

Consolidated Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Three-month and six-month periods ended June 30, 2006
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	June 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Properties (note 3)	\$ 1,171,667	\$ 957,244
Mezzanine loans receivable (note 4)	94,621	77,436
Management contracts, resident contracts and customer relationships (note 5)	73,048	64,208
Cash and cash equivalents	48,503	14,845
Other assets (note 6)	54,349	43,355
Licenses	11,935	11,935
Goodwill	22,621	22,621
	\$ 1,476,744	\$ 1,191,644

Liabilities and Unitholders' Equity

Liabilities:		
Mortgages payable (note 7)	\$ 778,548	\$ 613,654
Loans payable (note 8)	2,485	32,024
Accounts payable and other liabilities (note 9)	50,802	43,252
Distributions payable	6,184	4,981
	838,019	693,911
Non-controlling interest (note 10)	49,524	52,448
Unitholders' equity	589,201	445,285
Commitments and contingencies (notes 15 and 16)		
Guarantees (note 19)		
Subsequent events (notes 13 and 21)		
	\$ 1,476,744	\$ 1,191,644

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee

"Sidney Robinson" Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005 (Restated - note 1(c))	2006	2005 (Restated - note 1(c))
Revenue:				
Resident	\$ 74,554	\$ 43,812	\$ 140,242	\$ 82,998
Mezzanine loan interest (notes 4, 13(a) and (b))	2,479	1,964	4,787	3,755
Management and financing fees (note 13(a) and (b))	3,428	2,355	7,402	4,003
Other	1,427	1,184	2,626	1,906
	81,888	49,315	155,057	92,662
Expenses:				
Direct operating	51,515	30,238	97,615	58,101
General, administrative and trust	4,242	2,451	7,599	4,450
	55,757	32,689	105,214	62,551
	26,131	16,626	49,843	30,111
Interest expense (note 13(d))	10,679	5,781	19,877	11,465
Foreign exchange losses	950	—	898	—
	11,629	5,781	20,775	11,465
	14,502	10,845	29,068	18,646
Depreciation of properties	7,576	4,620	14,537	8,909
Amortization of management contracts, resident contracts and customer relationships	10,562	6,383	19,527	12,863
Write-down in carrying value of property, management contracts and customer relationships (notes 3 and 5)	—	—	440	817
	18,138	11,003	34,504	22,589
Loss before the undernoted	(3,636)	(158)	(5,436)	(3,943)
Gain on sale of assets	100	103	100	103
Non-controlling interest (note 10)	292	(11)	449	437
Loss for the period	\$ (3,244)	\$ (66)	\$ (4,887)	\$ (3,403)
Loss per unit - basic and diluted (note 12)	\$ (0.057)	\$ (0.002)	\$ (0.092)	\$ (0.097)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Six-month periods ended June 30, 2006 and 2005
(Unaudited)

Six-month period ended June 30, 2006	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Cumulative translation account	Distributions	Total
Unitholders' equity, January 1, 2006	\$ 539,780	\$ 19,138	\$ (16,391)	\$ (18,621)	\$ (1,031)	\$ (77,590)	\$ 445,285
Loss for the period from January 1, 2006 to June 30, 2006	–	–	–	(4,887)	–	–	(4,887)
Distributions to unitholders	–	–	–	–	–	(29,185)	(29,185)
Issuance of Trust Units pursuant to public offering	185,009	–	–	–	–	–	185,009
Issuance of Trust Units under the Distributions Reinvestment Program	1,009	–	–	–	–	–	1,009
Trust Units issued on exchange of Class B Units of Master LP	2,108	–	–	–	–	–	2,108
Trust Units issued under the Long-Term Incentive Program	–	64	–	–	–	–	64
Repayment of loan receivable under the Long-Term Incentive Program	–	–	40	–	–	–	40
Disposition of Long-Term Incentive Program Units under Subscription	83	(84)	76	–	–	–	75
Issue costs	(8,900)	–	–	–	–	–	(8,900)
Interest on instalment loan receivable	–	–	(325)	–	–	–	(325)
Distributions applied against instalment loan receivable	–	–	783	–	–	–	783
Cumulative translation account	–	–	–	–	(1,875)	–	(1,875)
Unitholders' equity, June 30, 2006	\$ 719,089	\$ 19,118	\$ (15,817)	\$ (23,508)	\$ (2,906)	\$ (106,775)	\$ 589,201

Six-month period ended June 30, 2005	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Cumulative translation account	Distributions	Total
Unitholders' equity, January 1, 2005	\$ 297,475	\$ 9,176	\$ (7,671)	\$ (6,951)	\$ –	\$ (32,734)	\$ 259,295
Loss for the period from January 1, 2005 to June 30, 2005	–	–	–	(3,403)	–	–	(3,403)
Distributions to unitholders	–	–	–	–	–	(19,328)	(19,328)
Issuance of Trust Units pursuant to public offering	90,313	–	–	–	–	–	90,313
Issuance of Trust Units under the Distributions Reinvestment Program	756	–	–	–	–	–	756
Trust Units issued on exchange of Class B Units of Master LP	583	–	–	–	–	–	583
Repayment of loan receivable under the Long-Term Incentive Program	75	(75)	64	–	–	–	64
Issue costs	(5,113)	–	–	–	–	–	(5,113)
Interest on instalment loan receivable	–	–	(146)	–	–	–	(146)
Distributions applied against instalment loan receivable	–	–	448	–	–	–	448
Unitholders' equity, June 30, 2005	\$ 384,089	\$ 9,101	\$ (7,305)	\$ (10,354)	\$ –	\$ (52,062)	\$ 323,469

