Mezzanine loans receivable	7	–	6,035
Capital funding receivable	9	56,333	59,059
Intangible assets	6	54,360	52,740
Property, plant and equipment ("PP&E")	5	2,400,261	2,485,176
<b>Total non-current assets</b>		<b>2,518,447</b>	<b>2,610,431</b>
<b>Total assets</b>		<b>\$ 2,580,294</b>	<b>\$ 2,679,096</b>
<b>Liabilities and Unitholders' Equity</b>			
Current liabilities:			
Secured revolving operating credit facility ("Credit Facility")	11(b)	\$ 10,000	\$ 51,000
Accounts payable and other liabilities	12	96,768	95,501
Distributions payable		6,575	6,505
Mortgages payable	11(a)	154,764	116,864
Deferred consideration on business combinations		2,781	2,704
<b>Total current liabilities</b>		<b>270,888</b>	<b>272,574</b>
Non-current liabilities:			
Mortgages payable	11(a)	1,603,145	1,613,196
Employee benefits		826	810
Deferred consideration on business combinations		4,981	4,808
Convertible debentures		75,390	76,876
Class B Units of Chartwell Master Care LP ("Class B Units")	13	12,695	14,027
Deferred tax liabilities		35,054	40,451
<b>Total non-current liabilities</b>		<b>1,732,091</b>	<b>1,750,168</b>
<b>Total liabilities</b>		<b>2,002,979</b>	<b>2,022,742</b>
Unitholders' equity	14	577,315	656,354
Subsequent events	7, 8, 21		
<b>Total liabilities and unitholders' equity</b>		<b>\$ 2,580,294</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 September 30,		Nine-month periods ended September 30,	
		2011	2010	2011	2010
<b>Revenue:</b>					
Resident		\$ 186,509	\$ 184,566	\$ 552,360	\$ 520,107
Management and other fees		687	991	2,329	3,850
Mezzanine loan interest		97	1,233	1,153	4,034
		187,293	186,790	555,842	527,991
<b>Expenses:</b>					
Direct operating		131,652	129,996	390,521	362,732
General, administrative and trust		6,018	6,247	18,560	17,791
		137,670	136,243	409,081	380,523
Income before the undernoted		49,623	50,547	146,761	147,468
Finance costs	18	25,746	28,997	77,913	82,814
Other expense (income)	17	(8,102)	(3,283)	(3,146)	(14,346)
Depreciation of PP&E	5	39,028	39,315	120,054	115,877
Amortization of intangible assets	6	322	1,052	1,313	1,841
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	19	(8,753)	7,131	(6,144)	7,288
Income (loss) before income taxes		1,382	(22,665)	(43,229)	(46,006)
Income tax expense (benefit):	20				
Current		80	84	251	246
Deferred		2,072	(4,815)	(5,398)	(7,420)
		2,152	(4,731)	(5,147)	(7,174)
Loss for the period		(770)	(17,934)	(38,082)	(38,832)
<b>Other comprehensive income (loss):</b>					
Unrealized foreign currency gain (loss) on translation of foreign operations		7,471	(4,385)	4,367	(2,340)
Total comprehensive income (loss) for the period		\$ 6,701	\$ (22,319)	\$ (33,715)	\$ (41,172)

See accompanying notes to condensed consolidated interim financial statements.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Unitholders' Equity

(In thousands of Canadian dollars)

(Unaudited)

Nine-month period ended September 30, 2011	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2011	\$ 1,439,961	\$ 26,417	\$ (21,033)	\$ (336,614)	\$ (5,156)	\$ (451,638)	\$ 4,417	\$ 656,354
Loss for the period	–	–	–	(38,082)	–	–	–	(38,082)
Other comprehensive income	–	–	–	–	4,367	–	–	4,367
Distributions to Unitholders	–	–	–	–	–	(58,051)	–	(58,051)
Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP")	11,657	–	–	–	–	–	–	11,657
Trust Units issued on exchange of Class B Units	272	–	–	–	–	–	–	272
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury	–	285	(424)	–	–	–	170	31
Interest on LTIP receivable	–	–	(157)	–	–	–	–	(157)
Distributions applied against LTIP receivable	–	–	924	–	–	–	–	924
<b>Unitholders' equity, September 30, 2011</b>	<b>\$ 1,451,890</b>	<b>\$ 26,702</b>	<b>\$ (20,690)</b>	<b>\$ (374,696)</b>	<b>\$ (789)</b>	<b>\$ (509,689)</b>	<b>\$ 4,587</b>	<b>\$ 577,315</b>

During the nine-month period ended September 30, 2011, distributions were declared and paid at \$0.045 per unit per month. In October 2011, distributions were declared at \$0.045 per unit totalling \$6,505.

