

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Three-month and nine-month periods
ended September 30, 2012 and 2011
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(Unaudited)

	Note	September 30, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		\$ 16,895	\$ 10,687
Trade and other receivables		11,065	13,144
Mezzanine loans receivable	5	4,434	9,653
Capital funding receivable		3,906	3,743
Other assets	6	29,483	27,153
Assets held for sale	7	240,308	–
Total current assets		306,091	64,380
Non-current assets:			
Other assets	6	7,152	7,344
Capital funding receivable		52,427	55,377
Intangible assets	4	50,333	52,879
Property, plant and equipment ("PP&E")	3	2,629,785	2,526,541
Total non-current assets		2,739,697	2,642,141
Total assets		\$ 3,045,788	\$ 2,706,521
Liabilities and Unitholders' Equity			
Current liabilities:			
Secured revolving operating credit facility ("Credit Facility")	8(b)	\$ 59,000	\$ 53,000
Accounts payable and other liabilities	10	99,978	112,497
Distributions payable		7,779	6,596
Mortgages payable	8(a)	229,031	205,373
Convertible debentures	9	–	76,425
Deferred consideration on business combinations		5,500	5,328
Liabilities on assets held for sale	7	207,313	–
Total current liabilities		608,601	459,219
Non-current liabilities:			
Mortgages payable	8(a)	1,661,181	1,670,893
Convertible debentures	9	147,150	–
Class B Units of Chartwell Master Care LP ("Class B Units")	11	17,103	14,292
Deferred tax liabilities		1,425	26,325
Total non-current liabilities		1,826,859	1,711,510
Total liabilities		2,435,460	2,170,729
Unitholders' equity	12	610,328	535,792
Subsequent events	19		
Total liabilities and unitholders' equity		\$ 3,045,788	\$ 2,706,521

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Huw Thomas" _____ 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,	
		2012	2011	2012	2011
Revenue:					
Resident		\$ 226,627	\$ 186,509	\$ 644,110	\$ 552,360
Management and other fees		1,962	687	4,196	2,329
Mezzanine loan interest		31	97	701	1,153
		<u>228,620</u>	<u>187,293</u>	<u>649,007</u>	<u>555,842</u>
Expenses:					
Direct operating		157,203	131,652	451,370	390,521
General, administrative and trust		5,847	6,018	18,976	18,560
		<u>163,050</u>	<u>137,670</u>	<u>470,346</u>	<u>409,081</u>
Income before the undernoted ⁽¹⁾		65,570	49,623	178,661	146,761
Finance costs	16	30,393	25,114	96,649	76,137
Property lease expense		620	632	1,879	1,776
Other expense (income)	15	744	(8,102)	9,415	(3,146)
Depreciation of PP&E	3	47,700	39,028	141,201	120,054
Amortization of intangible assets	4	807	322	2,866	1,313
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	17	9,262	(8,753)	47,775	(6,144)
Income (loss) before income taxes		(23,956)	1,382	(121,124)	(43,229)
Income tax expense (benefit):	18				
Current		77	80	218	251
Deferred		(5,495)	2,072	(20,554)	(5,398)
		<u>(5,418)</u>	<u>2,152</u>	<u>(20,336)</u>	<u>(5,147)</u>
Loss for the period		(18,538)	(770)	(100,788)	(38,082)
Other comprehensive income (loss):					
Unrealized foreign currency gain (loss) on translation of foreign operations		(1,377)	7,471	(2,122)	4,367
Total comprehensive income (loss) for the period		\$ (19,915)	\$ 6,701	\$ (102,910)	\$ (33,715)

⁽¹⁾ Refers to income before finance costs, property lease expense, other expense (income), depreciation of PP&E, amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange losses (gains) and income taxes.

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, 2012	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, December 31, 2011	\$ 1,456,238	\$ 25,476	\$ (19,865)	\$ (397,800)	\$ (3,972)	\$ (529,176)	\$ 4,891	\$ 535,792
Loss for the period	—	—	—	(100,788)	—	—	—	(100,788)
Other comprehensive loss	—	—	—	—	(2,122)	—	—	(2,122)
Issuance of Trust Units on conversion of subscription receipts, net of tax and transaction costs (note 12)	229,505	—	—	—	—	—	—	229,505
Distributions to unitholders	—	—	—	—	—	(64,447)	—	(64,447)
Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP")	10,977	—	—	—	—	—	—	10,977
Trust Units issued on exchange of Class B Units	24	—	—	—	—	—	—	24
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units released on settlement of LTIP receivable and cancellations	904	527	(1,041)	—	—	—	248	638
Interest on LTIP receivable	—	—	(150)	—	—	—	—	(150)
Distributions applied against LTIP receivable	—	—	899	—	—	—	—	899
Unitholders' equity, September 30, 2012	\$ 1,697,648	\$ 26,003	\$ (20,157)	\$ (498,588)	\$ (6,094)	\$ (593,623)	\$ 5,139	\$ 610,328

During the nine-month period ended September 30, 2012, distributions were declared and paid at \$0.045 per unit per month. In October 2012, distributions were declared at \$0.045 per unit totalling \$7,711.