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (3,244)	\$ (66)	\$ (4,887)	\$ (3,403)
Items not affecting cash:				
Depreciation and amortization	18,138	11,003	34,064	21,772
Write-down in carrying value of assets	—	—	440	817
Gain on sale of assets	(100)	(103)	(100)	(103)
Amortization of below-market resident contracts	(510)	(436)	(915)	(851)
Option benefit granted under the Long-Term Incentive Plan	32	—	64	—
Income from long-term investment	275	(28)	218	(51)
Unrealized losses	338	—	141	—
Non-controlling interest	(292)	11	(449)	(437)
	14,637	10,381	28,576	17,744
Amortization of deferred financing expenses	651	371	1,197	715
Amortization of debt discounts	76	55	149	103
Change in non-cash operating items	567	1,662	(4,529)	3,190
	15,931	12,469	25,393	21,752
Financing activities:				
Proceeds from mortgage financing	161,729	31,241	180,809	43,245
Proceeds from (repayment of) bank loan payable	(8,686)	3,266	314	8,399
Mortgage principal repayments	(15,380)	(11,264)	(27,714)	(21,055)
Repayments of loans payable	(25,850)	(3,924)	(29,450)	(38,201)
Deferred financing costs	(1,990)	(1,124)	(2,688)	(1,290)
Trust units issued pursuant to:				
Public offering	185,009	—	185,009	90,313
Issue costs	(8,900)	—	(8,900)	(5,113)
Distributions paid	(16,586)	(9,896)	(29,608)	(18,207)
Distributions paid to non-controlling interest unitholders	(1,434)	(1,414)	(2,808)	(2,576)
Repayment of instalment loan receivable	76	64	116	64
	267,988	6,949	265,080	55,579
Investing activities:				
Acquisition of assets, net of debt assumed, deferred consideration and units issued (note 2)	(223,000)	(35,728)	(228,141)	(43,431)
Additions to properties	(7,946)	(8,348)	(10,302)	(10,295)
Payment of deferred purchase consideration	—	—	(871)	—
Proceeds on sale of property	627	518	627	518
Proceeds on sale of management contract	—	100	—	100
Mezzanine loans advances	(11,274)	(13,765)	(19,943)	(17,550)
Repayment of mezzanine loan receivable	—	458	—	458
Restricted cash	(1,752)	—	(2,006)	—
Capital funding receivable	70	65	138	85
	(243,275)	(56,700)	(260,498)	(70,115)
Foreign exchange gain on U.S. denominated cash	3,821	—	3,683	—
Increase (decrease) in cash and cash equivalents	44,465	(37,282)	33,658	7,216
Cash and cash equivalents, beginning of period	4,038	44,793	14,845	295
Cash and cash equivalents, end of period	\$ 48,503	\$ 7,511	\$ 48,503	\$ 7,511

Supplemental cash flow information (note 17)

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)

Three-month and six-month periods ended June 30, 2006
(Unaudited)

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT" or "REIT") is an open-ended unincorporated investment trust governed by the laws of the province of Ontario and was created pursuant to the Declaration of Trust dated July 7, 2003 when one REIT unit was issued for cash. Chartwell REIT began operations on November 14, 2003 for the purpose of owning, operating and managing retirement homes and long-term care facilities in Canada and the United States.

Chartwell REIT owns 100% of the outstanding Trust Units and Series 1 Trust Notes of CSH Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, which in turn owns 100% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba. Class B Units of Master LP are held by non-controlling investors.

The assets of Chartwell REIT are held by Master LP, which carries out the business of the REIT. Its activities are financed through equity contributed by CSH Trust, Class B Unitholders and third party debt, including mortgages.

The United States assets of Chartwell REIT are also owned indirectly by Master LP, through its wholly-owned United States subsidiary corporation, CSH Master Care USA Inc.

The Trust indenture for CSH Trust requires that it distribute amounts sufficient to ensure that it will not be liable to pay income taxes in any given year. The Trustees of the REIT are required to make cash distributions to all REIT unitholders equal to, on an annual basis, the greater of 80% of the Distributable income and its taxable income.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and are consistent with those policies and methods of application as disclosed in the audited consolidated financial statements prepared as at and for the year ended December 31, 2005.

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to annual financial statements and should be read in conjunction with the audited 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)

Three-month and six-month periods ended June 30, 2006
(Unaudited)

1. Significant accounting policies (continued):

(b) Change in accounting policy:

Effective December 31, 2005, Chartwell REIT changed its accounting policy for recognition of fee revenue from development services. Fee revenue is recognized on a project-specific basis using the percentage of completion method based upon the level of effort expected to achieve predetermined project milestones. Under the new policy, fee revenue is recognized upon completion of submissions to the Municipality for a building permit. Previously, Chartwell REIT recognized fee revenue from development services upon obtaining relevant permits or commencement of construction activities.