Nine-month period ended September 30, 2010	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2010	\$ 1,307,016	\$ 28,728	\$ (23,460)	\$ (273,319)	\$ –	\$ (380,494)	\$ 2,788	\$ 661,259
Loss for the period	–	–	–	(38,832)	–	–	–	(38,832)
Other comprehensive loss	–	–	–	–	(2,340)	–	–	(2,340)
Distributions to Unitholders	–	–	–	–	–	(51,913)	–	(51,913)
Issuance of Trust Units under the DRIP	2,734	–	–	–	–	–	–	2,734
Trust Units issued on exchange of Class B Units	839	–	–	–	–	–	–	839
Trust Units issued under the LTIP, net of units transferred to Treasury	1,694	(1,496)	671	–	–	–	125	994
Interest on LTIP receivable	–	–	(137)	–	–	–	–	(137)
Distributions applied against LTIP receivable	–	–	924	–	–	–	–	924
<b>Unitholders' equity, September 30, 2010</b>	<b>\$ 1,312,283</b>	<b>\$ 27,232</b>	<b>\$ (22,002)</b>	<b>\$ (312,151)</b>	<b>\$ (2,340)</b>	<b>\$ (432,407)</b>	<b>\$ 2,913</b>	<b>\$ 573,528</b>

During the nine-month period ended September 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 September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (770)	\$ (17,934)	\$ (38,082)	\$ (38,832)
Items not affecting cash:				
Depreciation and amortization	39,350	40,367	121,367	117,718
Interest expense	24,779	27,802	74,787	79,207
Interest capitalized to properties under development	(394)	(166)	(967)	(320)
Interest income on loans and other receivables	(1,066)	(1,016)	(2,855)	(3,352)
Mezzanine loan interest	(97)	(1,233)	(1,153)	(4,034)
Gain recorded on remeasurement of previously held equity interest on acquisition	–	–	(2,090)	(9,639)
Gain on disposal of assets	(7,328)	–	(7,328)	(250)
Impairment on PP&E	–	–	8,500	–
Bargain purchase on acquisition	–	(2,647)	–	(3,397)
Non-cash compensation expense	364	375	1,454	787
Change in fair value of LTIP	(2,808)	348	(1,396)	1,052
Change in fair value of swap contract	111	38	(28)	89
Change in fair value of Deferred Trust Units	(237)	–	151	–
Amortization of finance costs and fair value adjustments on mortgages payable	728	852	2,317	2,369
Unrealized foreign exchange loss (gain)	(3,954)	1,971	(2,326)	1,177
Change in fair value of convertible debentures	(435)	1,374	(1,485)	1,249
Change in fair value of Class B Units	(1,430)	3,400	(1,060)	3,721
Current income taxes	80	84	251	246
Deferred income taxes	2,072	(4,815)	(5,398)	(7,420)
Change in trade and other receivables	(734)	4,079	3,217	5,498
Change in amounts due from Spectrum	(19)	611	154	498
Change in amounts due from ING	(37)	(117)	(57)	(165)
Change in other assets	(1,811)	230	(3,141)	4,169
Change in accounts payable and other liabilities	2,381	5,950	(1,045)	(3,348)
	48,745	59,553	143,787	147,023
Interest received	1,163	2,249	4,008	7,386
Interest paid	(23,898)	(24,661)	(74,122)	(77,799)
Income taxes paid	(80)	(84)	(251)	(246)
Net cash from operating activities	25,930	37,057	73,422	76,364
Financing activities:				
Proceeds from mortgage financing	38,125	9,438	60,285	11,870
Repayments of Credit Facility	(39,000)	–	(41,000)	–
Mortgage principal repayments	(11,239)	(10,426)	(30,935)	(66,307)
Net additions to finance costs	166	(679)	(2,452)	(2,591)
Distributions paid	(15,309)	(16,086)	(45,556)	(48,367)
Deposits and repayments received under LTIP	–	28	32	965
Net cash used in financing activities	(27,257)	(17,725)	(59,626)	(104,430)
Investing activities:				
Acquisition of assets under business combinations	–	(2,502)	(4,680)	(44,949)
Acquisition of land for development	–	–	(1,875)	–
Additions to PP&E	(20,205)	(11,405)	(42,220)	(25,866)
Proceeds from disposal of PP&E	21,718	–	21,718	2,786
Amounts received under income guarantees	–	–	–	133
Mezzanine loan repayments	–	–	8,187	2,780
Change in restricted cash	261	1,217	985	(151)
Proceeds from capital funding receivable	783	911	2,634	2,155
Net cash from (used in) investing activities	2,557	(11,779)	(15,251)	(63,112)
Increase (decrease) in cash and cash equivalents	1,230	7,553	(1,455)	(91,178)
Foreign exchange gain (loss) on				
U.S. dollar-denominated cash	947	(183)	622	(134)
Cash and cash equivalents, beginning of period	11,718	8,261	14,728	106,943
Cash and cash equivalents, end of period	\$ 13,895	\$ 15,631	\$ 13,895	\$ 15,631

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 nine-month periods ended September 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, 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. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Trust's 2010 annual consolidated 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 third 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 November 10, 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 consolidated 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 nine-month periods ended September 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, the Trust's functional currency. 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) - PP&E;
- Note 2(l)(iii) - Revenue recognition - Allowance for doubtful accounts; and
- Note 3(e)(i) - PP&E - 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 nine-month periods ended September 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.



# 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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

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## 2. Significant accounting policies (continued):

### (c) Intangible assets:

Intangible assets include licenses, management contracts and other intangibles which are measured at cost less accumulated amortization and accumulated impairment losses, except in the case of licenses with an indefinite life which are measured at cost and are not amortized.

#### (i) Licenses:

Licenses for the operation of long term care properties are considered to have indefinite lives and are recorded at cost and are not amortized. Given the current demographic of the Canadian markets as well as the fact that the demand for licensed beds is expected to increase beyond its current supply, management has determined that the licenses have an indefinite life.

#### (ii) Management contracts:

Management contracts represent the acquired value of contractual agreements to provide management and advisory services for the operations of senior residences and long term care properties owned by third parties. Management contracts are amortized on a straight-line basis over the term of the contract or if no term is specified, over its estimated life, not to exceed five years.

