Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2006 and 2005

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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, 2006 and 2005 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

March 7, 2007

CHARTWELL SENIORS HOUSING
REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31, 2006 and 2005

	2006	2005
Assets		
Properties (note 3)	$ 1,510,209	$ 957,244
Mezzanine loans receivable (note 4)	101,290	77,436
Management contracts, resident contracts and customer relationships (note 5)	78,903	64,208
Cash and cash equivalents	125,939	14,845
Other assets (note 6)	112,266	43,355
Licenses	16,760	11,935
Goodwill (note 7)	32,383	22,621
	$ 1,977,750	$ 1,191,644
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 8)	$ 987,046	$ 613,654
Convertible debentures (note 9)	120,115	–
Loans payable (note 10)	2,303	32,024
Accounts payable and other liabilities (note 11)	98,995	43,252
Distributions payable	7,335	4,981
	1,215,794	693,911
Non-controlling interest (note 12)	54,453	52,448
Unitholders' equity	707,503	445,285
Commitments and contingencies (notes 18 and 19)		
Guarantees (note 23)		
Subsequent events (notes 15, 16(a) and 24)		
	$ 1,977,750	$ 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)

Years ended December 31, 2006 and 2005

	2006	2005
Revenue:		
Resident	$ 321,016	$ 203,345
Mezzanine loan interest (notes 4 and 16(a) and (b))	10,361	7,859
Fees (note 16(a), (b) and (c))	12,487	9,148
Bank interest and other	6,711	4,275
	350,575	224,627
Expenses:		
Direct operating	226,066	143,220
General, administrative and trust	16,818	10,181
	242,884	153,401
	107,691	71,226
Interest expense	47,043	27,446
Foreign exchange loss and losses on derivative financial instruments	126	1,759
	47,169	29,205
	60,522	42,021
Depreciation of properties	33,095	21,314
Amortization of management contracts, resident contracts and customer relationships	42,915	29,618
Write-down in carrying value of assets (notes 3 and 5)	858	4,253
	76,868	55,185
Loss before the undernoted	(16,346)	(13,164)
Gain on sale of assets (note 3)	396	103
Non-controlling interest (note 12)	1,252	1,391
Loss for the year	$ (14,698)	$ (11,670)
Loss per unit:		
Basic and diluted (note 14)	$ (0.248)	$ (0.286)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2006 and 2005

	Units issued, net (note 13)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Cumulative translation account	Distributions	Convertible debentures	Total
Unitholders' equity, January 1, 2005	$ 297,475	$ 9,176	$ (7,671)	$ (6,951)	$ –	$ (32,734)	$ –	$ 259,295
Loss for the year	–	–	–	(11,670)	–	–	–	(11,670)
Distributions to unitholders	–	–	–	–	–	(44,856)	–	(44,856)
Issuance of Trust Units pursuant to public offering	245,353	–	–	–	–	–	–	245,353
Issuance of Trust Units under the Distribution Reinvestment Program	1,664	–	–	–	–	–	–	1,664
Trust Units issued on exchange of Class B Units of Chartwell Master LP	7,915	–	–	–	–	–	–	7,915
Trust Units issued under the Long-Term Incentive Program	–	10,149	(9,715)	–	–	–	–	434
Deposits received under Long-Term Incentive Program	–	–	194	–	–	–	–	194
Disposition of Long-Term Incentive Program Units under Subscription (note 15)	187	(187)	172	–	–	–	–	172
Issue costs	(12,814)	–	–	–	–	–	–	(12,814)
Interest on instalment loan receivable	–	–	(386)	–	–	–	–	(386)
Distributions applied against instalment loan receivable	–	–	1,015	–	–	–	–	1,015
Cumulative translation account	–	–	–	–	(1,031)	–	–	(1,031)
Unitholders' equity, December 31, 2005	539,780	19,138	(16,391)	(18,621)	(1,031)	(77,590)	–	445,285
Loss for the year	–	–	–	(14,698)	–	–	–	(14,698)
Distributions to unitholders	–	–	–	–	–	(65,378)	–	(65,378)
Issuance of Trust Units pursuant to public and private offerings	342,509	–	–	–	–	–	–	342,509
Issuance of 6.0% Convertible Debentures	–	–	–	–	–	–	4,954	4,954
Issuance of Trust Units under the Distribution Reinvestment Program	2,476	–	–	–	–	–	–	2,476
Trust Units issued on exchange of Class B Units of Chartwell Master LP	2,233	–	–	–	–	–	–	2,233
Trust Units issued under the Long-Term Incentive Program	–	9,415	(9,039)	–	–	–	–	376
Deposits received under Long-Term Incentive Program	–	–	220	–	–	–	–	220
Disposition of Long-Term Incentive Program Units under Subscription (note 15)	867	(886)	818	–	–	–	–	799
Issue costs	(13,700)	–	–	–	–	–	(240)	(13,940)
Interest on instalment loan receivable	–	–	(799)	–	–	–	–	(799)
Distributions applied against instalment loan receivable	–	–	1,848	–	–	–	–	1,848
Cumulative translation account	–	–	–	–	1,618	–	–	1,618
Unitholders' equity, December 31, 2006	$ 874,165	$ 27,667	$ (23,343)	$ (33,319)	$ 587	$ (142,968)	$ 4,714	$ 707,503