Chartwell REIT adopted this change in accounting policy on a retroactive basis. There was no material effect on the net loss for the three-month and six-month periods ended June 30, 2005 resulting from this change.

(c) Correction of an error:

At June 30, 2006, Chartwell REIT, through a holding company, holds variable interests in seven operating companies which are Variable Interest Entities ("VIEs"). These entities are structured to lease the respective facilities from Chartwell REIT and an entity controlled by Le Groupe Melior ("Melior"). These facilities are proportionately consolidated with a cost of \$59,718 and accumulated amortization of \$2,786 as at June 30, 2006. Under the terms of the operating lease, Chartwell REIT and an entity controlled by Melior will receive the net revenue of the facilities less \$1 per facility.

Previously Chartwell REIT accounted for its 50% interest in these entities using the proportionate consolidation method of accounting. Chartwell REIT is not considered to be the primary beneficiary and should have accounted for its interest in these entities using the equity method of accounting, effective January 1, 2005.

The correction of this error has resulted in the reduction of total assets by \$941 at June 30, 2006 (December 31, 2005 - \$1,047), with the corresponding reduction in liabilities. Both revenue and expenses for the three-month and six-month periods ended June 30, 2006 were reduced by \$1,724 (June 30, 2005 - \$1,552) and \$3,616 (June 30, 2005 - \$3,183), respectively.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

2. Acquisitions:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Assets				
Properties	\$ 207,356	\$ 48,975	\$ 223,805	\$ 75,703
Licenses	–	1,600	–	1,600
Resident contracts	25,944	4,873	29,105	8,821
Capital funding receivable	–	6,625	–	6,625
Other assets	–	200	–	200
	233,300	62,273	252,910	92,949
Liabilities				
Mortgages payable	4,830	17,233	16,541	22,237
Below-market resident contracts	2,326	–	2,326	–
	7,156	17,233	18,867	22,237
Net assets acquired	\$ 226,144	\$ 45,040	\$ 234,043	\$ 70,712
Settled by:				
Issuance of Class B Units of Master LP	\$ 2,624	\$ 2,295	\$ 2,624	\$ 16,188
Settlement of mezzanine loans receivable	–	7,017	2,758	11,093
Deferred consideration on acquisition of properties	520	–	520	–
Cash	223,000	35,728	228,141	43,431
	\$ 226,144	\$ 45,040	\$ 234,043	\$ 70,712

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

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 years.

Included in acquisitions for the six-month period ended June 30, 2006 is one facility (2005 - three facilities) acquired from Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management, for a purchase price of \$6,955 (2005 - \$26,078).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

3. Properties:

June 30, 2006	Cost	Accumulated depreciation	Net book value
Land	\$ 127,442	\$ –	\$ 127,442
Buildings	1,040,464	37,737	1,002,727
Furniture, fixtures and equipment	40,853	11,372	29,481
	1,208,759	49,109	1,159,650
Land held for development	12,017	–	12,017
	\$ 1,220,776	\$ 49,109	\$ 1,171,667

December 31, 2005	Cost	Accumulated depreciation	Net book value
Land	\$ 107,548	\$ –	\$ 107,548
Buildings	841,831	26,468	815,363
Furniture, fixtures and equipment	32,513	7,877	24,636
	981,892	34,345	947,547
Land held for development	9,697	–	9,697
	\$ 991,589	\$ 34,345	\$ 957,244

At June 30, 2006, building costs included \$7,153 (December 31, 2005 - \$2,883) related to the development of additional units at existing facilities.

During the three months ended June 30, 2006, Chartwell REIT disposed of land held for development with a carrying value of \$527. This land was sold at an appraised value to an entity partially owned by Spectrum and Melior. A gain of \$100 was recognized on this sale.

Effective March 31, 2005, Chartwell REIT recorded a write-down in the carrying value of one property in the amount of \$817.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

4. Mezzanine loans receivable:

	June 30, 2006	December 31, 2005
Spectrum	\$ 46,006	\$ 38,423
Melior	37,564	31,859
Other	11,051	7,154
	<u>\$ 94,621</u>	<u>\$ 77,436</u>

(a) Spectrum:

In addition to providing development services, operations management services and financing services in relation to arranging construction loans, in accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT provides mezzanine loans to Spectrum. 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 the annualized Chartwell REIT's 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 June 30, 2006 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 35 (December 31, 2005 - 29) 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)

Three-month and six-month periods ended June 30, 2006
(Unaudited)

4. Mezzanine loans receivable (continued):

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.

(b) Melior and Spectrum's joint venture partners:

In addition to providing development services, structuring services, operations management services and financing services in relation to arranging construction loans, Chartwell REIT has advanced 21 mezzanine loans totalling \$48,615 (December 31, 2005 - \$39,013) to six of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling \$37,564 at June 30, 2006 (December 31, 2005 - \$31,859), advanced to entities controlled by Melior. These loans bear interest at rates ranging from 10% to 14% per annum payable monthly and are secured by second charges or pledges of the Borrowers' interests over 19 development projects.