#### (iii) Other intangibles:

Other intangibles consist of the allocated cost of acquired operating leases of seniors housing properties, software costs and below-market management contracts.

The allocated cost of the operating leases is amortized on a straight-line basis over the initial lease term of those leases.

Software costs are amortized over one to three years on a straight-line basis.

Below-market management contracts represent the value of contractual agreements with third parties to provide management services for the operations of senior residences owned by Chartwell. Below-market management contracts are amortized over the term of the contracts which is 10 years.

# 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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

## 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 periods ended March 31, 2011 and 2010.

(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 September 30, 2010:

	Note 3(d)	CGAAP September 30, 2010	Reclassifications <sup>(1)</sup>	IFRS Adjustments	September 30, 2010
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		\$ 14,865	\$ –	\$ –	\$ 14,865
Trade and other receivables		44,072	(30,814)	–	13,258
Mezzanine loans receivable		–	24,310	–	24,310
Capital funding receivable		–	3,768	–	3,768
Other assets		–	22,817	–	22,817
Assets held for sale	(i)	88,630	–	(3,119)	85,511
Total current assets		147,567	20,081	(3,119)	164,529
Non-current assets:					
Other assets	(ii)	–	7,997	(525)	7,472
Mezzanine loans receivable		37,151	(24,310)	–	12,841
Capital funding receivable	(ii)	64,723	(3,768)	(1,268)	59,687
Intangible assets	(i), (ii)	37,980	40,484	(25,753)	52,711
Licenses		40,484	(40,484)	–	–
PP&E	(i), (ii)	2,396,249	–	53,651	2,449,900
Total non-current assets		2,576,587	(20,081)	26,105	2,582,611
Total assets		\$ 2,724,154	\$ –	\$ 22,986	\$ 2,747,140
<b>Liabilities and Unitholders' Equity</b>					
Current liabilities:					
Accounts payable and other liabilities	(iii)	\$ 92,518	\$ (1,124)	\$ 8,057	\$ 99,451
Distributions payable		5,878	–	–	5,878
Mortgages payable		–	173,727	–	173,727
Deferred consideration on business combinations		–	5,304	–	5,304
Liabilities held for sale		63,258	–	–	63,258
Total current liabilities		161,654	177,907	8,057	347,618
Non-current liabilities:					
Mortgages payable	(ii)	1,730,325	(173,727)	(2,501)	1,554,097
Employee benefits	(iv)	–	1,124	(202)	922
Deferred consideration on business combinations		13,066	(5,304)	–	7,762
Convertible debentures	(v)	192,542	–	12,381	204,923
Class B units	(vi)	–	–	16,780	16,780
Deferred tax liabilities	(x)	21,223	–	20,287	41,510
Total non-current liabilities		1,957,156	(177,907)	46,745	1,825,994
Total liabilities		2,118,810	–	54,802	2,173,612
Non-controlling interests	(vi)	6,438	–	(6,438)	–
Unitholders' equity		598,906	–	(25,378)	573,528
Total equities and liabilities		\$ 2,724,154	\$ –	\$ 22,986	\$ 2,747,140

<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 nine-month periods ended September 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 previous CGAAP to its loss for the three-month and nine-month periods ended September 30, 2010 in accordance with IFRS:

	Note 3(d)	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2010
Loss for the period, as reported under CGAAP		\$ (3,846)	\$ (10,238)
Increases (decreases) to reported amount:			
Reversal of non-controlling interest	(vi)	(58)	(151)
Depreciation and amortization	(i)	(17,630)	(47,127)
		(17,688)	(47,278)
Finance costs:			
Accretion and deferred financing on debentures	(v)	1,210	3,547
Interest distributions on Class B Units	(vi)	(252)	(758)
Borrowing costs	(viii)	(255)	(975)
		703	1,814
Other income (expense):			
Remeasurement of previously held equity interest on acquisition	(ii)	–	9,639
Bargain purchase on acquisitions	(ii)	2,647	3,397
Reversal of impairment on PP&E under CGAAP	(i)	2,500	8,600
Remeasurement of gain on sale of assets	(i)	–	(4,144)
Transaction costs on acquisition	(ii)	(380)	(2,292)
		4,767	15,200
Changes in fair value of financial instruments:			
Changes in fair value of convertible debentures	(v)	(1,374)	(1,249)
Changes in fair value of interest rate swap	(vii)	(38)	(89)
Changes in fair value of LTIP option component	(iii)	(348)	(1,052)
Changes in fair value of Class B Units	(vi)	(3,400)	(3,721)
Changes in fair value remeasurement of mortgages	(ii)	(110)	(143)
		(5,270)	(6,254)
Direct operating, general, administrative and trust expenses	(viii)	(112)	(278)
Deferred taxes	(x)	3,512	8,202
Loss for the period, as reported under IFRS		\$ (17,934)	\$ (38,832)

## 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

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

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

Note 3(d)	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2010
Other comprehensive loss, as reported under CGAAP	\$ (3,954)	\$ (2,107)
Increases (decreases) to reported amount:		
Changes in fair value of interest rate swap (vii)	39	90
Unrealized foreign exchange gains on translation of foreign operations (ix)	(413)	(293)
Reversal of non-controlling interest (vi)	(57)	(30)
Other comprehensive loss, as reported under IFRS	\$ (4,385)	\$ (2,340)

(d) Explanation of transition:

(i) Fair value as deemed cost:

Reflection of depreciation and amortization adjustments to the carrying book values of 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 assets 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 expense (income).

