

Consolidated Financial Statements  
(In Canadian dollars)

**CHARTWELL SENIORS  
HOUSING REAL ESTATE  
INVESTMENT TRUST**

Year ended December 31, 2004 and period from  
November 14, 2003 to December 31, 2003



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## AUDITORS' REPORT

To the Unitholders of Chartwell Seniors Housing  
Real Estate Investment Trust

We have audited the consolidated balance sheets of Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT") as at December 31, 2004 and 2003 and the consolidated statements of operations, unitholders' equity and cash flows for the year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003. These financial statements are the responsibility of Chartwell REIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chartwell REIT as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

February 4, 2005

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets  
(In thousands of Canadian dollars)

December 31, 2004 and 2003

	2004	2003 (Restated - note 1(n))
<b>Assets</b>		
Properties (note 3)	\$ 588,812	\$ 276,027
Mezzanine loans receivable (note 4)	52,021	24,879
Management contracts, resident contracts and customer relationships (note 5)	55,055	43,518
Cash and cash equivalents	295	40,308
Other assets (note 6)	25,639	24,175
Licenses	8,130	-
Goodwill	10,300	10,300
	<b>\$ 740,252</b>	<b>\$ 419,207</b>

## Liabilities and Unitholders' Equity

Liabilities:		
Mortgages payable (note 7)	\$ 374,520	\$ 157,091
Loans payable (note 8)	41,518	-
Accounts payable and other liabilities (note 9)	21,482	14,625
Distributions payable	3,158	3,767
	<b>440,678</b>	<b>175,483</b>
Non-controlling interest (note 10)	40,279	21,111
Unitholders' equity	259,295	222,613
Commitments and contingencies (notes 16 and 17)		
	<b>\$ 740,252</b>	<b>\$ 419,207</b>

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" \_\_\_\_\_ Trustee

"Joseph Wright" \_\_\_\_\_ Trustee

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

	2004	2003 (Restated - note 1(n))
Revenue:		
Resident	\$ 123,140	\$ 8,083
Mezzanine loan interest (note 4)	4,635	478
Management and financing fees (note 14)	9,415	494
Other	590	165
	<u>137,780</u>	<u>9,220</u>
Expenses:		
Direct operating	85,168	5,170
General, administrative and trust	6,851	1,415
	<u>92,019</u>	<u>6,585</u>
	45,761	2,635
Interest expense (note 14)	16,901	1,236
	<u>28,860</u>	<u>1,399</u>
Depreciation of properties	12,092	980
Amortization of management contracts, resident contracts and customer relationships	21,094	2,026
Write-down in carrying value of management contracts and customer relationships (note 5)	1,660	—
	<u>(5,986)</u>	<u>(1,607)</u>
Non-controlling interest (note 10)	539	103
Loss for the period	<u>\$ (5,447)</u>	<u>\$ (1,504)</u>
Loss per unit (basic and diluted) (note 12)	<u>\$ (0.195)</u>	<u>\$ (0.061)</u>

See accompanying notes to consolidated financial statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity  
(In thousands of Canadian dollars)

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

	Units issued in dollars, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Distributions	Total
Unitholders' equity, November 14, 2003	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of Trust Units	253,255	—	—	—	—	253,255
Issue costs	(26,160)	—	—	—	—	(26,160)
Trust Units issued under the Long-Term Incentive Program	—	8,753	(8,250)	—	—	503
Loss for the period	—	—	—	(1,504)	—	(1,504)
Interest on instalment loan receivable	—	—	(41)	—	—	(41)
Distributions to unitholders	—	—	—	—	(3,440)	(3,440)
<b>Unitholders' equity, December 31, 2003</b>	<b>\$ 227,095</b>	<b>\$ 8,753</b>	<b>\$ (8,291)</b>	<b>\$ (1,504)</b>	<b>\$ (3,440)</b>	<b>\$ 222,613</b>

	Units issued in dollars, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Distributions	Total
Unitholders' equity, December 31, 2003, as previously stated	\$ 248,595	\$ 8,753	\$ (8,291)	\$ (1,607)	\$ (3,726)	\$ 243,724
Restatement (note 1(n))	(21,500)	—	—	103	286	(21,111)
Unitholders' equity, December 31, 2003, as restated	227,095	8,753	(8,291)	(1,504)	(3,440)	222,613
Loss for the year	—	—	—	(5,447)	—	(5,447)
Distributions to unitholders	—	—	—	—	(29,294)	(29,294)
Issuance of Trust Units pursuant to secondary public offering	70,313	—	—	—	—	70,313
Issuance of Trust Units on acquisition of properties	3,000	—	—	—	—	3,000
Issuance of Trust Units under the Distributions Reinvestment Program	937	—	—	—	—	937
Trust Units issued under the Long-Term Incentive Program	—	423	(402)	—	—	21
Issue costs	(3,870)	—	—	—	—	(3,870)
Repayment of instalment loan receivable	—	—	432	—	—	432
Interest on instalment loan receivable	—	—	(312)	—	—	(312)
Distributions applied against instalment loan receivable	—	—	902	—	—	902
<b>Unitholders' equity, December 31, 2004</b>	<b>\$ 297,475</b>	<b>\$ 9,176</b>	<b>\$ (7,671)</b>	<b>\$ (6,951)</b>	<b>\$ (32,734)</b>	<b>\$ 259,295</b>