Each mezzanine loan matures on the earlier 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.

Chartwell REIT has the first right to purchase the Borrowers' interests in these projects at fair market value upon properties reaching a stabilized occupancy.

In addition, the Borrowers of 12 of these mezzanine loans can obligate Chartwell REIT to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

5. Management contracts, resident contracts and customer relationships:

June 30, 2006	Cost	Accumulated amortization	Net book value
Management contracts	\$ 7,860	\$ 2,787	\$ 5,073
Resident contracts	127,653	61,531	66,122
Customer relationships	3,956	2,103	1,853
	<u>\$ 139,469</u>	<u>\$ 66,421</u>	<u>\$ 73,048</u>

December 31, 2005	Cost	Accumulated amortization	Net book value
Management contracts	\$ 8,563	\$ 2,308	\$ 6,255
Resident contracts	99,234	43,732	55,502
Customer relationships	4,279	1,828	2,451
	<u>\$ 112,076</u>	<u>\$ 47,868</u>	<u>\$ 64,208</u>

Management contracts and customer relationships represent the value of contractual agreements to provide management and advisory services for the operations of seniors' residences owned by third parties. Resident contracts represent in-place resident contracts valued at acquisition.

During the six-month period ended June 30, 2006, the termination of three management contracts resulted in a write-down of \$270 and \$170 in the carrying value of management contracts and customer relationships, respectively.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

6. Other assets:

	June 30, 2006	December 31, 2005
Accounts receivable	\$ 12,523	\$ 7,405
Deferred financing costs, net of accumulated amortization of \$5,180 (December 31, 2005 - \$3,987)	8,904	7,410
Capital funding receivable	9,022	9,160
Deposits on acquisitions	2,611	664
Long-term investments	4,125	4,232
Due from Spectrum (note 13(a))	2,358	2,664
Prepaid expenses and deposits	7,713	7,076
Deposits in escrow	4,191	2,185
Other	2,902	2,559
	\$ 54,349	\$ 43,355

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
2006	\$ 8,419	\$ 44,740	\$ 53,159
2007	16,145	27,955	44,100
2008	15,247	51,597	66,844
2009	12,417	117,522	129,939
2010	11,292	44,939	56,231
	63,520	286,753	350,273
Thereafter	58,552	369,723	428,275
	\$ 122,072	\$ 656,476	\$ 778,548

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

7. Mortgages payable (continued):

	June 30, 2006	December 31, 2005
Mortgages at fixed rates	\$750,618	\$590,777
Interest rates	3.50% - 10.00%	3.29% - 10.00%
Weighted average rate	5.41%	5.22%
Mortgages at variable rates	\$27,930	\$22,877
Interest rates	Prime plus 0.5% - prime plus 3.00%	Prime plus 0.5% - prime plus 3.00%
Weighted average rate	6.76%	5.03%

Interest on mortgages payable amounted to \$9,257 and \$17,797 for the three-month and six-month periods ended June 30, 2006, respectively (2005 - \$5,935 and \$10,769, respectively), excluding the amortization of deferred financing costs.

8. Loans payable:

	June 30, 2006	December 31, 2005
Secured revolving operating facility (a)	\$ -	\$ 21,000
Secured bridge loans	-	8,450
Redemption value of non-voting Series A preferred interests of CSH Master Care LLC (b)	1,921	2,324
Other loans	564	250
	\$ 2,485	\$ 32,024

(a) Chartwell REIT has arranged for a \$90,000 secured revolving operating facility. At June 30, 2006, the maximum available borrowing capacity was \$71,558 based on the security provided.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific facilities. The credit facility is due on June 27, 2007. The term may be extended with the consent of the lenders for an additional 364-day period.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

8. Loans payable (continued):

(b) Series A preferred interests become redeemable at the option of the holders at specific points in time over three years ending September 30, 2008. The redemption price is payable in Canadian dollars and will be based on the closing price of Chartwell REIT Trust Units. Series A Interests receive monthly distributions equal to distributions on Chartwell REIT Trust Units, which are recorded as interest expense in the consolidated financial statements.

9. Accounts payable and other liabilities:

	June 30, 2006	December 31, 2005
Accounts payable and accrued liabilities	\$ 33,203	\$ 30,277
Below-market resident contracts, net of accumulated amortization of \$4,066 (December 31, 2005 - \$3,158)	3,240	1,817
Resident deposits	4,372	3,137
Deferred consideration on acquisition of properties	4,202	2,871
Deferred revenue	5,785	5,150
	\$ 50,802	\$ 43,252

Included in deferred consideration on acquisition of properties at June 30, 2006 are the following:

- (a) \$2,000 related to the acquisition of one property completed during 2004, which is due on the earlier of the property achieving certain operating results and September 14, 2006.
- (b) \$1,682 related to the acquisition of one property completed in 2003, which is due in 2007 (note 16(d)).
- (c) \$520 related to the acquisition of one property in 2006, which is due between the third and the seventh anniversary of the closing upon conversion of certain apartment units into seniors' housing units.