# 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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

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

### (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.

### (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 translation of foreign operations:

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

# 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

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

(x) Deferred tax liabilities:

Reflection of the tax impact of items described above.

### 4. Acquisitions:

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(a).

Business combinations:

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(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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

### 4. Acquisitions (continued):

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

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

(a) The Trust incurred acquisition-related costs of \$237 relating to external legal fees and due diligence costs. These costs have been recognized in other expense (income) 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 September 30, 2011:

(i) Balance sheet:

Current assets	\$ 141
Non-current assets	10,969
	\$ 11,110
Current liabilities	\$ 112
Non-current liabilities	7,594
	\$ 7,706

## 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

### 4. Acquisitions (continued):

(ii) Statement of comprehensive loss:

Revenue	\$	361
Expenses		761
Loss before income taxes	\$	(400)

(b) 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 expense (income) in the condensed consolidated interim statements of comprehensive income (loss). The net book value of 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 expense (income) in the condensed consolidated interim statements of comprehensive income (loss).

In the five-month period ended September 30, 2011, Chatsworth contributed revenue of \$1,501 and profit of \$12 at 100% ownership interest. If the acquisition had occurred on January 1, 2011, management estimates that the consolidated revenue would have been \$2,652 and the consolidated profit for the period would have been \$84 at 100% ownership interest.

(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 <sup>(1)</sup>	100%	March 9, 2010
The Meridian Portfolio	50%	May 14, 2010
The Regency Portfolio	50%	June 1, 2010
Valley Vista Retirement Residence	50%	June 1, 2010
Chartwell Classic Oakville	50%	September 1, 2010
Chartwell Select Muskoka Traditions	100%	December 1, 2010

<sup>(1)</sup>The Quebec Portfolio represents Chartwell's acquisition, through foreclosure proceedings, of three retirement properties and one parcel of vacant land from Melior.



## 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

### 4. Acquisitions (continued):

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

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

	CGAAP	IFRS adjustment	IFRS
PP&E	\$ 290,814	\$ 28,141	\$ 318,955
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)	(911)	(3,185)
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>\$ 8,744</b>	<b>\$ 88,489</b>
Discharge of mezzanine loans receivable	\$ 17,366	\$ –	\$ 17,366
Settlement of management contracts and accounts receivable	9,301	(2,028)	7,273
Cash consideration	49,783	–	49,783
Acquisition costs	3,295	(3,295)	–
Gain recorded on remeasurement of previously held equity interest on acquisition	–	9,639	9,639
Bargain purchase on acquisition	–	4,428	4,428
<b>Total consideration</b>	<b>\$ 79,745</b>	<b>\$ 8,744</b>	<b>\$ 88,489</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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

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#### 4. Acquisitions (continued):

As the acquisitions of The Meridian Portfolio and The Regency Portfolio were completed in steps, Chartwell was required to remeasure the original 50% interest to fair value. As a result, a gain of \$9,639 was recorded. The combined net book value of the portfolios, prior to the purchase of the second 50% interest was \$200,183.

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 at 100% ownership interest.

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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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

### 5. Property, plant and equipment:

	Land	Building	Furniture, fixtures and equipment	Properties under development	Land held for 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	–	17,401	4,332	20,441	1,863	44,037
Additions through business combinations	3,144	27,822	632	–	–	31,598
Disposals	(7,526)	(65,001)	(1,642)	–	(5,400)	(79,569)
Transfers	(5,040)	–	–	4,775	265	–
Exchange differences on translation of United States Operations	4,101	38,862	1,215	354	357	44,889
Balance, September 30, 2011	\$ 275,729	\$ 2,293,867	\$ 57,567	\$ 42,218	\$ 18,748	\$ 2,688,129
<b>Depreciation and impairment losses:</b>						
Balance, January 1, 2010	\$ –	\$ 5,062	\$ 3,346	\$ –	\$ –	\$ 8,408
Depreciation for the year	–	149,916	10,859	–	–	160,775
Disposals	–	(4,692)	(304)	–	–	(4,996)
Exchange differences on translation of United States Operations	–	(1,995)	(194)	–	–	(2,189)
Balance, December 31, 2010	–	148,291	13,707	–	–	161,998
Depreciation for the period	–	110,082	9,972	–	–	120,054
Disposals	–	(9,320)	(454)	–	–	(9,774)
Impairment	–	8,500	–	–	–	8,500
Exchange differences on translation of United States Operations	–	6,667	423	–	–	7,090
Balance, September 30, 2011	\$ –	\$ 264,220	\$ 23,648	\$ –	\$ –	\$ 287,868
<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, September 30, 2011	\$ 275,729	\$ 2,029,647	\$ 33,919	\$ 42,218	\$ 18,748	\$ 2,400,261

## **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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

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### **5. Property, plant and equipment (continued):**

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

During the nine-month period ended September 30, 2011, the Trust capitalized \$967 of borrowing costs related to development projects under construction at an average capitalization rate of 5.43%.

Included in buildings are assets under finance leases with a carrying value as at September 30, 2011 of \$103,503 (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 for a nominal amount.

On July 31, 2011, the Trust disposed of one retirement community, assets and liabilities of which were included in the Canadian Retirement Operations segment. The sale price was \$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 an existing debt of \$47,026, with the balance, net of working capital adjustments, received in cash. As a result of this transaction, the Trust recorded a gain on sale of \$5,926 included in other expense (income) (note 17).