See accompanying notes to consolidated financial statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows  
(In thousands of Canadian dollars)

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

	2004	2003 (Restated - note 1(n))
Cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (5,447)	\$ (1,504)
Items not affecting cash:		
Depreciation and amortization	33,186	3,006
Write-down in carrying value of management contracts and customer relationships	1,660	-
Amortization of below-market resident contracts	(1,358)	(125)
Option benefit granted under the Long-Term Incentive Plan	21	503
Income from long-term investment	(30)	-
Distributions received on long-term investment	46	-
Non-controlling interest	(539)	(103)
	27,539	1,777
Amortization of deferred financing expenses	1,990	41
Amortization of debt discounts	270	13
Change in non-cash operating items	(309)	(9,391)
	29,490	(7,560)
Financing activities:		
Proceeds from mortgage financing	97,571	44,550
Mortgage principal repayments	(42,012)	(251)
Proceeds from loans payable	60,386	-
Repayment of loans payable	(18,868)	-
Deferred financing costs	(6,071)	(1,793)
Trust Units issued	70,313	242,900
Issue costs	(3,870)	(26,160)
Distributions paid	(28,450)	-
Distributions paid to non-controlling interest unitholders	(3,229)	-
Deposits received under Long-Term Incentive Plan	432	-
	126,202	259,246
Investing activities:		
Acquisition of assets, net of debt assumed and units issued (note 2)	(168,247)	(173,431)
Payment of deferred consideration on acquisitions of properties	(5,694)	-
Payment of amounts payable for closing adjustments	(3,858)	-
Additions to properties	(3,834)	(68)
Mezzanine loans receivable	(27,142)	(24,879)
Restricted cash	13,000	(13,000)
Capital funding receivable	70	-
	(195,705)	(211,378)
Increase (decrease) in cash and cash equivalents	(40,013)	40,308
Cash and cash equivalents, beginning of period	40,308	-
Cash and cash equivalents, end of period	\$ 295	\$ 40,308
Supplemental cash flow information:		
Interest paid	\$ 14,488	\$ 604

Supplemental cash flow information (note 18)

See accompanying notes to consolidated financial statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT") is an unincorporated open-ended real estate investment trust created on July 7, 2003 pursuant to a Declaration of Trust, as amended. It is governed by the laws of Ontario. Chartwell REIT began operations on November 14, 2003 and invests primarily in real properties operated as retirement homes and long-term care facilities in Canada.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements include the accounts of Chartwell REIT and its subsidiaries, as well as the proportionate share of the accounts of its joint ventures. All intercompany transactions have been eliminated.

### (b) Business combinations:

Upon the acquisition of properties, Chartwell REIT allocates the purchase price to the fair value of assets and liabilities, including land, building, furniture, fixtures and equipment and intangibles, such as licenses, the value of the above and below-market resident contracts, in-place resident contracts and the value of relationships.

### (c) Properties:

Properties include land, buildings, furniture, fixtures and equipment and are recorded at cost less accumulated depreciation. An impairment loss is required to be recognized when the carrying amount of any individual property exceeds the sum of the undiscounted cash flows expected from its use and disposal. An impairment loss is measured as the amount by which the carrying amount of a property exceeds its fair value.

Properties are depreciated on a straight-line basis over their estimated useful lives as follows:

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Buildings	40 years
Furniture, fixtures and equipment	3 - 5 years

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# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 1. Significant accounting policies (continued):

### (d) Deferred expenses:

Deferred expenses, which include financing fees and related costs, are amortized on a straight-line basis over the terms of the related financing. The amortization is included in interest expense in the consolidated statements of operations.

### (e) Goodwill and other intangibles:

Goodwill represents the cost of acquired net assets in excess of their fair values. Goodwill is not amortized, but tested for impairment annually by comparing the carrying value of a reporting unit with its fair value.

Intangible assets are recorded at cost and consist of third party management contracts, above and below-market resident contracts, customer relationships and resident contracts.

Management contracts and customer relationships are amortized on a straight-line basis over the term of the contract or if no term is specified, over an estimated life not to exceed five years.