Deferred revenue relates to fees collected on certain development projects, which will be recorded as revenue over the estimated terms of Chartwell REIT's involvement in these projects.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

10. Non-controlling interest:

Non-controlling interest represents the interest of the holders of 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:

	June 30, 2006	December 31, 2005
Balance, beginning of period	\$ 52,448	\$ 40,279
Issuance of Class B Units of Master LP (note 2)	2,624	27,204
Non-controlling interest's share of loss for the period	(449)	(1,391)
Distributions on Class B Units of Master LP	(2,811)	(5,602)
Exchange of Class B Units of Master LP for Trust Units	(2,108)	(7,915)
Cumulative translation account	(180)	(127)
Balance, end of period	\$ 49,524	\$ 52,448

11. Unitholders' capital:

Chartwell REIT is authorized to issue unlimited Trust Units.

Trust Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Chartwell REIT, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

- (a) 90% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period ending immediately prior to the date on which the Units were surrendered for redemption; and
- (b) 100% of the "closing market price" on the principal market on which the Units are listed for trading on the Redemption Date.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

11. Unitholders' capital (continued):

The aggregate Redemption Price payable by Chartwell REIT in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed \$50,000 unless waived at the discretion of the REIT Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price payable in respect of Trust Units surrendered for redemption exceeds \$50,000 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell REIT.

The following units are issued and outstanding:

	Number of voting units	Amount
Units outstanding, January 1, 2006	49,218,102	\$ 539,780
May 9, 2006:		
Issuance of Trust Units pursuant to public offering	13,310,000	185,009
Trust Units issued pursuant to the Distribution Reinvestment Program	72,084	1,009
Trust Units issued on exchange for Class B Units of Master LP	209,339	2,108
Trust Units issued on dispositions of Long-Term Incentive Program Units under Subscription	6,250	83
Issue costs	–	(8,900)
Units outstanding, June 30, 2006	62,815,775	\$ 719,089

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

11. Unitholders' capital (continued):

	Number of voting units	Amount
Units outstanding, January 1, 2005	31,913,005	\$ 297,475
March 30, 2005:		
Units issued pursuant to secondary public offering	6,250,000	90,313
Trust Units issued pursuant to the Distribution Reinvestment Program	54,091	756
Trust Units issued in exchange for Class B Units of Master LP	48,943	583
Trust Units issued on dispositions of Long-Term Incentive Program	7,500	75
Issue costs	–	(5,113)
Units outstanding, June 30, 2005	38,273,539	\$ 384,089

12. Loss per unit calculation:

	Three-month periods ended June 30,				Six-month periods ended June 30,			
	2006		2005		2006		2005	
	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount
	(Unaudited)				(Unaudited)			
Loss for the period	57,085,062	\$ (3,244)	38,230,338	\$ (66)	53,271,862	\$ (4,887)	35,129,983	\$ (3,403)
Long-Term Incentive Program Units under Subscription	1,474,437	–	857,692	–	1,474,717	–	858,840	–
	58,559,499	\$ (3,244)	39,088,030	\$ (66)	54,746,579	\$ (4,887)	35,988,823	\$ (3,403)
Loss per unit - basic and diluted		\$ (0.057)		\$ (0.002)		\$ (0.092)		\$ (0.097)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

13. Related party transactions and balances:

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

(a) Spectrum:

	Three-month periods ended		Six-month periods ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Mezzanine loan interest (note 4(a))	\$ 1,219	\$ 1,345	\$ 2,406	\$ 2,814
Development fees	986	990	2,904	1,735
Operations management fees	149	112	278	255
Financing fees	216	200	387	321
Other fees	33	–	584	–

Other assets as of June 30, 2006 include \$2,358 (December 31, 2005 - \$2,664) due from Spectrum. Subsequent to June 30, 2006, \$1,564 of this balance was paid.

Included in distributions payable at June 30, 2006 is \$241 (December 31, 2005 - \$205) due to Spectrum.

Included in development fees for the six-month period ended June 30, 2006 are \$1,001 of fees resulting from increases in the projected costs of the underlying projects and revisions to the development fees charged to conform with the requirements of the Development Agreement between Spectrum and Chartwell REIT.

Included in other fees for the six-month period ended June 30, 2006 are fees of \$500 charged to Spectrum for assistance in the raising of \$17,500 of equity in December 2005.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

13. Related party transactions and balances (continued):

(b) Melior:

	Three-month periods ended		Six-month periods ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Mezzanine loan interest (note 4(a))	\$ 1,019	\$ 546	\$ 1,933	\$ 802
Development fees	537	561	1,100	714
Referral and due diligence fees paid (note 16(g))	1,331	—	1,674	—

At June 30, 2006, accounts receivable and other assets includes \$1,532 (December 31, 2005 - \$1,693) due from Melior and deferred revenue includes \$3,620 (December 31, 2005 - \$4,592) received from Melior. Subsequent to June 30, 2006, \$540 of amounts due from Melior were collected.