# 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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

## 6. Intangible assets:

	Management 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 United States Operations	–	–	(491)	(491)
Balance, December 31, 2010	980	44,334	12,345	57,659
Additions	–	–	2,993	2,993
Disposals	–	–	(524)	(524)
Exchange differences on translation of United States Operations	–	–	668	668
Balance, September 30, 2011	\$ 980	\$ 44,334	\$ 15,482	\$ 60,796
<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 United States Operations	–	–	(153)	(153)
Balance, December 31, 2010	223	–	4,696	4,919
Amortization for the period	47	–	1,266	1,313
Exchange differences on translation of United States Operations	–	–	204	204
Balance, September 30, 2011	\$ 270	\$ –	\$ 6,166	\$ 6,436
<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, September 30, 2011	\$ 710	\$ 44,334	\$ 9,316	\$ 54,360

<sup>(1)</sup> Other intangibles consist of the allocated cost of acquired operating leases of seniors housing properties, below-market management contracts and software costs.

During the three-month period ended September 30, 2011, Chartwell disposed of its ownership interest in Horizon Bay Chartwell ("HBC") and Horizon Bay Chartwell II ("HBCII") to Horizon Bay Realty LLC with a carrying value of net assets of \$524. In exchange, Chartwell entered into below-market management contracts with Brookdale Senior Living Inc. for 45 communities in the United States with a fair value of \$2,935 (U.S. \$3,000). A net gain of \$1,848, net of disposition costs and working capital adjustments of \$563, was recorded in other expense (income) (note 17).

## 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)

### 7. Mezzanine loans receivable:

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

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

#### (a) Spectrum and Partners, outside Quebec:

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

During the nine-month period ended September 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 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

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### **7. Mezzanine loans receivable (continued):**

In October 2011, Chartwell amended and restated the terms of its settlement agreement to allow Spectrum to sell certain of its assets to Renaissance Lifestyle Communities Inc. ("Renaissance") pursuant to its Initial Public Offering (the "Renaissance IPO"). Subsequently, Chartwell was notified that the previously announced sale of certain Spectrum assets to Renaissance is not proceeding at this time. Chartwell retains all of its rights under the agreements with Spectrum, including mezzanine loan agreements and the development agreement, as amended. Chartwell will continue to work with Spectrum to collect its accounts receivable and mezzanine loans and to manage certain of its operating properties.

#### **(b) Melior, Spectrum and Partners:**

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

During the nine-month period ended September 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 nine-month period ended September 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.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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(Unaudited)

### 7. Mezzanine loans receivable (continued):

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

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

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

### 8. Trade and other receivables:

	September 30, 2011	December 31, 2010
Trade receivables	\$ 11,162	\$ 14,288
Due from Spectrum	19	173
Due from ING	191	134
	\$ 11,372	\$ 14,595

Subsequent to September 30, 2011, the balance due from ING Real Estate Community Living Group ("ING") was collected in cash.

### 9. Capital funding receivable:

The capital funding receivable of \$60,023 (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.



## 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)

### 10. Other assets:

	September 30, 2011	December 31, 2010
Prepaid expenses and deposits	\$ 11,366	\$ 10,659
Restricted cash	8,632	9,232
Lease purchase option	4,496	4,266
Other assets	6,236	4,301
	<u>\$ 30,730</u>	<u>\$ 28,458</u>
Current	\$ 23,237	\$ 21,037
Non-current	7,493	7,421
	<u>\$ 30,730</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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

## 11. Secured debt:

### (a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost.

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

	Regular principal payments	Principal due on maturity	Total debt	% of total maturing debt	Weighted average interest rate
Remainder of 2011	\$ 9,420	\$ 38,990	\$ 48,410	2.93%	4.08%
2012	38,329	145,892	184,221	10.96%	4.94%
2013	38,252	131,684	169,936	9.89%	5.04%
2014	34,046	132,203	166,249	9.93%	4.36%
2015	31,509	200,174	231,683	15.04%	5.08%
2016	28,128	166,023	194,151	12.47%	6.10%
2017	21,141	247,896	269,037	18.62%	5.70%
2018	22,223	32,625	54,848	2.45%	5.55%
2019	21,075	100,285	121,360	7.53%	6.18%
2020	20,946	34,734	55,680	2.61%	4.54%
2021	19,307	39,091	58,398	2.94%	4.70%
2022	18,077	9,161	27,238	0.69%	5.60%
2023	16,185	13,648	29,833	1.03%	6.01%
2024	11,450	17,394	28,844	1.31%	7.13%
Thereafter	103,182	21,486	124,668	1.61%	4.97%
	<u>\$ 433,270</u>	<u>\$ 1,331,286</u>	1,764,556	<u>100.00%</u>	
Mark-to-market adjustments arising on assumption			11,559		
Financing costs			(18,206)		
			<u>\$ 1,757,909</u>		
Current			\$ 154,764		
Non-current			1,603,145		
			<u>\$ 1,757,909</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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

### 11. Secured debt (continued):

	September 30, 2011	December 31, 2010
Mortgages at fixed rates:		
Mortgages	\$1,676,298	\$1,650,282
Interest rates	2.50% - 10.00%	2.50% - 10.00%
Weighted average interest rate	5.48%	5.48%
Mortgages at variable rates:		
Mortgages	\$88,258	\$85,775
Interest rates	Lender's cost of funds + 2.00% to prime + 2.50%	BA +300 bps to prime + 2.25%
Weighted average interest rate	4.37%	4.73%
Blended weighted average rate	5.42%	5.44%

During the three-month and nine-month periods ended September 30, 2011, interest expense on mortgages payable amounted to \$23,919 and \$71,764 (three-month and nine-month periods ended September 30, 2010 - \$25,129 and \$71,352), respectively.