The values of the above and below-market resident contracts are amortized and recorded as either an increase (in the case of below-market resident contracts) or a decrease (in the case of above-market resident contracts) to revenue over the expected term of the associated resident occupancy, estimated at an average of three years for retirement homes and one year for long-term care facilities. The value associated with in-place resident contracts, which represents the avoided costs of originating the acquired resident contracts plus the value of lost net resident revenue over the estimated lease-up period of the property, is similarly amortized over the expected term of the resident occupancy.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 1. Significant accounting policies (continued):

### (f) Licenses:

Licenses for the operation of long-term care facilities, when acquired, are recorded at cost.

These licenses have an indefinite life and are not amortized, but tested for impairment at least annually by comparing their carrying amount with their fair value.

### (g) Long-term investment:

The long-term investment represents an investment subject to significant influence and is accounted for under the equity method.

### (h) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase and are stated at cost, which approximates net realizable value.

### (i) Revenue:

Resident revenue is recognized when services are provided. The provincial governments regulate and subsidize a significant portion of fees charged to residents of long-term care facilities.

Facility management fees are recognized when services are provided.

Revenue from development management activities are recorded on a project specific basis using the percentage-of-completion method based upon the level of effort expended to achieve predetermined project milestones. No development management revenue is recognized prior to obtaining relevant permits or commencement of construction activities.

Revenue from financing fees and structuring fees are recognized upon completion of the contracted services.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 1. Significant accounting policies (continued):

Mezzanine placement fees are deferred and recognized to income as a yield adjustment on related mezzanine loans.

### (j) Long-Term Incentive Plan:

Chartwell REIT accounts for its Long-Term Incentive Plan ("LTIP") using the fair value-based method, under which a compensation cost is recognized, at the time of vesting, for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes.

As the units issued under the LTIP are treated as options for accounting purposes, they are included in the calculation of diluted net income per unit.

### (k) Income taxes:

Chartwell REIT is an unincorporated open-ended investment trust created by the Declaration of Trust. Chartwell REIT will be taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, Chartwell REIT intends to make distributions not less than the amount necessary to ensure that it will not be liable to pay income taxes.

### (l) Financial derivatives:

Chartwell REIT uses interest rate derivatives to manage its exposure to fluctuations in interest rates. Chartwell REIT's policy is not to utilize derivative financial instruments for trading or speculative purposes. When entered into, these derivatives are designated as hedges of the underlying liability. Gains or losses on hedges of existing assets or liabilities are deferred. Unrealized gains or losses on hedged commitments or anticipated transactions are not recorded in the consolidated financial statements until the transaction occurs.

Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 1. Significant accounting policies (continued):

Chartwell REIT enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Chartwell REIT designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

### (m) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. In determining the fair value of assets and liabilities of businesses it acquires, the estimated useful lives and net recoverable amounts for properties, as well as the fair value of goodwill, Chartwell REIT relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

### (n) Change in accounting policy:

In response to EIC-151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which was issued on January 19, 2005, Chartwell REIT has adopted a new accounting policy applicable to the Class B Units of Master Care LP, a subsidiary of Chartwell REIT ("Master LP"). Under EIC-151, equity applicable to the Class B Units of Master LP is considered to be a non-controlling interest. Previously, Chartwell REIT included the Class B Units of Master LP as part of its unitholders' equity.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 1. Significant accounting policies (continued):

Chartwell REIT adopted this change in accounting policy retroactively with the restatement of prior periods' financial statements (note 10). As a result, the net loss was reduced by \$539 (0.019 per unit) and \$103 (0.004 per unit) for the year ended December 31, 2004 and for the period from November 14, 2003 to December 31, 2003, respectively. Unitholders' equity was reduced by \$40,279 and \$21,111 at December 31, 2004 and 2003, respectively.

The Emerging Issues Committee has been presented with a number of issues regarding the implementation of the EIC-151. The resolution of these issues has not yet been completed. Upon release of further guidance Chartwell REIT may be required to change its application of the EIC-151.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 2. Acquisitions:

The following table summarizes the acquired net assets, at fair value:

	2004	2003
<b>Assets</b>		
Properties	\$ 321,043	\$ 276,939
Land held for development	1,600	–
Licenses	8,130	–
Management contracts, resident contracts and customer relationships	34,288	45,544
Goodwill	–	10,300
Long-term investment	–	1,539
Capital funding receivable	2,824	–
	<u>367,885</u>	<u>334,322</u>
<b>Liabilities</b>		
Mortgages payable	160,242	112,779
Below-market resident contracts	2,122	2,853
Working capital	2,212	11,646
	<u>164,576</u>	<u>127,278</u>
<b>Net assets acquired</b>	<b>\$ 203,309</b>	<b>\$ 207,044</b>
Settled by:		
Issuance of Trust Units	\$ 3,000	\$ 8,255
Issuance of Class B Units of Chartwell Master LP	23,010	21,500
Vendor take-back mortgage	1,358	–
Deferred consideration on acquisition of properties	7,694	–
Amounts payable for closing adjustments	–	3,858
Cash	168,247	173,431
	<u>\$ 203,309</u>	<u>\$ 207,044</u>

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 2. Acquisitions (continued):

The acquisitions have been recorded by the purchase method, with the results of operations included in these financial statements from the date of acquisition.