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (14,698)	$ (11,670)
Items not affecting cash:		
Depreciation and amortization	76,010	50,932
Write-down in carrying value of assets	858	4,253
Gain on sale of assets	(396)	(103)
Amortization of below-market resident contracts	(2,039)	(1,675)
Option benefit granted under the Long-Term Incentive Plan	376	434
Income from long-term investments	(22)	(9)
Unrealized loss (gain) on derivative financial instruments and foreign exchange gain (loss) on U.S. dollar denominated balances	(599)	325
Non-controlling interest	(1,252)	(1,391)
	58,238	41,096
Amortization of deferred financing expenses	3,194	1,956
Amortization of debt discounts	420	223
Change in non-cash operating items	2,326	14,062
	64,178	57,337
Financing activities:		
Proceeds from mortgage financing	336,925	204,148
Mortgage principal repayments	(68,165)	(70,590)
Proceeds from loans payable	40	47,084
Repayment of loans payable	(29,450)	(58,902)
6.0% convertible debentures issued, net of issue costs	120,313	–
Deferred financing costs	(8,091)	(2,755)
Trust Units issued	342,509	245,353
Trust Unit issue costs	(13,700)	(12,814)
Distributions paid	(66,632)	(45,182)
Distributions paid to non-controlling interest unitholders	(5,795)	(5,724)
Deposits received under Long-Term Incentive Plan and repayment of instalment loan receivable	1,038	366
	608,992	300,984
Investing activities:		
Acquisition of assets, net of debt assumed and units issued (note 2)	(471,163)	(273,726)
Payment of deferred consideration on acquisitions of properties	(2,871)	–
Additions to properties	(34,499)	(27,999)
Proceeds on sale of assets	1,907	1,748
Mezzanine loans receivable	(30,119)	(41,621)
Distributions on long-term investments	1,731	–
Restricted cash and deposits in escrow	(32,009)	(2,189)
Capital funding receivable	344	219
	(566,679)	(343,568)
Foreign exchange gain (loss) on U.S. dollar-denominated cash	4,603	(203)
Increase in cash and cash equivalents	111,094	14,550
Cash and cash equivalents, beginning of year	14,845	295
Cash and cash equivalents, end of year	$ 125,939	$ 14,845

Supplemental cash flow information (note 20)

See accompanying notes to consolidated financial statements.

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, as amended, 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 Canadian 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 lenders, 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 in accordance with Declaration of Trust, as amended, equal to, on an annual basis, the greater of 80% of the Distributable income and its taxable income (note 21).

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.

1. Significant accounting policies (continued):

(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 on an income property 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.

Land held for development included in properties, is carried at the lower of cost and estimated net realizable value. The cost of land includes pre-development expense, interest, realty taxes and other directly related expenses.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

(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.

1. Significant accounting policies (continued):

(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.

(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 amounts with their fair values.

(g) Long-term investments:

The long-term investments represent investments subject to significant influence and are accounted for under the equity method.

1. Significant accounting policies (continued):

(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:

(i) 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.

(ii) Fee revenue from operations management and asset management services is recognized when services are provided.

(iii) Fee revenue from development services is 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 fee revenue is recognized prior to completion of submissions to the municipality for a building permit (note 1(r)), at which point 65% of the estimated fee is recognized. The remaining portion of the fee revenue is recognized on a straight-line basis over the anticipated period of construction.