#### (b) Credit Facility:

Chartwell has arranged for an \$85,000 Credit Facility. At September 30, 2011, the maximum available borrowing capacity under the Credit Facility was \$68,886 (December 31 2010 - \$75,000) based on the security provided. Of this capacity, \$2,593 (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 September 30, 2011, \$10,000 (December 31, 2010 - \$51,000) was outstanding under the Credit Facility.

Subsequent to September 30, 2011, the Trust added additional properties to the Credit Facility's general asset pool which increased the maximum available borrowing capacity to \$81,078.

## 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

### 12. Accounts payable and other liabilities:

	September 30, 2011	December 31, 2010
Accounts payable and accrued liabilities	\$ 77,306	\$ 76,244
Resident deposits	4,204	3,973
Deferred revenue	6,080	5,637
Fair value of LTIP option component	6,104	7,400
Other liabilities	158	646
Deferred Trust Units (a)	2,399	1,363
Restricted Trust Units (b)	517	238
	<u>\$ 96,768</u>	<u>\$ 95,501</u>

#### (a) Deferred Unit Plan:

The Trust provides a Deferred Unit Plan for its independent directors.

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

	Units outstanding	Amount
Balance, January 1, 2010	120,592	\$ 644
Units granted	78,306	641
Reinvested distributions	9,936	78
Balance, December 31, 2010	208,834	1,363
Units granted	96,328	788
Reinvested distributions	12,532	97
Change in fair value	—	151
Balance, September 30, 2011	<u>317,694</u>	<u>\$ 2,399</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 nine-month periods ended September 30, 2011 and 2010

(Unaudited)

### 12. 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.

During the nine-month period ended September 30, 2011, 73,167 Restricted Trust Units related to grants were issued, with 11,939 units subsequently being cancelled, and 7,749 units were issued related to reinvested distributions. As at September 30, 2011, the liability associated with Restricted Trust Units was \$517 (December 31, 2010 - \$238).

### 13. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units.

	Units outstanding	Amount
Balance, January 1, 2010	1,976,859	\$ 13,897
Exchange of Class B Units into Trust Units	(262,207)	(2,239)
Change in fair value	–	2,369
Balance, December 31, 2010	1,714,652	14,027
Exchange of Class B Units into Trust Units	(33,127)	(272)
Change in fair value	–	(1,060)
Balance, September 30, 2011	1,681,525	\$ 12,695

The market price of Trust Units as at September 30, 2011 was \$7.55 (December 31, 2010 - \$8.18).

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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### 14. Unitholders' equity and LTIP:

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

	Number of voting units	Amount
Balance, January 1, 2010	125,762,133	\$ 1,307,016
Trust Units issued under DRIP	628,792	4,795
Trust Units issued in exchange of Class B Units	262,207	2,239
Trust Units released on settlement of LTIP receivable	170,000	1,694
Trust Units issued pursuant to public offering	13,775,000	124,217
Balance, December 31, 2010	140,598,132	1,439,961
Trust Units issued under DRIP	1,500,979	11,657
Trust Units issued in exchange of Class B Units	33,127	272
Balance, September 30, 2011	142,132,238	\$ 1,451,890

(b) LTIP:

	Number of Trust Units issued under LTIP	Amount
Balance, January 1, 2010	2,436,895	\$ 28,728
Trust Units issued under LTIP	146,882	1,139
Trust Units issued under LTIP surrendered for cancellation under LTIP	(168,919)	(1,756)
Trust Units released on settlement of LTIP receivable	(170,000)	(1,694)
Balance, December 31, 2010	2,244,858	26,417
Trust Units issued under LTIP	166,983	1,423
Trust Units surrendered for cancellation under LTIP	(107,328)	(1,138)
Balance, September 30, 2011	2,304,513	\$ 26,702

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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Three-month and nine-month periods ended September 30, 2011 and 2010  
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## 15. 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 September 30, 2011						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment total	Unallocated	Consolidated
<b>Revenue:</b>						
Resident Management and other fees	\$ 89,162	\$ 50,478	\$ 46,869	\$ 186,509	\$ –	\$ 186,509
Mezzanine loan interest	–	–	–	–	687	687
	–	–	–	–	97	97
	89,162	50,478	46,869	186,509	784	187,293
<b>Expenses:</b>						
Direct operating	56,490	43,950	31,212	131,652	–	131,652
General, administrative and trust	–	–	–	–	6,018	6,018
	56,490	43,950	31,212	131,652	6,018	137,670
Income (loss) before the undernoted	32,672	6,528	15,657	54,857	(5,234)	49,623
Finance costs	11,014	3,156	9,962	24,132	1,614	25,746
Other expense (income)	(5,999)	–	(1,037)	(7,036)	(1,066)	(8,102)
Depreciation and amortization	22,665	1,955	14,730	39,350	–	39,350
Changes in fair values of financial instruments and unrealized foreign exchange gains	–	–	–	–	(8,753)	(8,753)
Income (loss) before income taxes	4,992	1,417	(7,998)	(1,589)	2,971	1,382
Income tax expense	–	–	–	–	2,152	2,152
Income (loss) for the period	\$ 4,992	\$ 1,417	\$ (7,998)	\$ (1,589)	\$ 819	\$ (770)
<b>Expenditures for non-current assets:</b>						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Capital additions	13,938	1,154	8,048	23,140	–	23,140