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, December 31, 2010	\$ 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 DRIP	11,657	—	—	—	—	—	—	11,657
Trust Units issued on exchange of Class B Units	272	—	—	—	—	—	—	272
Trust Units issued under the LTIP, net of units released on settlement of LTIP receivable and cancellations	—	285	(424)	—	—	—	170	31
Interest on LTIP receivable	—	—	(157)	—	—	—	—	(157)
Distributions applied against LTIP receivable	—	—	924	—	—	—	—	924
Unitholders' equity, September 30, 2011	\$ 1,451,890	\$ 26,702	\$ (20,690)	\$ (374,696)	\$ (789)	\$ (509,689)	\$ 4,587	\$ 577,315

During the nine-month period ended September 30, 2011, 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,	
	2012	2011	2012	2011
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (18,538)	\$ (770)	\$ (100,788)	\$ (38,082)
Items not affecting cash:				
Depreciation and amortization	48,507	39,350	144,067	121,367
Finance costs	30,393	25,114	96,649	76,137
Interest income on loans and other receivables	(868)	(1,066)	(2,967)	(2,855)
Mezzanine loan interest	(31)	(97)	(701)	(1,153)
Gain recorded on remeasurement of previously held equity interest on acquisition	—	—	—	(2,090)
Gain on disposal of assets	(9)	(7,328)	(288)	(7,328)
Impairment of PP&E	—	—	—	8,500
Non-cash compensation expense	594	364	1,875	1,454
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	9,262	(8,753)	47,775	(6,144)
Current income taxes	77	80	218	251
Deferred income taxes	(5,495)	2,072	(20,554)	(5,398)
Change in trade and other receivables	2,045	(790)	(5,436)	3,314
Change in other assets	(726)	(1,811)	(2,953)	(3,141)
Change in accounts payable and other liabilities	3,050	2,380	(10,481)	(1,045)
	68,261	48,745	146,416	143,787
Interest received	899	1,163	3,668	4,008
Interest paid	(33,756)	(23,898)	(90,576)	(74,122)
Income taxes paid	(77)	(80)	(218)	(251)
Net cash from operating activities	35,327	25,930	59,290	73,422
Financing activities:				
Proceeds from mortgage financing, net of repayments	3,031	38,125	25,895	60,285
Changes to Credit Facility	(1,000)	(39,000)	6,000	(41,000)
Scheduled mortgage principal repayments	(13,545)	(11,239)	(33,969)	(30,935)
Net additions to finance costs	(430)	166	(3,287)	(2,452)
Trust Units issued pursuant to:				
Public offerings	—	—	204,287	—
Issue costs	—	—	(8,776)	—
Issue of convertible debentures	—	—	135,000	—
Redemption of convertible debentures	—	—	(75,000)	—
Convertible debenture issuance costs	—	—	(5,363)	—
Distributions paid	(18,765)	(15,309)	(51,539)	(45,556)
Deposits and repayments received under LTIP	219	—	638	32
Net cash from (used in) financing activities	(30,490)	(27,257)	193,886	(59,626)
Investing activities:				
Acquisition of assets under business combinations	—	—	(194,466)	(4,680)
Acquisition of land for development	—	—	—	(1,875)
Additions to PP&E and intangible assets	(18,865)	(20,205)	(55,409)	(42,220)
Proceeds from disposal of PP&E	9	21,718	556	21,718
Mezzanine loan repayments	2,607	—	2,607	8,187
Change in restricted cash	(382)	261	(2,723)	985
Proceeds from capital funding receivable	942	783	2,787	2,634
Net cash from (used in) investing activities	(15,689)	2,557	(246,648)	(15,251)
Increase (decrease) in cash and cash equivalents	(10,852)	1,230	6,528	(1,455)
Foreign exchange gain (loss) on U.S. dollar-denominated cash	(317)	947	(320)	622
Cash and cash equivalents, beginning of period	28,064	11,718	10,687	14,728
Cash and cash equivalents, end of period	\$ 16,895	\$ 13,895	\$ 16,895	\$ 13,895

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 per unit amounts)

Three-month and nine-month periods ended September 30, 2012 and 2011
(Unaudited)

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") is an open ended, unincorporated investment trust whose registered head office is located in Mississauga, Ontario and is governed by the laws of the Province of Ontario, Canada 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:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on November 13, 2012. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2011. In addition, the Trust adopted the following accounting pronouncement:

Amendments to IFRS 7, Disclosures - Transfers of Financial Assets ("IFRS 7"):

In October 2010, the IASB issued IFRS 7. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with, an entity's continuing involvement in derecognized financial assets. This amendment is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2012. The Trust has assessed this amendment and determined there is no impact on its condensed consolidated interim financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

1. Basis of preparation (continued):

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses during the period. Actual results may differ from those estimates. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Trust's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011.

2. Acquisitions:

(a) Acquisitions during the nine-month period ended September 30, 2012:

On January 20, 2012, Chartwell acquired a 100% interest in the 70 suite Chartwell Select Georgian Traditions Retirement Residence in Collingwood, Ontario from Spectrum Seniors Holdings LP ("Spectrum") and its joint-venture partner. The purchase price before closing costs was \$15,500 and was settled through the assumption of debt of \$11,435, settlement of outstanding mezzanine loan of \$938, settlement of outstanding accounts receivable of \$926, with the remaining balance, net of working capital adjustments, settled in cash. This transaction is in line with Chartwell's strategy to increase its ownership in properties it operates. The Trust incurred acquisition-related costs of \$282 which have been expensed in other expense (income) in the condensed consolidated interim statements of comprehensive income (loss). Chartwell Select Georgian Traditions Retirement Residence has contributed revenue of \$1,707 and net loss of \$286 from the date of acquisition. The transaction was accounted for as a business combination under IFRS 3, Business Combinations ("IFRS 3").

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

2. Acquisitions (continued):

On April 1, 2012, Chartwell purchased a 50% interest in the 97 suite Renaissance Retirement Residence located in Kamloops, British Columbia from Spectrum. The purchase price was \$7,525, before closing costs, and was settled through the assumption of debt of \$4,691, settlement of outstanding mezzanine loan of \$699, settlement of outstanding accounts receivable of \$826, with the balance, net of working capital adjustments, being paid in cash. This transaction is in line with Chartwell's strategy to increase its ownership in properties it operates. The Trust incurred acquisition-related costs of \$68 which have been expensed in other expense (income) in the condensed consolidated interim statements of comprehensive income (loss). Renaissance Retirement Residence has contributed revenue of \$630 and net loss of \$147 from the date of acquisition. The transaction was accounted for as a joint venture under IAS 31, Interests in Joint Ventures. Chartwell is proportionately consolidating this property.