### (a) Acquisitions during the period from November 14, 2003 to December 31, 2003:

On November 14, 2003, Chartwell REIT issued 21.0 million Trust Units for cash of \$210,000 pursuant to an initial public offering (the "Offering") and 957,200 Trust Units for \$9,572 pursuant to a private placement. On November 24, 2003, Chartwell REIT issued 3.15 million Trust Units for cash of \$31,500 pursuant to an over-allotment option and on November 28, 2003, it issued 78,300 Trust Units for \$783 pursuant to a second private placement. Costs related to the Offering amounted to \$26,160, including \$1,400 in costs that were settled on November 14, 2003 through the issuance of 0.14 million of additional Trust Units.

### (i) Acquisition of Alert Care Corporation:

On November 14, 2003, Chartwell REIT used a portion of the net proceeds of the Offering to acquire all the outstanding shares and options of Alert Care Corporation ("Alert") for consideration of \$112,650 plus acquisition costs and an estimated \$3,858 working capital adjustment. Chartwell REIT has a direct interest in Alert's 23 properties and five management contracts. It disposed of the development business of Alert to Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management, immediately following the Offering, at Chartwell REIT's cost, for \$3,700 in cash and the provision of \$24,879 in mezzanine loans receivable.

### (ii) Other acquisitions:

On November 14, 2003, Chartwell REIT used a portion of the net proceeds of the Offering to acquire an interest in 14 properties (including a 50% interest in a property where the remaining interest was sold to Chartwell REIT by Alert) and a seniors housing and development management business from multiple vendors for consideration of \$121,676.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 2. Acquisitions (continued):

Two of these properties were acquired from an entity controlled by an officer of Chartwell REIT. The purchase price for these properties amounted to \$16,347 and was settled for a cash payment of \$6,151, assumption of existing mortgages of \$6,596 and a vendor-take back mortgage of \$3,600.

The management business was acquired from an entity controlled by an officer of Chartwell REIT. The purchase price amounted to \$20,000 and was settled through the issuance of 2 million Class B Units of Master LP.

- (b) During the year ended December 31, 2004, Chartwell REIT completed the acquisitions of 24 seniors housing facilities and a 50% interest in eight other facilities for total consideration of \$203,309.

Included in these acquisitions are:

- (i) The acquisition of 50% interest in seven facilities in Quebec for a total purchase price of \$18,424 (note 16);
- (ii) Four long-term care facilities acquired from entities controlled by officers of Chartwell REIT for a total purchase price of \$40,126. These properties were previously managed by Chartwell REIT (note 14(c)); and
- (iii) Two retirement homes acquired from entities in which one of the directors of a subsidiary of Chartwell REIT holds a significant interest, for a total purchase price of \$14,300.

Chartwell REIT is in the process of completing the valuation of the net assets acquired and, based on this valuation, the purchase price allocation for accounting purposes may be adjusted in future periods.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

### 3. Properties:

	2004			2003		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 65,745	\$ –	\$ 65,745	\$ 26,900	\$ –	\$ 26,900
Buildings	516,570	10,205	506,365	242,816	786	242,030
Furniture, fixtures and equipment	19,569	2,867	16,702	7,291	194	7,097
	<u>\$ 601,884</u>	<u>\$ 13,072</u>	<u>\$ 588,812</u>	<u>\$ 277,007</u>	<u>\$ 980</u>	<u>\$ 276,027</u>

### 4. Mezzanine loans receivable:

In accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT has advanced mezzanine loans of \$42,800 (2003 - \$24,879) to Spectrum, a limited partnership related to Chartwell REIT by virtue of common management. In accordance with the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Canada bonds plus 5% and Chartwell REIT's annualized cash distribution yield for the most recent quarter, subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum and is payable monthly. The loans outstanding as at December 31, 2004 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 27 (2003 - 10) seniors' housing development properties.

Under the terms of the Development Agreement, Chartwell REIT has the first right to purchase Spectrum's interest in each development property provided that Spectrum must offer Chartwell REIT the opportunity to purchase any development property within one year of such property reaching a stabilized occupancy. If Chartwell REIT elects to purchase a development property, Chartwell REIT will acquire the property at an amount equal to 95%, 92.5% or 90% of appraised fair market value, depending upon the amount of mezzanine financing provided on the development property or at 100% of the appraised fair market value if no mezzanine financing had been advanced.