(iv) Fee revenue from financing and due diligence project management is recognized upon completion of the contracted services.

1. Significant accounting policies (continued):

(v) Chartwell REIT earns revenue from contracts which include multiple deliverables. Under the Development Agreement (note 4(a)) with Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management (note 4(a)), the REIT earns interest from mezzanine loans as well as development fees, financing fees and operations management fees. These deliverables are considered to be separable into individual units of accounting and are recorded as revenue in accordance with the policies referred to above.

Under the terms of various agreements with Le Groupe Melior ("Melior") and others, Chartwell REIT earns interest from mezzanine loans as well as mezzanine placement fees, structuring fees, development fees and service fees. Such agreements are evaluated on a case-by-case basis and where related services are separable into individual units of accounting, revenue is recorded in accordance with the policies referred to above. Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell REIT's lending activities and are recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are deferred and expensed over the same period.

(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, over the vesting period, 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 loss per unit.

1. Significant accounting policies (continued):

(k) Employee future benefits:

Chartwell REIT provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis.

Employees belonging to the Hospital Employees Union are entitled to severance pay and a payout of 40% of accumulated sick pay benefits after 10 years of service under certain conditions of employment termination or on retirement. Chartwell REIT accrues its obligations for these post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in operations in the current year.

(l) Income taxes:

Chartwell REIT is a Canadian unincorporated open-ended investment trust created by the Declaration of Trust, dated July 7, 2003, as amended. Chartwell REIT is 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 Chartwell REIT is not liable to pay Canadian income taxes. Therefore, no provision for income taxes is required on income earned by Chartwell REIT, its subsidiary Trusts and flow-through entities (note 21).

Chartwell REIT's corporate subsidiaries are subject to income taxes on their taxable income. Where applicable to subsidiaries of Chartwell REIT, income taxes are calculated using the asset and liability method of tax allocation accounting. Under the asset and liability method, income tax assets and liabilities are recorded to recognize future tax inflows and outflows arising from the settlement or recovery of assets and liabilities at carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities provided these benefits are more likely than not to be realized. Future income tax assets and liabilities and their related impact upon future income tax expense, as applicable, are determined based on tax laws and rates that are anticipated to apply in the period of realization.

1. Significant accounting policies (continued):

(m) Foreign currency:

Financial statements of Chartwell REIT's self-sustaining operations in the United States are translated into Canadian currency using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at rates in effect on the dates on which such items are recognized in income during the year.

Exchange gains and losses arising from the translation of the financial statements of Chartwell REIT's self-sustaining foreign operations are deferred and included in the cumulative translation account. When there is a reduction in Chartwell REIT's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation account is included in the determination of loss for the year.

(n) Derivative financial instruments:

(i) Interest rate derivatives:

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 may designate its interest rate swap agreements as hedges of the underlying debt. In such cases, 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 loss for the year in the year 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 loss for the year.

1. Significant accounting policies (continued):

(ii) Foreign exchange derivatives:

Chartwell REIT enters into option contracts in order to reduce the impact of foreign currency fluctuations on proposed investments in foreign assets which are not designated as hedges for accounting purposes. The realized losses associated with these contracts are recognized in net income.

Chartwell REIT enters into option contracts in order to reduce the impact of foreign currency fluctuations on cash flows from its foreign self-sustaining operations which do not qualify as hedges for accounting purposes. Unrealized and realized gains and losses associated with these contracts are recognized in net income.

(o) Convertible debentures:

Chartwell REIT accounts for convertible debentures by valuing the holders' option to convert to units and including such value as equity. The remaining value of the convertible debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

(p) Employee health benefits:

Chartwell REIT self-insures the cost of its employee health plan. Accruals for self-insured liabilities includes estimates of the costs of both reported and claims incurred but not reported and is based on estimates of loss based on assumptions made by management including consideration of actuarial projections. Chartwell REIT's self-insurance program is administered by an independent third party.

1. Significant accounting policies (continued):

(q) 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 year. In determining the estimated construction period over which to recognize development fees, the estimated mezzanine loan term over which fee revenue for services considered integral to the REIT's lending activities is to be recognized, the fair value of assets and liabilities of businesses it acquires, the fair values of financial instruments, the expected gains and losses of variable interest entities, the recoverability of mezzanine loans, 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.