On May 1, 2012, Chartwell and Health Care REIT Inc. ("HCN") completed the acquisition of a portfolio of 42 retirement communities (the "Properties") located in Ontario, Quebec, British Columbia and Alberta ("Maestro portfolio"). Under the terms of the purchase and sale agreement, Chartwell and HCN each acquired a 50% interest in 39 communities ("JV properties"). In addition, HCN acquired the three other communities ("HCN Properties"). Under the terms of the co-ownership agreement, Chartwell and HCN will share equally in the risks and rewards of the investment in the JV properties, with Chartwell being the property manager of all the Properties. The co-ownership structure provides for major decisions to be made by a board comprising equal members from Chartwell and HCN. Dispute resolution and liquidity mechanisms are included.

Under the terms of the co-ownership agreement, the parties are subject, with limited exceptions, to certain non-competition restrictions within specified geographic zones surrounding the Properties. Chartwell and HCN have agreed to offer to each other the opportunity to co-invest in additional Canadian seniors housing properties within these geographic zones. In addition, HCN has granted Chartwell the option to purchase a 50% interest in the three HCN Properties at the higher of fair market value and HCN's investment in the HCN Properties during the term of the co-ownership agreement, provided that Chartwell continues to manage the HCN Properties.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

2. Acquisitions (continued):

The Properties will be managed by Chartwell pursuant to a management agreement, which provides for: (a) a base fee equal to 5% of gross revenue from each property to be paid to Chartwell; and (b) an incentive fee equal to 10% for outperformance, or a reduction of 10% for underperformance, relative to approved annual operating targets, to be paid to Chartwell provided that the total management fee paid to Chartwell does not exceed 6% of gross revenue from the Properties and is not less than 4% of gross revenue from the Properties.

In respect of the three HCN Properties, the management agreement will have an initial term of three years, with one year renewal options at HCN's election. Both Chartwell and HCN have the right to terminate the management agreement on 180 days notice in respect of the HCN Properties. In respect of the JV properties, the management agreement will have an initial term of three years and will automatically renew for three-year terms provided that the co-ownership agreement remains in effect.

The 100% purchase price for the JV properties was \$843,815 and was settled by the assumption of mortgage debt of \$449,809, with the remaining balance, net of working capital adjustments, settled in cash. Chartwell's share of the net purchase price was partially funded from the proceeds of subscription receipts (note 12). This acquisition is consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets. This transaction was accounted for as a business combination under IFRS 3. Chartwell is proportionately consolidating these assets.

In connection with the Maestro portfolio acquisition, the Trust incurred acquisition-related costs of \$10,807 which is a change in estimate from the previous quarter. 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, 2012, the JV properties contributed revenue of \$37,995 and net loss of \$11,411 at 50% ownership. If the acquisition had occurred at January 1, 2012, extrapolating the results of this portfolio for the five-month period ended September 30, 2012, management estimates that the revenue would have been \$68,391 and the net loss for the period would have been \$13,593 at 50% ownership.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

2. Acquisitions (continued):

The following table summarizes the provisional allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition and the major categories of consideration transferred at Chartwell's ownership and may be adjusted in future periods:

Date of acquisition	January 20, 2012	April 1, 2012	May 1, 2012	
Segment	Canadian Retirement Operations			
Location	Province of Ontario (70 suites)	Province of British Columbia (97 suites)	Various Provinces (7,662 suites)	Total
PP&E	\$ 15,500	\$ 7,525	\$ 432,178	\$ 455,203
Other liabilities	(423)	(121)	(503)	(1,047)
Mortgages assumed	(11,435)	(4,691)	(235,175)	(251,301)
Net assets acquired	\$ 3,642	\$ 2,713	\$ 196,500	\$ 202,855
Discharge of mezzanine loan receivable	\$ 938	\$ 699	\$ –	\$ 1,637
Settlement of accounts receivable	926	826	–	1,752
Cash consideration	1,778	1,188	196,500	199,466
Total consideration transferred	\$ 3,642	\$ 2,713	\$ 196,500	\$ 202,855

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and nine-month periods ended September 30, 2012 and 2011
(Unaudited)

2. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2011:

The following are the acquisitions that occurred during the year ended December 31, 2011:

Property	Ownership interest	Date acquired
Chartwell Classic Robert Speck	33.3%	April 1, 2011
Chatsworth Retirement Suites and Bungalows	50.0%	May 10, 2011
ING Portfolio ⁽¹⁾	50.0%	November 1, 2011

⁽¹⁾Upon completion of this acquisition, the Trust owns 100% of this portfolio.

During the year ended December 31, 2011, Chartwell acquired varying interests in 17 seniors housing communities (3,164 suites). The following table summarizes the allocation of the purchase price to each major class of assets acquired and liabilities assumed at the date of acquisition:

PP&E	\$	199,474
Other assets		507
Mortgages assumed		(153,158)
Net assets acquired	\$	46,823
Discharge of mezzanine loans receivable	\$	2,113
Settlement of accounts receivable		1,087
Cash consideration		40,028
Gain recorded on remeasurement of previously held equity interest on acquisition		3,595
Total consideration	\$	46,823

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011
(Unaudited)