Chartwell REIT has the first option to provide mezzanine financing to Spectrum for future development properties under the terms and conditions specified in the Development Agreement.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 4. Mezzanine loans receivable (continued):

In addition, Chartwell REIT has advanced mezzanine loans totalling \$9,221 to two of Spectrum's joint venture partners (the "Borrowers"). One of the borrowers, with an outstanding loan balance of \$6,820 at December 31, 2004 is a significant joint venture partner of Chartwell REIT on other unrelated properties. These loans bear interest at rates between 11.5% and 14% payable monthly and are secured by second fixed charges or pledges of the Borrowers' interests over five development projects.

Each mezzanine loan matures on the earliest of: the fifth anniversary of the initial advance of the funds; the date of sale of the related development property; or on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development Agreement with Spectrum and loan agreements with the Borrowers. No principal is due prior to maturity of each loan.

Effective December 24, 2004, the Development Agreement was amended to provide Spectrum with a right to terminate the agreement upon providing six months' notice. Under such circumstances, certain rights of Chartwell REIT in respect of existing mezzanine loans and options on related projects will continue.

## 5. Management contracts, resident contracts and customer relationships:

	2004			2003		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	\$ 4,721	\$ 1,186	\$ 3,535	\$ 6,213	\$ 404	\$ 5,809
Resident contracts	68,418	20,394	48,024	34,131	1,496	32,635
Customer relationships	4,507	1,011	3,496	5,200	126	5,074
	<u>\$ 77,646</u>	<u>\$ 22,591</u>	<u>\$ 55,055</u>	<u>\$ 45,544</u>	<u>\$ 2,026</u>	<u>\$ 43,518</u>

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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

Management contracts and customer relationships represent the value of acquired contractual agreements to provide management and advisory services for the operations of seniors' residences owned by third parties.

During the year ended December 31, 2004, the termination of four management contracts resulted in a write-down of \$1,123 and \$537 in the carrying value of management contracts and customer relationships, respectively.

Resident contracts represent in-place resident contracts valued at acquisition.

## 6. Other assets:

	2004	2003
Accounts receivable	\$ 4,925	\$ 5,093
Deferred financing costs, net of accumulated amortization of \$2,031 (2003 - \$41)	5,833	1,752
Capital funding receivable	2,754	-
Long-term investment	1,523	1,539
Restricted cash	-	13,000
Due from Spectrum (note 14(a))	3,127	539
Land held for development	1,600	-
Prepaid expenses	2,537	768
Other	3,340	1,484
	<b>\$ 25,639</b>	<b>\$ 24,175</b>

Included in other income for the year ended December 31, 2004 is \$30 of income earned from Chartwell REIT's long-term investment.

The capital funding receivable represents the discounted cash flows receivable from the Government of Ontario over a 20-year period in respect of construction costs of one long-term care facility.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 6. Other assets (continued):

In accordance with an Escrow Agreement dated November 14, 2003, Chartwell REIT was required to hold \$13,000 in escrow for the benefit of the vendor of three long-term care facilities, an entity controlled by an officer of Chartwell REIT, until certain regulatory approvals are obtained and Chartwell REIT can close the acquisition. The agreement required the vendor to operate the properties for the account of the purchaser until February 11, 2004, when the necessary approvals were obtained and Chartwell REIT completed the acquisition of the facilities.

## 7. Mortgages payable:

Mortgages payable are secured by first and second charges on specific facilities and are repayable as follows for the years ending December 31:

	Regular principal payments	Principal due on maturity	Total
2005	\$ 10,722	\$ 40,608	\$ 51,330
2006	10,243	31,542	41,785
2007	9,864	15,356	25,220
2008	9,765	32,626	42,391
2009	5,482	92,696	98,178
	46,076	212,828	258,904
Thereafter	18,615	97,001	115,616
	\$ 64,691	\$ 309,829	\$ 374,520

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 7. Mortgages payable (continued):

	2004	2003
Mortgages at fixed rates	\$366,123	\$157,091
Interest rates	3.28% - 8.95%	4.15% - 7.75%
Weighted average rate	5.23%	5.68%
Mortgages at variable rates	\$8,397	-
Interest rates	Prime - prime plus 1%	-
Weighted average rate	4.51%	-

Interest on mortgages payable amounted to \$14,217 (2003 - \$1,195), excluding the amortization of deferred financing costs.

## 8. Loans payable:

	2004	2003
Secured revolving operating facility	\$ 28,418	\$ -
Secured bridge loans	13,100	-
	<u>\$ 41,518</u>	<u>\$ -</u>

At December 31, 2004, Chartwell REIT has arranged for a secured revolving operating facility in the amount of \$30,000. The operating facility may be increased to \$50,000 upon provision of further security and syndication of the facility to other financial institutions by the lender.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by second charges on specific facilities. The credit facility is due on December 9, 2005.