(r) New accounting policies and changes in accounting policies:

(i) Revenue from development management activities:

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, no fee revenue is recognized prior to 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. As a result, the net loss was reduced by $601 ($0.015 per unit) for the year ended December 31, 2005.

1. Significant accounting policies (continued):

(ii) Asset retirement obligations:

Chartwell REIT has adopted The Canadian Institute of Chartered Accountants' ("CICA") Emerging Issues Committee ("EIC") Abstract 159, Conditional Asset Retirement Obligations ("EIC-159"). Under EIC-159, a liability should be recognized if the entity has sufficient information to reasonably estimate the fair value of the asset retirement obligation. Chartwell REIT has determined that it has a conditional asset retirement obligation relating to the removal of asbestos in many of its properties. Chartwell REIT has not recorded a liability related to the removal of asbestos because neither the timing nor the cost of such removal can be reasonably estimated at this time. The cost to remove any asbestos would vary significantly depending on the extent of renovation and the location of the asbestos, among other factors. The timing of asbestos removal is indeterminable as it is dependant on plans for the nature of future renovations, or on the inadvertent disturbance of asbestos, which cannot be foreseen.

(s) Variable interest entities:

In June 2003, the CICA issued Accounting Guideline 15 ("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 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG-15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or entitle it to receive a majority of the VIE's expected residual returns or both. AcG-15 is effective for all annual and interim periods, beginning on or after November 1, 2004 and was adopted by Chartwell REIT effective January 1, 2005.

(i) At December 31, 2006, Chartwell REIT holds variable interests in 18 (2005 - 10) VIEs. Chartwell REIT provides development services, mezzanine loans, structuring services and consulting services to these entities. These variable interest entities are expected to incur development costs of approximately $419,187 (2005 - $272,403).

1. Significant accounting policies (continued):

Although these entities were identified as VIEs, it was determined that Chartwell REIT is not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

As of December 31, 2006, Chartwell REIT had mezzanine loans receivable of $62,708 (2005 - $31,859) and deferred revenue of $6,289 (2005 - $4,592) from these entities. During 2006, Chartwell REIT earned $2,236 (2005 - $1,463) in fees and $5,316 (2005 - $2,482) in interest from these entities.

(ii) At December 31, 2006, Chartwell REIT, through a holding company, holds variable interests in seven VIEs. These entities are structured to lease the respective facilities from Chartwell REIT and an entity controlled by Melior. At December 31, 2006, Chartwell REIT recognizes its proportionate direct interest in these facilities which have a cost of $61,140 (2005 - $52,962) and accumulated amortization of $3,782 (2005 - $1,621). 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.

Chartwell REIT is not considered to be the primary beneficiary and is required to account for its interest in these entities using the equity method of accounting.

(iii) At December 31, 2006, Chartwell REIT through its acquisition of CPAC (Care) Holdings Inc., holds a variable interest in one variable interest entity. This entity was created to construct a condominium development project in Langley, British Columbia and is jointly owned by Chartwell REIT and a third party. At December 31, 2006, this investment is accounted for using the equity method of accounting with a cost of $978 (2005 - $2,654).

(t) Impact of new accounting pronouncements:

The CICA released Section 3855, Financial Instruments - Recognition and Measurement, Section 1530, Comprehensive Income and Section 3865, Hedges, which standards are applicable to Chartwell REIT commencing January 1, 2007. These standards provide more comprehensive guidance on how to recognize financial instruments on the balance sheet, how to measure them, and how to account for gains and losses and provide criteria for application of hedge accounting in the future. Chartwell REIT is finalizing its assessment of the impact of these new standards on the consolidated financial statements.

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

2. Acquisitions:

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

	2006	2005
Assets		
Properties	$ 534,204	$ 358,846
Management contracts, resident contracts and customer relationships	57,334	39,857
Capital funding receivable	4,184	6,625
Land held for development	7,757	9,299
Licenses	4,825	3,805
Goodwill	9,613	11,907
Other assets	–	4,872
	617,917	435,211
Liabilities		
Mortgages and loans payable	98,828	107,890
Below-market resident contracts	3,364	–
Working capital	–	4,752
	102,192	112,642
Net assets acquired	$ 515,725	$ 322,569
Settled by:		
Issuance of Class B Units of Chartwell Master LP (note 12)	$ 11,091	$ 27,204
Issuance of non-voting Series A preferred interests of CSH Master Care LLC (note 10)	–	2,147
Deferred consideration on acquisition of properties (note 11)	27,206	–
Discharge of mezzanine loans receivable (note 4)	6,265	19,492
Cash	471,163	273,726
	$ 515,725	$ 322,569

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

2. Acquisitions (continued):

During the year ended December 31, 2006, Chartwell REIT completed the acquisitions of 22 seniors housing facilities and a 50% interest in 15 other facilities for total net consideration of $515,725. Included in these acquisitions are the following:

(a) Acquisitions in the United States of America:

In 2006, Chartwell REIT acquired a 50% interest in 13 facilities and a 100% interest in one other facility in the United States for a total purchase price of $209,483.