3. Property, plant and equipment:

	Land	Building	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
Balance, December 31, 2010	\$ 281,050	\$ 2,274,783	\$ 53,030	\$ 16,648	\$ 21,663	\$ 2,647,174
Additions	–	27,437	8,099	35,741	1,875	73,152
Additions through business combinations	23,419	136,800	5,275	–	–	165,494
Disposals	(6,600)	(57,432)	(1,457)	–	(5,400)	(70,889)
Derecognition	–	(8,636)	(1,701)	–	–	(10,337)
Transfers	(5,040)	–	–	4,775	265	–
Exchange differences on translation of United States Operations	1,661	16,085	381	113	137	18,377
Balance, December 31, 2011	294,490	2,389,037	63,627	57,277	18,540	2,822,971
Additions	–	11,604	6,449	36,346	507	54,906
Additions through business combinations	45,966	394,233	9,866	–	5,138	455,203
Disposals	–	–	–	–	(264)	(264)
Derecognition	–	(1,622)	(17)	–	–	(1,639)
Transfers	3,318	44,562	2,343	(50,702)	–	(479)
Transfers to assets held for sale	(24,743)	(234,809)	(5,811)	–	–	(265,363)
Exchange differences on translation of United States Operations	(3,285)	(28,679)	(906)	(46)	(225)	(33,141)
Balance, September 30, 2012	\$ 315,746	\$ 2,574,326	\$ 75,551	\$ 42,875	\$ 23,696	\$ 3,032,194
Depreciation and impairment losses						
Balance, December 31, 2010	\$ –	\$ 148,291	\$ 13,707	\$ –	\$ –	\$ 161,998
Depreciation	–	155,480	15,364	–	–	170,844
Disposals due to step acquisition	–	(32,318)	(1,662)	–	–	(33,980)
Disposals	–	(8,756)	(407)	–	–	(9,163)
Derecognition	–	(8,636)	(1,701)	–	–	(10,337)
Impairment	–	11,200	–	1,880	–	13,080
Exchange differences on translation of United States Operations	–	3,710	278	–	–	3,988
Balance, December 31, 2011	–	268,971	25,579	1,880	–	296,430
Depreciation	–	128,996	12,205	–	–	141,201
Derecognition	–	(1,622)	(17)	–	–	(1,639)
Transfers to assets held for sale	–	(27,495)	(1,840)	–	–	(29,335)
Exchange differences on translation of United States Operations	–	(3,840)	(408)	–	–	(4,248)
Balance, September 30, 2012	\$ –	\$ 365,010	\$ 35,519	\$ 1,880	\$ –	\$ 402,409
Carrying amounts						
Balance, December 31, 2011	\$ 294,490	\$ 2,120,066	\$ 38,048	\$ 55,397	\$ 18,540	\$ 2,526,541
Balance, September 30, 2012	315,746	2,209,316	40,032	40,995	23,696	2,629,785

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

3. Property, plant and equipment (continued):

During the nine-month period ended September 30, 2012, the Trust capitalized \$1,477 of borrowing costs related to development projects under construction at an average capitalization rate of 5.37%. During the year ended December 31, 2011, the Trust capitalized \$1,303 of borrowing costs related to development projects under construction at an average capitalization rate of 5.43%.

On April 5, 2012, the Trust disposed of vacant land in Magog, Quebec for \$537. As a result of this transaction, the Trust recorded a gain of \$269 included in other expense (income) (note 15) in the nine-month period ended September 30, 2012.

During the nine-month period ended September 30, 2012, the Trust purchased two parcels of land from a company controlled by one of the executives of Chartwell. The total consideration was \$504 and the executive was not involved in the approval process to purchase the land.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

4. Intangible assets:

	Licenses	Other ⁽¹⁾	Total
Cost			
Balance, December 31, 2010	\$ 44,334	\$ 13,325	\$ 57,659
Additions	–	3,031	3,031
Disposals	–	(524)	(524)
Exchange differences on translation of United States Operations	–	302	302
Balance, December 31, 2011	44,334	16,134	60,468
Additions	–	503	503
Derecognition	–	(2,947)	(2,947)
Exchange differences on translation of United States Operations	–	(410)	(410)
Balance, September 30, 2012	\$ 44,334	\$ 13,280	\$ 57,614
Amortization and impairment losses			
Balance, December 31, 2010	\$ –	\$ 4,919	\$ 4,919
Amortization	–	2,555	2,555
Exchange differences on translation of United States Operations	–	115	115
Balance, December 31, 2011	–	7,589	7,589
Amortization	–	2,866	2,866
Derecognition	–	(2,947)	(2,947)
Exchange differences on translation of United States Operations	–	(227)	(227)
Balance, September 30, 2012	\$ –	\$ 7,281	\$ 7,281
Carrying amounts			
Balance, December 31, 2011	\$ 44,334	\$ 8,545	\$ 52,879
Balance, September 30, 2012	44,334	5,999	50,333

⁽¹⁾ Other intangible assets consist of the allocated cost of acquired operating leases of senior housing properties, below-market management contracts and software costs.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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5. Mezzanine loans receivable:

The following table summarizes mezzanine loans receivable from Le Groupe Melior ("Melior"), Spectrum and Partners and other joint-venture partners:

	Note	Contractual interest rate	Net balance (principal amount less lending expenses)	
			September 30, 2012	December 31, 2011
Spectrum and Partners, outside Quebec	(a)	10% - 14%	\$ 9,968	\$ 11,605
Melior, Spectrum and Partners, in Quebec	(b)	10%	8,551	8,551
Seasons	(c)	10%	–	2,607
			18,519	22,763
Provision, opening balance			13,110	21,535
Additions to provision/reallocated on collection of certain accounts receivable			975	851
Offset against principal amount of loans			–	(9,276)
Provision, closing balance			14,085	13,110
			\$ 4,434	\$ 9,653

Subsequent to September 30, 2012, upon receipt of the settlement payment from Spectrum, Chartwell's mezzanine loan portfolio has been reduced to loans on three properties totalling \$6,426, against which an impairment provision of \$6,426 remains outstanding (note 19).

(a) Spectrum and Partners, outside Quebec:

The loans are secured by second charges or pledges over five (December 31, 2011 - seven) seniors housing development properties.

During the nine-month period ended September 30, 2012, two mezzanine loans in the amount of \$1,637 were settled as part of the consideration on the acquisition of two properties.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

5. Mezzanine loans receivable (continued):

(b) Melior, Spectrum and Partners, in Quebec:

The loans are secured by second mortgages over two (December 31, 2011 - two) seniors housing development properties.