The secured bridge loans bear interest at prime plus 1%, are secured by second charges over four seniors' housing facilities and are repayable on demand.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 9. Accounts payable and other liabilities:

	2004	2003
Accounts payable and accrued liabilities	\$ 14,977	\$ 7,367
Amounts payable for closing adjustments	–	3,858
Below-market resident contracts, net of accumulated amortization of \$1,483 (2003 - \$125)	3,492	2,728
Resident deposits	1,013	672
Deferred consideration on acquisition of property	2,000	–
	<b>\$ 21,482</b>	<b>\$ 14,625</b>

Deferred consideration on acquisition of property relates to the acquisition of one property completed during 2004 and is due on the earlier of the property achieving certain operating results and September 14, 2006.

## 10. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B Units of Master LP, which is consolidated in these financial statements. Class B Units of Master LP are exchangeable, at the option of the holder, into Trust Units. Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Class B Units are transferable to third parties with Chartwell REIT's consent.

The details of non-controlling interests are as follows:

	2004	2003 (Restated - note 1(n))
Opening balance	\$ 21,111	\$ –
Issuance of Class B Units of Master LP (note 2)	23,010	21,500
Non-controlling interest's share of loss for the period	(539)	(103)
Distributions on Class B Units of Master LP	(3,303)	(286)
Closing balance	<b>\$ 40,279</b>	<b>\$ 21,111</b>

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 11. Unitholders' capital:

Chartwell REIT is authorized to issue unlimited Trust Units.

(a) The following units are issued and outstanding:

	Number of voting units	Amount
Trust Units issued:		
November 14, 2003, initial public offering	21,140,000	\$ 211,400
November 14, 2003, private placement	957,200	9,572
November 24, 2003, exercise of over-allotment option	3,150,000	31,500
November 28, 2003, private placement	78,300	783
Issue costs	–	(26,160)
Balance, January 1, 2004 (restated - note 1(n))	25,325,500	227,095
August 6, 2004:		
Units issued pursuant to secondary public offering	6,250,000	70,313
September 14, 2004:		
Issuance of Trust Units on acquisition of properties	257,290	3,000
Units issued pursuant to the Distribution Reinvestment Program	80,215	937
Issue costs	–	(3,870)
<b>Units outstanding, December 31, 2004</b>	<b>31,913,005</b>	<b>\$ 297,475</b>

(b) Distribution Reinvestment Program ("DRIP"):

Chartwell REIT 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%.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 12. Loss per unit calculation:

	2004		2003	
	Weighted average units	Amount	Weighted average units	Amount
				(Restated - note 1(n))
Loss for the period	27,946,587	\$ (5,447)	24,646,413	\$ (1,504)
LTIP units under subscription	843,877	—	825,000	—
	28,790,464	\$ (5,447)	25,471,413	\$ (1,504)
Loss per unit (basic and diluted)		\$ (0.195)		\$ (0.061)

## 13. Long-Term Incentive Plan:

Certain officers and key employees of Chartwell REIT have been provided an LTIP, under which the participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of issuance, which will be payable in cash instalments, over a term not to exceed 10 years. Participants are required to pay interest at 4% and are required to apply cash distributions received by them, in respect of units issued under LTIP, toward payments of that interest and the principal instalments. Participants may prepay any principal at their discretion. If a participant fails to pay interest and/or any principal, Chartwell REIT may elect to reacquire or sell the Trust Units in satisfaction of the outstanding amounts. Chartwell REIT has no recourse to the participants' assets. An aggregate of 1,593,000 Trust Units are reserved for issuance, pursuant to the LTIP.

During the period ended December 31, 2003, Chartwell REIT issued 825,000 Trust Units at an average price of \$10 per unit. On June 8, 2004, Chartwell REIT issued 30,000 Trust Units pursuant to the LTIP at \$11.49 per Trust Unit. On August 11, 2004, Chartwell REIT issued an additional 5,000 Trust Units pursuant to the LTIP at \$11.46 per Unit. The market value of the Trust Units at December 31, 2004 was \$14.10 per unit.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 13. Long-Term Incentive Plan (continued):

During the year ended December 31, 2004, compensation cost of \$21 (2003 - \$503), attributable to the LTIP, was charged against earnings with a corresponding amount included in unitholders' equity as units under subscription. The unit instalment loans receivable are recognized as a deduction from units under subscription. Distributions received under the LTIP are charged to unitholders' equity while interest received under LTIP is credited to distributions.

The fair value of the LTIP, on the date of issuance, was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 10.5%; expected volatility of 10%; risk-free interest rate of 4.68%; expected life of 10 years; and average expected employee tenure of eight years. The fair value also includes the estimated present value of the 2.6% imputed interest benefit and an assumed market rate of return of 6.6%.