(b) Other acquisitions:

Included in 2006 acquisitions are four facilities acquired from Spectrum and its joint venture partner for a total purchase price of $58,436.

During the year ended December 31, 2005, Chartwell REIT completed the acquisitions of 18 seniors housing facilities and a 50% interest in 10 other facilities and a condominium development project for total consideration of $322,569. Included in these acquisitions are the following:

(a) Acquisition of CPAC (Care) Holdings Inc. ("CPAC"):

On July 11, 2005, Chartwell REIT acquired all of the issued and outstanding shares and options of CPAC for consideration of $39,423 plus acquisition costs and $5,375 for the redemption of existing convertible debentures.

Chartwell REIT acquired a direct interest in CPAC's seven properties (including two projects under development) and two management contracts. It disposed of one seniors housing facility and one property under development to Spectrum at Chartwell REIT's cost, for $580 in cash and the provision of $3,286 in mezzanine loans receivable, and the assumption of $3,901 of debt. The net acquisition transaction has been recorded in these financial statements.

2. Acquisitions (continued):

(b) Acquisitions in the United States of America:

On August 19, 2005, Chartwell REIT acquired a 50% interest in six properties in the United States. The purchase price of $139,154 (U.S. $116,000) plus closing costs was satisfied in cash.

Effective October 1, 2005, Chartwell REIT acquired a 50% interest in two properties in the United States. The purchase price of $25,650 (U.S. $22,000) plus closing costs was satisfied by assumption of $13,291 (U.S. $11,400) in debt, issuance of 144,405 non-voting preferred Series A interests ("Series A Interests") in CSH Master Care LLC valued at $2,147 (U.S. $1,850) (note 10(b)) and the remaining balance in cash. These facilities were purchased from entities in which Chartwell REIT's joint venture partners in other projects held minority interest.

In addition, Chartwell REIT acquired a 50% interest in Horizon Bay Chartwell LLC for a purchase price of $3,719 (U.S. $3,100). As at December 31, 2005, this entity manages eight facilities in which Chartwell REIT holds a 50% interest.

(c) Other acquisitions:

Included in 2005 acquisitions are six facilities acquired from Spectrum and its joint venture partner for a purchase price of $71,984.

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.

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

3. Properties:

			2006			2005
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 162,465	$ –	$ 162,465	$ 107,548	$ –	$ 107,548
Buildings	1,344,944	52,575	1,292,369	841,831	26,468	815,363
Furniture, fixtures and equipment	53,143	15,917	37,226	32,513	7,877	24,636
	1,560,552	68,492	1,492,060	981,892	34,345	947,547
Land held for development	18,149	–	18,149	9,697	–	9,697
	$ 1,578,701	$ 68,492	$ 1,510,209	$ 991,589	$ 34,345	$ 957,244

At December 31, 2006, building costs included $3,222 (2005 - $2,883) related to the development of additional units at existing facilities.

During 2006, Chartwell REIT disposed of its 50% interest in the commercial section of a property and acquired the remaining 50% interest in the same property from its joint venture partner. A gain of $296 was recognized on sale proceeds of $1,280.

During 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.

During 2005, Chartwell REIT disposed of land held for development with carrying costs of $1,091. This land was sold to an entity partially owned by Spectrum and Melior. Closing costs amounted to $39 and no gain or loss was recognized on this sale.

During 2005, Chartwell REIT recorded a $4,253 impairment loss in respect of two properties. These two properties had been experiencing negative or marginal returns since acquisition and earned negative cash flows after debt servicing. The fair values have been determined using an income approach based on the overall capitalization rate method. Both assets are reported in the retirement operations segment.

During 2005, Chartwell REIT disposed of one property with a carrying value of $415. The property was sold to a third party and a gain of $103 was recognized on this sale.