(c) Seasons:

On July 17, 2012, this loan was repaid in cash.

6. Other assets:

	September 30, 2012	December 31, 2011
Restricted cash	\$ 14,162	\$ 11,625
Prepaid expenses and deposits	14,017	9,292
Lease purchase option	4,203	4,362
Other assets	4,253	9,218
	<u>\$ 36,635</u>	<u>\$ 34,497</u>
Current	\$ 29,483	\$ 27,153
Non-current	7,152	7,344
	<u>\$ 36,635</u>	<u>\$ 34,497</u>

Restricted cash relates primarily to reserves required in the United States for certain mortgages and a net operating income guarantee deposit relating to the acquisition of the Maestro portfolio.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

7. Assets and liabilities held for sale:

On May 22, 2012, the Trust entered into agreements to sell five properties in the United States. The sale price for 100% is \$285,128 (U.S. \$290,000). The purchaser is expected to assume debt with an outstanding balance of \$195,295 (U.S. \$198,632) as of September 30, 2012 with the balance, net of working capital adjustments and holdbacks, to be paid in cash. Chartwell's interest in these properties is 50%. The carrying value of PP&E for the Trust's interest in these properties as of September 30, 2012 was \$94,870.

During the three-month period ended June 30, 2012, the Trust entered into another agreement to dispose of six wholly owned properties in the United States for \$162,718 (U.S. \$165,500). The purchaser is expected to assume debt with an outstanding balance of \$104,628 (U.S. \$106,416) as of September 30, 2012 with the balance, net of working capital to be paid in cash. The carrying value of PP&E for these properties as of September 30, 2012 was \$141,158.

These transactions are expected to close in the fourth quarter of 2012 subject to regulatory and lender approvals and certain other closing conditions.

The following table summarizes the significant assets and liabilities held for sale on September 30, 2012:

Assets classified as held for sale:	
Trade and other receivables	\$ 694
Other assets	3,586
PP&E, net	236,028
	<hr/>
	\$ 240,308
	<hr/>
Liabilities classified as held for sale:	
Accounts payable and other liabilities	\$ 5,680
Mortgages payable	201,633
	<hr/>
	\$ 207,313

Included in assets held for sale described above are five assets under finance leases with a carrying value as at September 30, 2012 of \$93,356.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011
(Unaudited)

8. 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, 2012, excluding mortgages related to assets held for sale, are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total maturing debt principal	Weighted average interest rate %
Remainder of 2012	\$ 11,742	\$ 97,702	\$ 109,444	7	4.65
2013	46,513	182,405	228,918	13	4.82
2014	50,231	182,708	232,939	13	4.52
2015	38,155	257,712	295,867	18	4.89
2016	32,786	202,508	235,294	14	6.12
2017	24,786	251,352	276,138	18	5.64
2018	25,474	41,359	66,833	3	5.43
2019	25,518	5,951	31,469	—	6.17
2020	25,692	48,899	74,591	3	4.35
2021	23,523	50,150	73,673	4	4.59
2022	19,817	46,505	66,322	3	3.72
2023	16,213	14,224	30,437	1	6.07
2024	12,081	17,394	29,475	1	7.13
Thereafter	112,826	21,386	134,212	2	4.97
	<u>\$ 465,357</u>	<u>\$ 1,420,255</u>	1,885,612	<u>100</u>	
Mark-to-market adjustments on acquisition			21,038		
Financing costs			(16,438)		
			<u>\$ 1,890,212</u>		
Current			\$ 229,031		
Non-current			1,661,181		
			<u>\$ 1,890,212</u>		

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

8. Secured debt (continued):

	September 30, 2012	December 31, 2011
Mortgages at fixed rates:		
Mortgages	\$1,721,096	\$1,784,835
Interest rates	2.10% - 10.00%	2.50% - 10.00%
Weighted average interest rate	5.26%	5.54%
Mortgages at variable rates:		
Mortgages	\$164,516	\$95,698
Interest rates	Lender COF plus 2.00% to prime plus 2.50%	Lender COF plus 2.00% to prime plus 2.50%
Weighted average interest rate	4.60%	4.37%
Blended weighted average rate	5.20%	5.48%

During the three-month and nine-month periods ended September 30, 2012, interest expense on mortgages payable amounted to \$28,010 and \$81,024 (three-month and nine-month periods ended September 30, 2011 - \$23,350 and \$69,771), respectively.

(b) Credit Facility:

Chartwell has arranged for an \$85,000 Credit Facility. Amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.25% or the applicable bankers' acceptance rate plus 2.25%. 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. At September 30, 2012, the maximum available borrowing capacity under the Credit Facility was \$85,000 (December 31, 2011 - \$85,000) based on the security provided. Of this capacity, \$2,743 (December 31, 2011 - \$2,253) has been allocated to support various letters of credit issued by Chartwell. As at September 30, 2012, \$59,000 (December 31, 2011 - \$53,000) was outstanding under the Credit Facility.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

9. Convertible debentures:

The Trust has elected to designate convertible debentures as fair value through profit or loss. Fair value is determined using the market prices for these listed convertible debentures. The market price of the 5.7% convertible debentures at September 30, 2012 was \$109.00. (The market price of the 5.9% convertible debentures at December 31, 2011 was \$101.90.)

The Trust has the following series of convertible debentures outstanding:

	September 30, 2012	December 31, 2011
5.9% convertible debentures (a):		
Principal	\$ –	\$ 75,000
Fair value	–	76,425
5.7% convertible debentures (b):		
Principal	\$ 135,000	\$ –
Fair value	147,150	–

(a) 5.9% convertible debentures:

On March 16, 2012, the Trust redeemed the 5.9% convertible debentures totalling \$75,000 for face value plus accrued interest of \$1,649 for \$76,649 in cash.