- (c) Included in accounts receivable is \$117 (December 31, 2005 - \$117) due from an officer of Chartwell REIT related to the previous sale of a facility to the REIT.
- (d) Included in mortgages payable at June 30, 2006 is a vendor-take back mortgage of \$2,845 due to an officer of Chartwell REIT. During the three-month and six-month periods ended June 30, 2006, the REIT incurred interest expense of \$49 and \$104, respectively, related to this mortgage.

Related party 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)

Three-month and six-month periods ended June 30, 2006
(Unaudited)

14. Segmented information:

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

Effective January 1, 2005, Chartwell REIT corrected the reporting of its interests in seven VIEs (note 1(c)). As a result, revenues and expenses for the retirement home segment were reduced for the three months ending June 30, 2005 by \$2,376 and \$1,552, respectively, and for the six months ending June 30, 2005 by \$4,629 and \$3,183, respectively.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

14. Segmented information (continued):

The accounting policies of each of the segments are the same as those described for Chartwell REIT. Certain general, administrative 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.

	Three-month period ended June 30, 2006				
	Retirement operations	Long-term care operations	Management operations	United States operations	Total
Revenue	\$ 43,058	\$ 19,384	\$ 3,428	\$ 12,112	\$ 77,982
Direct operating expenses	(26,512)	(16,845)	(999)	(7,159)	(51,515)
Income before the undernoted	16,546	2,539	2,429	4,953	26,467
Interest expense	(6,808)	(998)	–	(2,873)	(10,679)
Income before the undernoted	9,738	1,541	2,429	2,080	15,788
Depreciation and amortization	(12,747)	(1,142)	(439)	(3,810)	(18,138)
Gain on sale of assets	100	–	–	–	100
	<u>\$ (2,909)</u>	<u>\$ 399</u>	<u>\$ 1,990</u>	<u>\$ (1,730)</u>	(2,250)
Items not allocated to operating segments:					
Mezzanine loan interest and other income					3,906
General, administrative and trust					(4,242)
Foreign exchange losses					(950)
Non-controlling interest					292
Loss for the period					\$ (3,244)
Expenditures for assets by segment:					
Acquisitions - properties, licenses and resident contracts	\$ 55,749	\$ –	\$ –	\$ 177,551	\$ 233,300
Capital improvements	7,381	334	–	231	7,946

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

14. Segmented information (continued):

Three-month period ended June 30, 2005 (restated)				
	Retirement operations	Long-term care operations	Management operations	Total
Revenue	\$ 31,526	\$ 12,286	\$ 2,355	\$ 46,167
Direct operating expenses	(18,546)	(10,621)	(1,071)	(30,238)
Income before the undernoted	12,980	1,665	1,284	15,929
Interest expense	(5,047)	(734)	–	(5,781)
Income before the undernoted	7,933	931	1,284	10,148
Depreciation and amortization	(9,947)	(625)	(431)	(11,003)
Gain on sale of assets	103	–	–	103
	<u>\$ (1,911)</u>	<u>\$ 306</u>	<u>\$ 853</u>	(752)
Items not allocated to operating segments:				
Mezzanine loan interest and other income				3,148
General, administrative and trust				(2,451)
Non-controlling interest				(11)
Loss for the period				\$ (66)
Expenditures for assets by segment:				
Acquisitions - properties, licenses and resident contracts	\$ 41,919	\$ 13,004	\$ –	\$ 54,923
Capital improvements	6,330	2,018	–	8,348

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

14. Segmented information (continued):

	Six-month period ended June 30, 2006				Total
	Retirement operations	Long-term care operations	Management operations	United States operations	
Revenue	\$ 83,818	\$ 36,816	\$ 7,402	\$ 19,608	\$ 147,644
Direct operating expenses	(52,311)	(31,836)	(1,998)	(11,470)	(97,615)
Income before the undernoted	31,507	4,980	5,404	8,138	50,029
Interest expense	(13,124)	(1,961)	–	(4,792)	(19,877)
Income before the undernoted	18,383	3,019	5,404	3,346	30,152
Depreciation and amortization	(24,688)	(2,051)	(1,039)	(6,286)	(34,064)
Write-down in carrying value of assets	–	–	(440)	–	(440)
Gain on sale of assets	100	–	–	–	100
	<u>\$ (6,205)</u>	<u>\$ 968</u>	<u>\$ 3,925</u>	<u>\$ (2,940)</u>	(4,252)
Items not allocated to operating segments:					
Mezzanine loan interest and other income					7,413
General, administrative and trust					(7,599)
Foreign exchange losses					(898)
Non-controlling interest					449
Loss for the period					\$ (4,887)
Expenditures for assets by segment:					
Acquisitions - properties, licenses and resident contracts	\$ 62,704	\$ 12,655	\$ –	\$ 177,551	\$ 252,910
Capital improvements	9,382	628	–	292	10,302