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

4. Mezzanine loans receivable:

	2006	2005
Spectrum	$ 45,277	$ 38,423
Melior	42,182	31,859
Others	13,831	7,154
	$ 101,290	$ 77,436

(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. At December 31, 2006, mezzanine loans due from Spectrum amounted to $45,277 (2005 - $38,423). 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 December 31, 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 (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.

4. Mezzanine loans receivable (continued):

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.

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 other 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 25 (2005 - 17) mezzanine loans totalling $56,013 (2005 - $39,013) to 6 (2005 - 5) of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling $42,182 at December 31, 2006 (2005 - $31,859), advanced to the 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 23 (2005 - 15) 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.

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 13 (2005 - 9) of these mezzanine loans can obligate Chartwell REIT to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

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

5. Management contracts, resident contracts and customer relationships:

			2006			2005
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 6,277	$ 2,714	$ 3,563	$ 8,563	$ 2,308	$ 6,255
Resident contracts	150,668	76,642	74,026	99,234	43,732	55,502
Customer relationships	3,497	2,183	1,314	4,279	1,828	2,451
	$ 160,442	$ 81,539	$ 78,903	$ 112,076	$ 47,868	$ 64,208

Management contracts and customer relationships represent the acquired 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 year ended December 31, 2006, $115 (2005 - $252) and $34 (2005 - $162) of management contracts and customer relationships, respectively, were transferred to goodwill following the acquisition of the related seniors housing facilities by Chartwell REIT.

During the year ended December 31, 2006, the termination of seven management contracts resulted in a write-down of $539 and $319 in the carrying value of management contracts and customer relationships, respectively.

At December 31, 2005, cost and accumulated amortization of resident contracts were reduced by $4,027 for fully amortized resident contracts.

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

6. Other assets:

	2006	2005
Accounts receivable	$ 16,641	$ 7,405
Deferred financing costs, net of accumulated amortization of $7,086 (2005 - $3,987)	16,834	7,410
Capital funding receivable (a)	13,000	9,160
Deposits on acquisitions	11,683	664
Long-term investments (b)	2,518	4,232
Due from Spectrum (note 16(a))	2,515	2,664
Prepaid expenses and deposits	8,974	7,076
Deposits in escrow (c)	34,308	2,185
Other	5,793	2,559
	$ 112,266	$ 43,355

(a) 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 two long-term care facilities.

(b) Included in long-term investments is $978 relating to Chartwell REIT's net investment in a condominium development project in Langley, British Columbia (note 1(s)(iii)).

(c) Deposits in escrow include $27,967 held in trust for acquisition of a 49% interest in 25 leased properties (note 24(b)).

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

7. Goodwill:

	Retirement operations	Long-term care operations	Management operations	Total
December 31, 2004	$ 1,556	$ 1,825	$ 6,919	$ 10,300
Goodwill acquired during the year (note 2)	5,283	4,224	2,400	11,907
Management contracts and customer relationships transferred to goodwill (note 5)	–	414	–	414
December 31, 2005	6,839	6,463	9,319	22,621
Goodwill acquired during the year (note 2)	9,613	–	–	9,613
Management contracts and customer relationships transferred to goodwill (note 5)	149	–	–	149
December 31, 2006	$ 16,601	$ 6,463	$ 9,319	$ 32,383

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

8. 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
2007	$ 21,283	$ 71,604	$ 92,887
2008	20,968	50,563	71,531
2009	18,754	103,224	121,978
2010	17,896	57,413	75,309
2011	17,120	26,808	43,928
2012	16,113	69,051	85,164
2013	14,205	58,550	72,755
2014	11,349	35,286	46,635
2015	10,710	90,911	101,621
2016	6,666	178,656	185,322
Thereafter	26,055	63,861	89,916
	$ 181,119	$ 805,927	$ 987,046

	2006	2005
Mortgages at fixed rates	$908,483	$590,777
Interest rates	3.50% - 10.00%	3.29% - 10.00%
Weighted average rate	5.38%	5.22%
Mortgages at variable rates	$78,563	$22,877
Interest rates	Bankers' acceptance plus 0.65% - prime plus 3.00%	Prime plus 0.50% - prime plus 3.00%
Weighted average rate	5.58%	5.03%

Interest on mortgages payable amounted to $44,576 (2005 - $24,311), excluding the amortization of deferred financing costs.