(b) 5.7% convertible debentures:

On March 9, 2012, Chartwell issued \$135,000 of convertible, unsecured, subordinated debentures ("5.7% convertible debentures") pursuant to a prospectus dated March 2, 2012 for cash proceeds of \$129,637, net of issuance costs.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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9. Convertible debentures (continued):

The 5.7% convertible debentures bear interest at an annual rate of 5.7%, payable semi-annually in arrears on March 31 and September 30 in each year commencing September 30, 2012. Each 5.7% convertible debenture is convertible into freely tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of March 31, 2018 and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.7% convertible debentures, at a conversion price of \$11.00 per Trust Unit. Holders converting their 5.7% convertible debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 5.7% convertible debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell has suspended regular distributions, then the 5.7% convertible debentures holders, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last payment date prior to the date of conversion.

The 5.7% convertible debentures are not redeemable by Chartwell before March 31, 2015, except in the event of satisfaction of certain conditions after a change in control has occurred. On or after March 31, 2015 but prior to March 31, 2017, the 5.7% convertible debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price, as defined in the Trust Indenture, is not less than 125% of the conversion price. On or after March 31, 2017, the 5.7% convertible debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.7% convertible debentures on redemption or maturity through, in whole or in part, the issuance of freely tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price, as defined in the Trust Indenture, relating to the debenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 5.7% convertible debentures trustee to satisfy the obligations to pay interest on the 5.7% convertible debentures.

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

10. Accounts payable and other liabilities:

	Note	September 30, 2012	December 31, 2011
Accounts payable and accrued liabilities		\$ 76,111	\$ 93,325
Resident deposits		3,858	4,014
Deferred revenue		8,119	6,897
Deferred Trust Units	(a)	4,671	3,013
Restricted Trust Units	(b)	1,406	676
Fair value of LTIP option component		5,538	3,731
Employee benefits		275	809
Other liabilities		–	32
		\$ 99,978	\$ 112,497

(a) Deferred Unit Plan:

The following table summarizes the Deferred Trust Unit activity since December 31, 2010:

	Units outstanding	Amount
Balance, December 31, 2010	208,834	\$ 1,363
Units granted	127,449	1,054
Reinvested distributions	18,267	141
Change in fair value	–	455
Balance, December 31, 2011	354,550	3,013
Units granted	86,183	810
Reinvested distributions	17,206	161
Change in fair value	–	687
Balance, September 30, 2012	457,939	\$ 4,671

(b) Restricted Unit Plan:

During the nine-month period ended September 30, 2012, 85,841 Restricted Trust Units related to grants were issued, with no units subsequently being cancelled, and 10,811 units were issued related to reinvested distributions. As of September 30, 2012, the liability associated with Restricted Trust Units was \$1,406 (December 31, 2011 - \$676).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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11. Class B Units:

Fair value of Class B Units is determined by using market prices for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. The market price of the Trust Units as at September 30, 2012 was \$10.20 (December 31, 2011 - \$8.50).

12. Trust Units:

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
Balance, December 31, 2010	140,598,132	\$ 1,439,961
Trust Units issued under DRIP	1,966,054	15,075
Trust Units issued in exchange of Class B Units	33,127	272
Trust Units released on settlement of LTIP receivable	94,313	930
Balance, December 31, 2011	142,691,626	1,456,238
Trust Units issued under DRIP	1,216,947	10,977
Trust Units issued in exchange of Class B Units	2,397	24
Trust Units released on settlement of LTIP receivable	122,657	904
Trust Units issued in exchange of subscription receipts, net of tax and transaction costs	24,913,125	229,505
Balance, September 30, 2012	168,946,752	\$ 1,697,648

The following table summarizes Trust Units issued under the LTIP:

	Number of Trust Units issued under LTIP	Amount
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	(124,683)	(1,434)
Trust Units released on settlement of LTIP receivable	(94,313)	(930)
Balance, December 31, 2011	2,192,845	25,476
Trust Units issued under LTIP	299,542	2,810
Trust Units surrendered for cancellation under LTIP	(119,353)	(1,379)
Trust Units released on settlement of LTIP receivable	(122,657)	(904)
Balance, September 30, 2012	2,250,377	\$ 26,003

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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12. Trust Units (continued):

DRIP:

Chartwell has established a DRIP for its unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

Subscription receipts:

In March 2012, the Trust completed a bought deal offering of 24,913,125 subscription receipts at a price of \$8.20 per subscription receipt for gross cash proceeds of \$204,287. Upon closing of the acquisition of the Maestro portfolio on May 1, 2012, each outstanding subscription receipt was exchanged for one Unit of the Trust. Immediately prior to conversion to Trust Units, the subscription receipts were adjusted to fair value and \$229,505, net of tax and transaction costs, was recorded in unitholders' equity. The Trust recognized a corresponding loss for the nine-month period ended September 30, 2012 of \$29,647 due to the change in fair value. This loss has been recorded in the condensed consolidated interim statements of comprehensive income (loss) as changes in fair values of financial instruments and unrealized foreign exchange losses (gains). The Trust incurred transaction-related costs of \$8,776, before tax effect, recorded in equity.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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(Unaudited)