# 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

## 15. Segmented information (continued):

Nine-month period ended September 30, 2011						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment total	Unallocated	Consolidated
<b>Revenue:</b>						
Resident Management and other fees	\$ 265,826	\$ 147,882	\$ 138,652	\$ 552,360	\$ –	\$ 552,360
Mezzanine loan interest	–	–	–	–	2,329	2,329
	–	–	–	–	1,153	1,153
	265,826	147,882	138,652	552,360	3,482	555,842
<b>Expenses:</b>						
Direct operating	169,545	128,797	92,179	390,521	–	390,521
General, administrative and trust	–	–	–	–	18,560	18,560
	169,545	128,797	92,179	390,521	18,560	409,081
Income (loss) before the undernoted	96,281	19,085	46,473	161,839	(15,078)	146,761
Finance costs	33,707	9,283	29,525	72,515	5,398	77,913
Other expense (income)	(7,571)	(183)	7,463	(291)	(2,855)	(3,146)
Depreciation and amortization	70,412	6,603	44,352	121,367	–	121,367
Changes in fair values of financial instruments and unrealized foreign exchange gains	–	–	–	–	(6,144)	(6,144)
Income (loss) before income taxes	(267)	3,382	(34,867)	(31,752)	(11,477)	(43,229)
Income tax benefit	–	–	–	–	(5,147)	(5,147)
Income (loss) for the period	\$ (267)	\$ 3,382	\$ (34,867)	\$ (31,752)	\$ (6,330)	\$ (38,082)
<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	30,586	2,789	13,655	47,030	–	47,030



# 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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## 15. Segmented information (continued):

Three-month period ended September 30, 2010						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment total	Unallocated	Consolidated
<b>Revenue:</b>						
Resident Management and other fees	\$ 88,273	\$ 48,527	\$ 47,766	\$ 184,566	\$ –	\$ 184,566
Mezzanine loan interest	–	–	–	–	991	991
	–	–	–	–	1,233	1,233
	88,273	48,527	47,766	184,566	2,224	186,790
<b>Expenses:</b>						
Direct operating	55,810	42,106	32,080	129,996	–	129,996
General, administrative and trust	–	–	–	–	6,247	6,247
	55,810	42,106	32,080	129,996	6,247	136,243
Income (loss) before the undernoted	32,463	6,421	15,686	54,570	(4,023)	50,547
Finance costs	11,474	3,273	11,346	26,093	2,904	28,997
Other expense (income)	(2,267)	–	–	(2,267)	(1,016)	(3,283)
Depreciation and amortization	18,653	2,519	19,086	40,258	109	40,367
Changes in fair values of financial instruments and unrealized foreign exchange losses	–	–	–	–	7,131	7,131
Income (loss) before income taxes	4,603	629	(14,746)	(9,514)	(13,151)	(22,665)
Income tax benefit	–	–	–	–	(4,731)	(4,731)
Income (loss) for the period	\$ 4,603	\$ 629	\$ (14,746)	\$ (9,514)	\$ (8,420)	\$ (17,934)
<b>Expenditures for non-current assets:</b>						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 18,950	\$ –	\$ –	\$ 18,950	\$ –	\$ 18,950
Capital additions	3,252	4,484	3,669	11,405	–	11,405

# 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 nine-month periods ended September 30, 2011 and 2010  
(Unaudited)

## 15. Segmented information (continued):

Nine-month period ended September 30, 2010						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment total	Unallocated	Consolidated
<b>Revenue:</b>						
Resident Management and other fees	\$ 259,783	\$ 125,369	\$ 134,955	\$ 520,107	\$ –	\$ 520,107
Mezzanine loan interest	–	–	–	–	3,850	3,850
	–	–	–	–	4,034	4,034
	259,783	125,369	134,955	520,107	7,884	527,991
<b>Expenses:</b>						
Direct operating	165,429	108,732	88,571	362,732	–	362,732
General, administrative and trust	–	–	–	–	17,791	17,791
	165,429	108,732	88,571	362,732	17,791	380,523
Income (loss) before the undernoted	94,354	16,637	46,384	157,375	(9,907)	147,468
Finance costs	34,189	8,176	31,824	74,189	8,625	82,814
Other expense (income)	(3,088)	(3,489)	(4,417)	(10,994)	(3,352)	(14,346)
Depreciation and amortization	67,583	5,236	44,229	117,048	670	117,718
Changes in fair values of financial instruments and unrealized foreign exchange losses	–	–	–	–	7,288	7,288
Income (loss) before income taxes	(4,330)	6,714	(25,252)	(22,868)	(23,138)	(46,006)
Income tax benefit	–	–	–	–	(7,174)	(7,174)
Income (loss) for the period	\$ (4,330)	\$ 6,714	\$ (25,252)	\$ (22,868)	\$ (15,964)	\$ (38,832)
<b>Expenditures for non-current assets:</b>						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 124,580	\$ 95,622	\$ 113,224	\$ 333,426	\$ –	\$ 333,426
Capital additions	14,724	6,402	4,740	25,866	–	25,866

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

September 30, 2011						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment total	Unallocated	Consolidated
Operating assets	\$ 1,430,880	\$ 329,105	\$ 795,493	\$ 2,555,478	\$ 24,816	\$ 2,580,294
Operating liabilities	\$ 949,563	\$ 243,197	\$ 665,847	\$ 1,858,607	\$ 144,372	\$ 2,002,979

  

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

### 16. Financial instruments and financial risk management:

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)  
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(Unaudited)