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

14. Segmented information (continued):

	Six-month period ended June 30, 2005 (restated)			
	Retirement operations	Long-term care operations	Management operations	Total
Revenue	\$ 60,481	\$ 22,517	\$ 4,003	\$ 87,001
Direct operating expenses	(36,202)	(19,765)	(2,134)	(58,101)
Income before the undernoted	24,279	2,752	1,869	28,900
Interest expense	(10,177)	(1,288)	–	(11,465)
Income before the undernoted	14,102	1,464	1,869	17,435
Depreciation and amortization	(19,239)	(1,652)	(881)	(21,772)
Gain on sale of assets	103	–	–	103
Write-down of carrying value of assets	(817)	–	–	(817)
	<u>\$ (5,851)</u>	<u>\$ (188)</u>	<u>\$ 988</u>	(5,051)
Items not allocated to operating segments:				
Mezzanine loan interest and other income				5,661
General, administrative and trust				(4,450)
Non-controlling interest				437
Loss for the period				\$ (3,403)
Expenditures for assets by segment:				
Acquisitions - properties, licenses and resident contracts	\$ 72,595	\$ 13,004	\$ –	\$ 85,599
Capital improvements	8,051	2,244	–	10,295

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

14. Segmented information (continued):

As at June 30, 2006						
	Retirement operations	Long-term care operations	Management operations	United States operations	Other	Total
Total assets	\$ 855,129	\$ 118,550	\$ 19,773	\$ 340,168	\$ 143,124	\$ 1,476,744
Total liabilities	491,580	80,245	5,785	254,225	6,184	838,019

As at December 31, 2005						
	Retirement operations	Long-term care operations	Management operations	United States operations	Other	Total
Total assets	\$ 791,023	\$ 114,709	\$ 21,320	\$ 172,311	\$ 92,281	\$ 1,191,644
Total liabilities	487,481	71,278	5,150	125,021	4,981	693,911

15. Joint venture operations:

The following amounts included in the consolidated financial statements are Chartwell REIT's proportionate interest in its joint ventures:

	June 30, 2006	December 31, 2005
Assets	\$ 429,168	\$ 259,016
Liabilities	304,503	174,531

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

15. Joint venture operations (continued):

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
	(Unaudited - restated)		(Unaudited - restated)	
Revenue	\$ 18,702	\$ 170	\$ 26,254	\$ 663
Expenses	20,503	1,507	29,769	2,943
Depreciation and amortization included in expense above	4,168	731	8,297	1,466
Cash provided by (used in):				
Operating	5,658	618	18,121	819
Financing	159,225	3,848	157,253	4,055
Investing	(164,331)	(365)	(175,699)	(490)

At June 30, 2006, Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to \$304,503, including \$237,145 relating to Chartwell REIT's joint venture partners in the United States. The total assets of these joint ventures are available to satisfy these liabilities.

16. 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 vary from \$1,053 to \$1,469 over the term of the lease.

(b) Acquisitions:

As at June 30, 2006, Chartwell REIT is committed to acquire varying interests in 10 seniors' housing facilities for a purchase price of approximately \$101,741.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

16. Commitments and contingencies (continued):

(c) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As of June 30, 2006, the remaining commitments under these contracts amounted to approximately \$22,011.

(d) 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. At June 30, 2006, \$1,682 of this amount was payable and recorded as an adjustment to the purchase price.
- (ii) Spectrum is entitled to receive additional consideration of \$900 with respect to one property sold to Chartwell REIT in 2006, contingent upon the property achieving certain earnings targets within three years following the close on the acquisition.
- (iii) 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 first \$1,000 instalment was paid in 2005 and recorded as an adjustment to the purchase price.
- (iv) 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.
- (v) The vendors of two properties are entitled to receive an additional \$7,008 (U.S. \$6,000), 50% payable by Chartwell REIT and 50% payable by Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on invested equity, measured quarterly. At June 30, 2006, Chartwell REIT's obligation with respect to the remaining combined consideration was \$2,380 (U.S. \$2,135).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

16. Commitments and contingencies (continued):

Any payments made by Chartwell REIT in respect of contingent consideration 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.

(e) Mezzanine loans receivable:

As at June 30, 2006, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of \$24,710 (note 4).

(f) Letters of credit:

As of June 30, 2006, Chartwell REIT was contingently liable for letters of credit in the amount of \$904.

(g) Other contracts:

(i) Chartwell REIT's properties in the Province of Quebec are managed by CM Management Limited Partnership ("CM"), a joint venture between Chartwell REIT and Melior. The properties' management agreements are for a term of five years and call for payment of management fees between 4% and 5% of gross revenues. Chartwell REIT owns 50% interest in CM.

(ii) Chartwell REIT's properties in the United States are managed by Horizon Bay Chartwell LLC. The properties' management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenues plus incentive fee based on certain operating targets. Chartwell REIT owns 50% interest in Horizon Bay Chartwell LLC.

(iii) As of June 30, 2006, Chartwell REIT has entered into fixed gas contracts with a third-party gas supplier for \$277 to provide gas to its facilities.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

16. Commitments and contingencies (continued):

(iv) In accordance with contracts between Chartwell REIT and Melior, Chartwell REIT has committed to the following:

(a) For a period of 10 years, expiring February 5, 2016, payment of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell REIT in the Province of Quebec whether or not such acquisition is introduced, presented or referred by Melior and 2.0% of the purchase amount of each and every acquisition by Chartwell REIT of properties in Canada, excluding the Province of Quebec, which is introduced, presented or referred by Melior.