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

9. Convertible debentures:

Convertible debentures	$ 125,000
Debt component	$ 120,115

On November 28, 2006, Chartwell REIT issued $125,000,000 of convertible, unsecured subordinated debentures ("6.0% Convertible Debentures") pursuant to a prospectus dated November 16, 2006 for proceeds of $120,313, net of issue costs. The 6.0% Convertible Debentures bear interest at an annual rate of 6.0% payable semi-annually in arrears on December 1 and June 1 in each year commencing December 1, 2006. Each 6.0% Convertible Debenture is convertible into freely-tradable Trust Units of Chartwell REIT at the option of the holder at any time prior to the earlier of December 1, 2011 and the last business day immediately preceding the date specified by Chartwell REIT for redemption of the 6.0% Convertible Debentures, at a conversion price of $15.60 per Trust Unit (the "Conversion Price"). Holders converting their 6.0% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 6.0% Convertible Debentures up to and including the last record date set by Chartwell REIT prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell REIT has suspended regular distributions, then a 6.0% Convertible Debentures holder, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion.

The 6.0% Convertible Debentures will not be redeemable by Chartwell REIT before December 1, 2009 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after December 1, 2009 but prior to December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell REIT in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the trust indenture relating to the debentures (the "Indenture") is not less than 125% of the Conversion Price. On or after December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell REIT in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

9. Convertible debentures (continued):

Subject to regulatory approval and provided no event of default has occurred, Chartwell REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the 6.0% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely-tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the Indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 6.0% Convertible Debentures trustee to satisfy the obligations to pay interest on the 6.0% Convertible Debentures.

As Chartwell REIT's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell REIT requires a variable number of Trust Units to be issued to satisfy the obligation, the 6.0% Convertible Debentures are recorded primarily as a liability. Chartwell REIT has recorded a liability of $120,046 and equity, which represents the holders' option to convert the 6.0% Convertible Debentures into Trust Units, of $4,954. Chartwell REIT incurred issue costs of $4,688, of which $240 has been recorded as a reduction of the equity component of the 6.0% Convertible Debentures. The remaining $4,448 of issue costs will be amortized to interest expense over the term of the 6.0% Convertible Debentures.

Interest expense is recorded on the liability component of the 6.0% Convertible Debentures as a charge to income and is calculated at the effective rate of approximately 7.0% with the difference between the coupon interest rate of 6.0% and the effective rate of 7.0% credited to the liability component of the 6.0% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 6.0% Convertible Debentures.

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

10. Loans payable:

	2006	2005
Secured revolving operating facility (a)	$ –	$ 21,000
Secured bridge loans	–	8,450
Non-voting Series A preferred interests of CSH Master Care LLC (b)	2,013	2,324
Other loans	290	250
	$ 2,303	$ 32,024

(a) Chartwell REIT has arranged for a $90,000 secured revolving operating facility. At December 31, 2006, the maximum available borrowing capacity was $75,737 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.

(b) On October 1, 2005, CSH Master Care LLC, a U.S. subsidiary of Chartwell REIT, issued 144,405 Series A Interests to the vendors of two seniors housing facilities acquired in the United States at $14.87 per unit interest. These vendors are joint venture partners of Chartwell REIT in other projects.

Series A 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 (note 13). Series A Interests are classified as a liability in these consolidated financial statements and are measured at their redemption value. Unrealized and realized gains and losses resulting from changes in the redemption value of Series A Interests are recorded in income. At December 31, 2006, the redemption price of Series A Interests was $13.94 (2005 - $16.00) per unit interest; consequently, a gain of $298 (2005 - loss of $163) was recorded in these consolidated financial statements. Series A Interests receive monthly distributions equal to distributions on Chartwell REIT Trust Units. For the year ended December 31, 2006, these distributions are recorded as interest expense in the consolidated financial statements and amounted to $154 (2005 - $33).

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

11. Accounts payable and other liabilities:

	2006	2005
Accounts payable and accrued liabilities	$ 50,808	$ 30,277
Below-market resident contracts, net of accumulated amortization of $5,197 (2005 - $3,158)	3,260	1,817
Resident deposits	4,805	3,137
Deferred consideration on acquisition of properties	29,820	2,871
Deferred revenue	10,302	5,150
	$ 98,995	$ 43,252

Included in deferred consideration on acquisition of properties at December 31, 2006 are the following:

(a) $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.