### 17. Other expense (income):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Gain recorded on remeasurement of previously held equity interest on acquisition	\$ –	\$ –	\$ (2,090)	\$ (9,639)
Bargain purchase on acquisition	–	(2,647)	–	(3,397)
Gain on disposal of assets	(7,328)	–	(7,328)	(250)
Interest income on loans and receivables	(1,066)	(1,016)	(2,855)	(3,352)
Other income	(8,394)	(3,663)	(12,273)	(16,638)
Impairment on PP&E	–	–	8,500	–
Transaction costs arising on business acquisitions	292	380	627	2,292
Other expenses	292	380	9,127	2,292
<b>Other expense (income)</b>	<b>\$ (8,102)</b>	<b>\$ (3,283)</b>	<b>\$ (3,146)</b>	<b>\$ (14,346)</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 May 2011 and the Meridian and Regency portfolios in 2010.

Included in the gain on disposal of assets are:

- \$1,848 for the divestiture of Chartwell's interests in HBC and HBCII (note 6); and
- \$5,926 on disposal of one Canadian retirement community (note 5).

Impairment on PP&E relates to the existing 50% interest in a 15-property portfolio in the United States (note 21). The remaining 50% interest in this portfolio has been acquired subsequent to September 30, 2011 and the agreed upon purchase price of certain properties in the portfolio was lower than Chartwell's carrying value of these properties. As a result, Chartwell recorded an impairment of \$8,500 in the nine-month period ended September 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)

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(Unaudited)

### 18. Finance costs:

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Contractual mortgage interest expense	\$ 23,262	\$ 24,570	\$ 69,685	\$ 69,509
Interest expense on convertible debentures	1,107	2,980	3,319	8,940
Credit facility and other interest expense	184	–	1,102	–
	24,553	27,550	74,106	78,449
Interest capitalized to properties under development	(394)	(166)	(967)	(320)
Amortization of financing costs and mark-to-market adjustments on assumption of mortgages payable	728	852	2,317	2,369
Distributions on Class B Units recorded as interest expense	226	252	681	758
Property lease expense	633	509	1,776	1,558
<b>Finance costs</b>	<b>\$ 25,746</b>	<b>\$ 28,997</b>	<b>\$ 77,913</b>	<b>\$ 82,814</b>

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

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Change in fair value of convertible debentures	\$ (435)	\$ 1,374	\$ (1,485)	\$ 1,249
Change in fair value of interest rate swap	111	38	(28)	89
Unrealized foreign exchange loss (gain)	(3,954)	1,971	(2,326)	1,177
Changes in fair value of LTIP option component	(2,808)	348	(1,396)	1,052
Changes in fair value of Class B Units	(1,430)	3,400	(1,060)	3,721
Changes in fair value of Deferred Trust Units	(237)	–	151	–
<b>Fair value of financial instruments and foreign exchange losses (gains)</b>	<b>\$ (8,753)</b>	<b>\$ 7,131</b>	<b>\$ (6,144)</b>	<b>\$ 7,288</b>

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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### 20. Income taxes:

For the three-month and nine-month periods ended September 30, 2011, Chartwell recorded a current income tax expense of \$80 and \$251 (three-month and nine-month periods ended September 30, 2010 - \$84 and \$246) and a deferred income tax expense (benefit) of \$2,072 and (\$5,398) (three-month and nine-month periods ended September 30, 2010 - (\$4,815) and (\$7,420)), respectively. The average effective tax recovery rate for the nine-month period ended September 30, 2010 was greater than the comparable rate for the nine-month period ended September 30, 2011 due to increased losses from the United States Operations, the benefit of which has not been recognized.

### 21. Subsequent events:

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

On November 1, 2011, Chartwell completed the acquisition from ING of its 50% interest in 15 properties in the United States, which were jointly owned with Chartwell. The purchase price before closing costs was U.S. \$169,000 and was settled through the assumption of debt of U.S. \$135,800, and the remaining balance, net of working capital adjustments, settled in cash. Prior to completion of this transaction, Chartwell owned a 50% interest in the properties. This transaction is in line with Chartwell's strategy to increase its ownership in existing properties it operates. Chartwell will account for this business combination using the acquisition method of accounting.

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

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PP&E	\$ 173,133
Mortgages assumed	(138,667)
<b>Net assets acquired</b>	<b>\$ 34,466</b>
Cash consideration	\$ 32,599
Gain recorded on remeasurement of previously held equity interest on acquisition	1,867
<b>Total consideration</b>	<b>\$ 34,466</b>

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## **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

Notes to Condensed Consolidated Interim Financial Statements (continued)

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### **21. Subsequent events (continued):**

As this acquisition was completed in steps, under IFRS, Chartwell is required to remeasure its original 50% interest to fair value. This remeasurement is estimated to result in a gain of approximately \$1,900. The estimated net book value, net of impairment provision of \$8,500, on the original 50% interest as at October 31, 2011 was \$168,000.

The Trust estimates acquisition-related costs of approximately \$400 relating to external legal fees and due diligence costs will be recognized in other expense (income) in the condensed consolidated interim statements of comprehensive income (loss) by the fourth quarter of 2011.

The gain will be recognized in other expense (income) in the condensed consolidated interim statements of comprehensive income (loss) in the fourth quarter of 2011.

If the acquisition had occurred on January 1, 2011, management estimates that the consolidated revenue relating to the properties would have been \$63,000 and the consolidated loss for the nine-month period ended September 30, 2011 would have been \$3,800, excluding the acquisition-related costs, at 100% ownership interest.