(b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the lesser of \$50,000 and 3% of total budgeted development costs for the related project.

(c) For as long as Chartwell REIT and Melior are co-owners of at least one property in the Province of Quebec, payment of 25% of net increased economic value created on Chartwell REIT's wholly owned internal growth projects in the Province of Quebec, as determined by independent appraisals.

(h) Litigation and claims:

In the ordinary course of business activities, Chartwell REIT may be contingently liable for litigation and claims from, among others, residents, business partners and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of Chartwell REIT.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

17. Supplemental cash flow information:

- (a) At June 30, 2006, distributions of \$6,184, including \$479 applicable to non-controlling interests (December 31, 2005 - \$4,981, including \$482 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.
- (b) The acquisition of net assets in the three-month and six-month periods ended June 30, 2006 (note 2) was partially financed through the issuance of \$2,624 and \$2,624 of Class B Units of Master LP, respectively (three-month and six-month periods ended June 30, 2005 - \$2,295 and \$16,188, respectively), and the discharge of nil and \$2,758 of mezzanine loans receivable, respectively (three-month and six-month periods ended June 30, 2005 - \$7,017 and \$11,093, respectively). These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.
- (c) During the three-month and six-month periods ended June 30, 2006, distributions of \$391 and \$783, respectively (three-month and six-month periods ended June 30, 2005 - \$228 and \$448, respectively), and interest of \$159 and \$325, respectively (three-month and six-month periods ended June 30, 2005 - \$58 and \$146, respectively), 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.
- (d) During the three-month and six-month periods ended June 30, 2006, Trust Units valued at \$525 and \$1,009, respectively (three-month and six-month periods ended June 30, 2005 - \$392 and \$756), were issued pursuant to the DRIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.
- (e) During the three-month and six-month periods ended June 30, 2006, interest paid amounted to \$8,533 and \$17,590, respectively (three-month and six-month periods ended June 30, 2005 - \$5,183 and \$11,307, respectively).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

18. 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, changes in foreign currency exchange 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) Foreign currency exchange risk:

Foreign currency exchange risk results from changes in exchange rates between Chartwell REIT's reporting currency (Canadian dollar) and the U.S. dollar. At June 30, 2006, 23% (December 31, 2005 - 14%) of the Trust's assets were held in the United States and for the three-month and six-month periods ended June 30, 2006, 15% and 13% of its revenue was generated in the United States.

Chartwell REIT may use derivative financial instruments to hedge its foreign currency exposures. Chartwell REIT's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the financial statements. The U.S. operations are primarily funded through U.S. dollar debt which serves to mitigate foreign exchange risk.

(b) 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 June 30, 2006, \$30,415 (December 31, 2005 - \$54,901) of Chartwell REIT's mortgages and loans payable, excluding hedged loans 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

18. Financial instruments and financial risk management (continued):

To reduce the interest rate cash flow risk on one 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% until the mortgage matures in February 2014. 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 June 30, 2006 is a negative value of \$474.

(c) Credit and collection risk:

Chartwell REIT has four significant categories of revenue: mezzanine borrowers, governments, resident clients and retirement homes and long-term care facilities to which it provides management services. Chartwell REIT is exposed to credit risk in the collection of its mezzanine loans receivable and the normal credit risk from residents. Government customers are composed of various provincial governments. Collection risk associated with these residents relates to their ability to potentially challenge certain charges. Chartwell REIT provides management and other services to the borrowers of mezzanine loans and through such activities, monitors the status of the underlying development projects securing these loans for signs of possible impairment.

(d) 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 June 30, 2006 were \$772,201 as compared to their carrying values of \$767,821.

As of June 30, 2006, the fair values of mezzanine loans receivable and capital funding receivable and loans payable approximate their carrying values.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Three-month and six-month periods ended June 30, 2006
(Unaudited)

19. Guarantees:

At June 30, 2006, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of \$22,850. As at June 30, 2006, \$17,201 of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for \$3,865. Spectrum has indemnified Chartwell REIT for these guarantees and pays an annual guarantee fee.

At June 30, 2006, Chartwell REIT remains as a guarantor of the debt of one managed property with the balance of \$5,429. The borrower has indemnified Chartwell for this guarantee. At June 30, 2006, Chartwell REIT and its joint venture partners provided joint and several guarantees of the debt of the co-owned properties. Effectively, Chartwell REIT guarantees its partners' 50% share of this debt to a maximum amount of \$45,103 of which \$43,980 was outstanding at June 30, 2006. In the opinion of management, at June 30, 2006, the value of each of these properties exceeds the respective total amount of debt outstanding.

20. Comparative figures:

Certain 2005 figures have been reclassified to conform with the financial statement presentation adopted in 2006.

21. Subsequent events:

Subsequent to June 30, 2006, Chartwell REIT advanced mezzanine loans of \$2,584 to Spectrum and Melior.

Subsequent to June 30, 2006, Chartwell REIT completed acquisitions of 3 seniors' housing facilities in two separate transactions for a purchase price of \$51,598.