## 14. Related party transactions:

Except as disclosed elsewhere in these financial statements, the related party transactions were as follows:

- (a) During the year ended December 31, 2004, Chartwell REIT earned mezzanine loan interest of \$4,513 (2003 - \$478) from Spectrum. Under the terms of the Development Agreement (note 4), Chartwell REIT also provides operations management and development management services to Spectrum. During the year ended December 31, 2004, Chartwell REIT earned management fees of \$4,584 (2003 - \$47) in respect of these services.

In addition, Chartwell REIT earned \$946 (2003 - nil) in financing fees from Spectrum during the year ended December 31, 2004.

Accounts receivable as of December 31, 2004 include \$3,127 (2003 - \$539) due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to December 31, 2004, \$2,923 of this balance was repaid. In addition, accounts receivable include advances of \$125 (2003 - \$200) due from a joint venture where Spectrum holds a 72.5% interest.

Included in distributions payable at December 31, 2004 is \$170 (2003 - \$270) due to Spectrum.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 14. Related party transactions (continued):

- (b) During the year ended December 31, 2004, Chartwell REIT earned development and structuring fees of \$1,436 and interest of \$38 from one of its significant joint venture partners.
- (c) During the year ended December 31, 2004, in accordance with an Escrow Agreement, Chartwell REIT earned management fees in the amount of \$298 (2003 - \$234) and incurred interest expense in the amount of \$40 (2003 - \$40) from an entity controlled by an officer of Chartwell REIT.
- (d) Accounts receivable as of December 31, 2003 include \$358 due from a company controlled by an officer of Chartwell REIT.

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

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 15. Segmented information:

Chartwell REIT monitors and operates its retirement operations, long-term care operations and management operations separately.

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

2004	Retirement operations	Long-term care operations	Management operations	Total
Revenue	\$ 86,154	\$ 36,986	\$ 9,415	\$ 132,555
Direct operating expenses	51,535	32,298	1,335	85,168
Income before the undernoted	34,619	4,688	8,080	47,387
Interest expense	14,775	2,126	—	16,901
Income before the following	19,844	2,562	8,080	30,486
Depreciation and amortization	26,038	4,956	2,192	33,186
Write-down in carrying values of management contracts and customer relationships	—	—	1,660	1,660
	<u>\$ (6,194)</u>	<u>\$ (2,394)</u>	<u>\$ 4,228</u>	<u>(4,360)</u>
Items not allocated to operating segments:				
Mezzanine loan from interest and other income				5,225
General, administrative and trust expenses				(6,851)
Non-controlling interest				539
<b>Loss for the year</b>				<b>\$ (5,447)</b>
Expenditures for assets by segment:				
Acquisitions - properties licenses and resident contracts	\$ 290,351	\$ 73,110	\$ —	\$ 363,461
Additions to properties	1,791	2,043	—	3,834

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

## 15. Segmented information (continued):

	Retirement operations	Long-term care operations	Management operations	Other	Total
Total assets	\$ 604,636	\$ 64,622	\$ 16,832	\$ 54,162	\$ 740,252
Total liabilities	395,044	42,476	–	3,158	440,678

Effective December 31, 2004, Chartwell REIT corrected the reporting of its goodwill allocations to reporting units to reflect the impact of acquiring properties managed under contracts included in the management operations segment. As a result, \$1,556 and \$1,825 of goodwill previously allocated to the management operations segment has been reallocated to the retirement operations and long-term care operations segments, respectively.

Substantially all of Chartwell REIT's assets and revenue were derived from retirement operations in 2003.

## 16. Joint venture operations:

During the year ended December 31, 2004, Chartwell REIT acquired 50% interests in two joint ventures holding eight seniors' housing facilities. The following amounts included in the consolidated financial statements are Chartwell REIT's proportionate interest in these joint ventures:

Assets	\$ 55,838
Liabilities	38,715
Revenue	4,505
Expenses, including depreciation and amortization of \$1,204	5,303
<b>Cash provided by (used in):</b>	
Operating activities	\$ 391
Financing activities	(270)
Investing activities	(125)

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 16. Joint venture operations (continued):

Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to \$38,715. The assets of this joint venture are available to satisfy these liabilities.

## 17. Commitments and contingencies:

### (a) Operating leases:

Chartwell REIT has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of \$126. In addition, Chartwell REIT has operating leases on office space which expire on various dates up to May 31, 2015. Annual payments on these leases amount to approximately \$425, commencing June 1, 2005.

### (b) Acquisitions:

As of December 31, 2004, Chartwell REIT is committed to acquire one seniors housing facility for a purchase price of approximately \$19,200.

### (c) Contingent consideration on acquisitions:

- (i) The vendor of one property is entitled to receive an additional \$4,250 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually commencing on December 31, 2005. Any payments made by Chartwell REIT will be recorded in the financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 17. Commitments and contingencies (continued):

- (ii) The purchase and sale agreement related to one property acquired commits Chartwell REIT to the payment of up to \$5,000 in respect of certain suites that are being added to the property. The ultimate amount paid will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when the suites are complete and/or the property achieves stabilization.
- (iii) The purchase and sale agreement related to two properties acquired provides the vendor with a right to receive an additional \$675 over a three-year period subject to the properties achieving certain earnings targets. Any payments made by Chartwell REIT will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due.