13. Segmented information:

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

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, 2012						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Revenue:						
Resident Management and other fees	\$ 115,596	\$ 51,549	\$ 59,482	\$ 226,627	\$ –	\$ 226,627
Mezzanine loan interest	–	–	–	–	1,962	1,962
	–	–	–	–	31	31
	115,596	51,549	59,482	226,627	1,993	228,620
Expenses:						
Direct operating	72,499	44,497	40,207	157,203	–	157,203
General, administrative and trust	–	–	–	–	5,847	5,847
	72,499	44,497	40,207	157,203	5,847	163,050
Income (loss) before the undernoted ⁽¹⁾	43,097	7,052	19,275	69,424	(3,854)	65,570
Finance costs (recovery):						
Contractual interest	13,881	3,330	11,216	28,427	2,448	30,875
Other	(684)	(433)	240	(877)	395	(482)
Property lease expense	31	67	522	620	–	620
Other expense (income):						
Interest	(34)	(811)	(2)	(847)	(21)	(868)
Other	1,163	–	239	1,402	210	1,612
Depreciation and amortization	32,729	2,321	13,132	48,182	325	48,507
Changes in fair values of financial instruments and unrealized foreign exchange losses	–	–	–	–	9,262	9,262
	47,086	4,474	25,347	76,907	12,619	89,526
Income (loss) before income taxes	(3,989)	2,578	(6,072)	(7,483)	(16,473)	(23,956)
Income tax benefit	–	–	–	–	(5,418)	(5,418)
Net income (loss)	\$ (3,989)	\$ 2,578	\$ (6,072)	\$ (7,483)	\$ (11,055)	\$ (18,538)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Capital additions	8,261	5,975	2,448	16,684	2,181	18,865

⁽¹⁾ Refers to income (loss) before finance costs, property lease expense, other expense (income), depreciation of PP&E, amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange losses and income taxes.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

13. Segmented information (continued):

Nine-month period ended September 30, 2012						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Revenue:						
Resident Management and other fees	\$ 312,323	\$ 153,027	\$ 178,760	\$ 644,110	\$ –	\$ 644,110
Mezzanine loan interest	–	–	–	–	4,196	4,196
	–	–	–	–	701	701
	312,323	153,027	178,760	644,110	4,897	649,007
Expenses:						
Direct operating	199,246	133,123	119,001	451,370	–	451,370
General, administrative and trust	–	–	–	–	18,976	18,976
	199,246	133,123	119,001	451,370	18,976	470,346
Income (loss) before the undernoted ⁽¹⁾	113,077	19,904	59,759	192,740	(14,079)	178,661
Finance costs (recovery):						
Contractual interest	37,587	10,088	33,766	81,441	7,006	88,447
Other	67	(1,263)	823	(373)	8,575	8,202
Property lease expense	94	201	1,584	1,879	–	1,879
Other expense (income):						
Interest	(44)	(2,493)	(6)	(2,543)	(424)	(2,967)
Other	8,708	–	1,159	9,867	2,515	12,382
Depreciation and amortization	85,601	6,935	50,814	143,350	717	144,067
Changes in fair values of financial instruments and unrealized foreign exchange losses	–	–	–	–	47,775	47,775
	132,013	13,468	88,140	233,621	66,164	299,785
Income (loss) before income taxes	(18,936)	6,436	(28,381)	(40,881)	(80,243)	(121,124)
Income tax benefit	–	–	–	–	(20,336)	(20,336)
Net income (loss)	\$ (18,936)	\$ 6,436	\$ (28,381)	\$ (40,881)	\$ (59,907)	\$ (100,788)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 455,203	\$ –	\$ –	\$ 455,203	\$ –	\$ 455,203
Capital additions	32,745	12,593	6,556	51,894	3,515	55,409

⁽¹⁾ Refers to income (loss) before finance costs, property lease expense, other expense (income), depreciation of PP&E, amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange losses and income taxes.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

13. Segmented information (continued):

Three-month period ended September 30, 2011						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Revenue:						
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
Expenses:						
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 ⁽¹⁾	32,672	6,528	15,657	54,857	(5,234)	49,623
Finance costs (recovery):						
Contractual interest	10,837	3,475	9,865	24,177	451	24,628
Other	158	(386)	390	162	324	486
Property lease expense	32	67	533	632	–	632
Other expense (income):						
Interest	(4)	(1,032)	–	(1,036)	(30)	(1,066)
Other	–	–	(1,156)	(1,156)	(5,880)	(7,036)
Depreciation and amortization	22,547	1,955	14,730	39,232	118	39,350
Changes in fair values of financial instruments and unrealized foreign exchange gains	–	–	–	–	(8,753)	(8,753)
	33,570	4,079	24,362	62,011	(13,770)	48,241
Income (loss) before income taxes	(898)	2,449	(8,705)	(7,154)	8,536	1,382
Income tax expense	–	–	–	–	2,152	2,152
Net income (loss)	\$ (898)	\$ 2,449	\$ (8,705)	\$ (7,154)	\$ 6,384	\$ (770)
Expenditures for non-current assets:						
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

⁽¹⁾ Refers to income (loss) before finance costs, property lease expense, other expense (income), depreciation of PP&E, amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange gains and income taxes.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

13. Segmented information (continued):

Nine-month period ended September 30, 2011						
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Revenue:						
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
Expenses:						
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 ⁽¹⁾	96,281	19,085	46,473	161,839	(15,078)	146,761
Finance costs (recovery):						
Contractual interest	32,410	10,536	29,302	72,248	1,932	74,180
Other	1,214	(1,455)	1,220	979	978	1,957
Property lease expense	95	202	1,479	1,776	–	1,776
Other expense (income):						
Interest	(11)	(2,629)	–	(2,640)	(215)	(2,855)
Other	1,139	–	7,344	8,483	(8,774)	(291)
Depreciation and amortization	69,482	6,603	44,352	120,437	930	121,367
Changes in fair values of financial instruments and unrealized foreign exchange gains	–	–	–	–	(6,144)	(6,144)
	104,329	13,257	83,697	201,283	(11,293)	189,990
Income (loss) before income taxes	(8,048)	5,828	(37,224)	(39,444)	(3,785)	(43,229)
Income tax benefit	–	–	–	–	(5,147)	(5,147)
Net income (loss)	\$ (8,048)	\$ 5,828	\$ (37,224)	\$ (39,444)	\$ 1,362	\$ (38,082)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 23,590	\$ –	\$ –	\$ 23,590	\$ –	\$ 23,590
Capital additions	30,586	2,789	13,655	47,030	–	47,030

⁽¹⁾ Refers to income (loss) before finance costs, property lease expense, other expense (income), depreciation of PP&E, amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange losses and income taxes.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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(Unaudited)

13. Segmented information (continued):

September 30, 2012	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Total assets	\$ 1,872,229	\$ 290,447	\$ 853,567	\$ 3,016,243	\$ 29,545	\$ 3,045,788
Total liabilities	\$ 1,203,249	\$ 237,189	\$ 754,165	\$ 2,194,603	\$ 240,857	\$ 2,435,460

December 31, 2011	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Total assets	\$ 1,417,988	\$ 333,934	\$ 928,801	\$ 2,680,723	\$ 25,798	\$ 2,706,521
Total liabilities	\$ 958,046	\$ 243,848	\$ 789,681	\$ 1,991,575	\$ 179,154	\$ 2,170,729

14. Financial instruments and financial risk management:

Chartwell's financial instruments and financial risk management has not changed significantly since December 31, 2011, with the exception of major contractual obligations. The following table summarizes the major contractual obligations as at September 30, 2012:

	Total	Remainder of 2012	2013	2014	2015	2016	Thereafter
Mortgages payable	\$ 1,885,612	\$ 109,444	\$ 228,918	\$ 232,939	\$ 295,867	\$ 235,294	\$ 783,150
Accounts payable and other liabilities	91,891	91,891	—	—	—	—	—
Convertible debentures	135,000	—	—	—	—	—	135,000
Credit Facility	59,000	—	59,000	—	—	—	—
Purchase obligations ⁽¹⁾	11,805	11,689	116	—	—	—	—
Property operating leases	8,526	406	1,624	1,624	1,624	1,624	1,624
Other operating leases	11,663	560	1,279	1,360	1,308	1,132	6,024
Land leases	15,763	99	395	395	395	395	14,084
Total contractual obligations	\$ 2,219,260	\$ 214,089	\$ 291,332	\$ 236,318	\$ 299,194	\$ 238,445	\$ 939,882

⁽¹⁾Relates to construction contracts, deferred purchase consideration and fixed price utilities contracts.

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

15. Other expense (income):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2012	2011	2012	2011
Interest income on loans and receivables	\$ (868)	\$ (1,066)	\$ (2,967)	\$ (2,855)
Gain on sale of assets	(9)	(7,328)	(288)	(7,328)
Impairment on PP&E	–	–	–	8,500
Transaction costs arising on business acquisitions and asset disposals	1,621	292	12,670	627
Gain recorded on remeasurement of previously held equity interest on acquisition	–	–	–	(2,090)
Other expense	\$ 744	\$ (8,102)	\$ 9,415	\$ (3,146)

16. Finance costs:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2012	2011	2012	2011
Contractual mortgage interest expense	\$ 28,010	\$ 23,350	\$ 81,024	\$ 69,771
Interest expense on convertible debentures	1,934	1,106	5,232	3,319
Credit Facility and other interest expense	931	172	2,191	1,090
	30,875	24,628	88,447	74,180
Interest capitalized to properties under development	(431)	(468)	(1,477)	(1,041)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	(279)	728	1,392	2,317
Distributions on Class B Units recorded as interest expense	228	226	682	681
Distributions on subscription receipts	–	–	2,242	–
Convertible debenture issuance costs	–	–	5,363	–
Total finance costs	\$ 30,393	\$ 25,114	\$ 96,649	\$ 76,137

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Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

17. Changes in fair values of financial instruments and unrealized foreign exchange losses (gains):

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2012	2011	2012	2011
Changes in fair value of convertible debentures	\$ 5,805	\$ (435)	\$ 10,725	\$ (1,485)
Changes in fair value of interest rate swap	(111)	111	(346)	(28)
Unrealized foreign exchange losses (gains)	2,557	(3,954)	2,467	(2,326)
Changes in fair value of LTIP option component	94	(2,808)	1,760	(1,396)
Changes in fair value of Class B Units (note 11)	732	(1,430)	2,835	(1,060)
Changes in fair value of Deferred Trust Units (note 10)	185	(237)	687	151
Changes in fair value of subscription receipts (note 12)	–	–	29,647	–
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	\$ 9,262	\$ (8,753)	\$ 47,775	\$ (6,144)

18. Income taxes:

For the three-month and nine-month periods ended September 30, 2012, Chartwell recorded a current income tax expense of \$77 and \$218 (three-month and nine-month periods ended September 30, 2011 - \$80 and \$251) and a deferred income tax benefit of \$5,495 and \$20,554 (three-month and nine-month periods ended September 30, 2011 - \$2,072 expense and \$5,398 benefit), respectively.

The average effective tax rate for the nine-month period ended September 30, 2012 was higher than the average effective tax rate for the nine-month period ended September 30, 2011 primarily due to the increase in the opening deferred tax liability for the change in the Ontario surtax that was enacted during Q2, 2012 as well as the non-tax deductible loss arising due to the change in fair value of subscription receipts recorded in the condensed consolidated interim statement of comprehensive income (loss) for the nine-month period ended September 30, 2012.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

Three-month and nine-month periods ended September 30, 2012 and 2011

(Unaudited)

19. Subsequent events:

Subsequent to September 30, 2012, Spectrum completed sales of two of its retirement residences to a third party with part of the proceeds, \$16,618, paid to Chartwell in full settlement of its obligations to Chartwell. The parties provided full and final releases to each other with respect to their obligations under various settlement, mezzanine loan, and management and development agreements. As a result, in the three-month period ending December 31, 2012, Chartwell expects to record a reduction of carrying balances of its mezzanine loans receivable of \$4,434 and income of \$12,184 due to the reversal of previously recorded impairment provisions, settlement fee income, and mezzanine loan interest, management fee income and reimbursements of certain expenses.