### (d) Mezzanine loans receivable:

As at December 31, 2004, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of \$18,705 (2003 - \$19,900) (note 4).

### (e) Letters of credit:

As of December 31, 2004, Chartwell REIT was contingently liable for letters of credit in the amount of \$195 (2003 - \$189).

### (f) Litigation and claims:

Chartwell REIT is involved in litigation and claims in relation to its operations that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on these financial statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## **18. Supplemental cash flow information:**

At December 31, 2004, distributions of \$3,158, including \$360 applicable to non-controlling interests (2003 - \$3,767, including \$286 applicable to non-controlling interests) remained payable to unitholders. These amounts have been excluded from operating and financing activities in the consolidated statements of cash flows.

The acquisition of net assets (note 2) was partially financed through the issuance of \$3,000 (2003 - \$8,255) of Trust Units, \$23,010 (2003 - \$21,500) of Class B Units of Master LP and the issuance of a \$1,358 vendor take-back mortgage. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

Deferred purchase consideration on acquisition of properties of \$2,000 that remains payable as of December 31, 2004 was excluded from operating and investing activities for the year ended December 31, 2004.

During the year ended December 31, 2004, distributions of \$902 (2003 - nil) and interest of \$312 (2003 - \$41) were applied against instalment loans receivable related to the LTIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.

During the year ended December 31, 2004, Trust Units valued at \$937 (2003 - nil) were issued pursuant to the DRIP. This amount has been excluded from financing activities on the consolidated statements of cash flows.

Concurrent with the Offering, an option note payable was settled for cash and the issuance of \$2,100 of Trust Units. This amount has been excluded from financing and investing activities in the consolidated statements of cash flows for the period ended December 31, 2003.

At December 31, 2003, an amount owing to the vendor for the acquisition of Alert for \$3,858 (note 2) has been excluded from operating and investing activities in the consolidated statements of cash flows.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## 19. Taxes:

The carrying value of Chartwell REIT's assets at December 31, 2004 exceeds its tax basis by approximately \$140,000 (2003 - \$104,000). Due to the terms of the Declaration of Trust, no recognition of a future tax liability has been recorded in the financial statements.

## 20. Financial instruments and financial risk management:

In the normal course of business, Chartwell REIT is exposed to various financial risks, including changes in interest rates and government regulatory controls. The following describes these financial risks and how they are managed by Chartwell REIT and the fair values of these financial instruments:

### (a) Interest rate risk:

Interest rate risk arises with changes in interest costs, which affect Chartwell REIT's floating rate debt on an ongoing basis and its fixed-rate debt upon renewal. At December 31, 2004, \$49,915 (2003 - nil) of Chartwell REIT's mortgages and loans payable bear interest at floating rates. To mitigate interest rate risk, Chartwell REIT fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell REIT fixes the term of long-term debt within a range from five to 15 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell REIT spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on all of its mortgages payable, Chartwell REIT entered into an interest rate swap contract with a notional principal amount of \$13,836 that entitles Chartwell REIT to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.95%. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on cash settlement requirements as of December 31, 2004 is a negative value of \$1,073.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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

### (b) Credit and collection risk:

Chartwell REIT is exposed to credit risk in the collection of its mezzanine loans receivable and accounts receivable. Chartwell REIT is exposed to normal credit risk from customers. Chartwell REIT has four significant categories of customers: governments, Spectrum, resident clients and retirement homes and long-term care facilities to which it provides management services. Government customers are composed of various provincial governments. Collection risk associated with these customers relates to their ability to potentially challenge certain charges.

### (c) Fair value:

Fair value represents management's estimates of the market value at a given point in time. The fair values of Chartwell REIT's financial assets and financial liabilities, except as noted, approximate their carrying values due to their short-term nature.

The fair values of mortgages payable as at December 31, 2004 were \$379,142 as compared to their carrying values of \$374,520.

As of December 31, 2004, the fair value of capital funding receivable approximates its carrying value.

## 21. Impact of new accounting pronouncements:

In June 2003, The Canadian Institute of Chartered Accountants issued AcG-15, Consolidation of Variable Interest Entities ("VIE"). AcG-15 provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. AcG-15 is effective for all annual and interim periods, beginning on or after November 1, 2004.

At this time, Chartwell REIT is reviewing its current and future interests, particularly its joint venture, mezzanine financing and option agreements in determining the applicability of this guideline and its impact on the consolidated financial statements.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003

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## **22. Comparative figures:**

Certain 2003 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2004.