(b) $1,180 related to the acquisition of one property in 2006, which is due each anniversary date starting on July 31, 2007 upon conversion of certain apartment units into seniors' housing units.

(c) $20,365 representing the net present value of a $23,500 deferred purchase consideration and $159 of interest accretion related to the acquisition of one property in 2006 with $5,500 of the deferred purchase price being due on the first anniversary of closing, $4,500 on the second anniversary, $3,500 on the third anniversary, $2,500 on the fourth anniversary, $2,500 on the fifth anniversary and $5,000 on the sixth anniversary. The portion of the purchase price being deferred is in connection with the conversion of the units into seniors' housing suites and the implementation of seniors housing facility programs. A discount rate of 4.81% was used to determine the net present value of the deferred consideration.

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

11. Accounts payable and other liabilities (continued):

(d) $50 related to the acquisition of one property in 2006, payable on the first anniversary of the closing.

(e) $5,250 related to the acquisition of one property in 2006, which is due each anniversary date starting on November 9, 2007 upon conversion of certain apartment units into seniors' housing suites and the implementation of seniors housing facility programs.

(f) $2,455 related to the acquisition of one property in 2003 which achieved predetermined operating targets in 2006, at which time this portion of the deferred consideration became due (note 19(d)).

12. 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 consolidated 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:

	2006	2005
Balance, beginning of year	$ 52,448	$ 40,279
Issuance of Class B Units of Master LP (note 2)	11,091	27,204
Non-controlling interest's share of loss for the year	(1,252)	(1,391)
Distributions on Class B Units of Master LP	(5,744)	(5,602)
Exchange of Class B Units of Master LP for Trust Units	(2,233)	(7,915)
Cumulative translation account	143	(127)
Balance, end of year	$ 54,453	$ 52,448

13. 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.

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.

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

13. Unitholders' capital (continued):

(a) The following units are issued and outstanding for accounting purposes and exclude the issuance of Trust Units under the LTIP (note 15):

	Number of voting units	Amount
Units outstanding, January 1, 2005	31,913,005	$ 297,475
March 30, 2005:		
Trust Units issued pursuant to secondary public offering	6,250,000	90,313
August 11, 2005:		
Trust Units issued pursuant to secondary public offering	10,200,000	155,040
Trust Units issued pursuant to the Distribution Reinvestment Program	116,721	1,664
Trust Units issued in exchange for Class B Units of Master LP	722,126	7,915
Trust Units issued on disposition of Long-Term Incentive Program Units under subscription	16,250	187
Issue costs	–	(12,814)
Units outstanding, December 31, 2005	49,218,102	539,780
May 9, 2006:		
Trust Units issued pursuant to secondary public offering	13,310,000	185,009
November 28, 2006:		
Trust Units issued pursuant to secondary public offering	3,676,475	50,000
Trust Units issued pursuant to private placement	7,150,000	97,240
November 30, 2006:		
Trust Units issued pursuant to exercise of over-allotment option	551,470	7,500
Trust Units issued pursuant to private placement	202,941	2,760
Trust Units issued pursuant to the Distribution Reinvestment Program	181,626	2,476
Trust Units issued on exchange of Class B Units of Master LP	223,425	2,233
Trust Units issued on dispositions of Long-Term Incentive Program Units under Subscription	62,500	867
Issue costs	–	(13,700)
Units outstanding, December 31, 2006	74,576,539	$ 874,165

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

13. Unitholders' capital (continued):

(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%.

14. Loss per unit calculation:

	2006		2005	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the year	59,165,726	$ (14,698)	40,869,634	$ (11,670)
LTIP units under subscription	1,766,962	–	1,007,836	–
	60,932,688	$ (14,698)	41,877,470	$ (11,670)
Loss per unit (basic and diluted)		$ (0.248)		$ (0.286)

Basic per unit information is calculated using the weighted average number of units outstanding during the year. The calculation of per unit information on a diluted basis considers the potential exercise of outstanding unit options to the extent that the exercise of the option is dilutive and the potential conversion of outstanding 6.0% Convertible Debentures to the extent that the such conversion is dilutive.

15. Long-Term Incentive Plan:

Chartwell REIT has established an LTIP, under which the eligible 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.

In 2005, the LTIP was amended to include vesting provisions for subsequent issuances of Trust Units under the LTIP, where Trust Units vest as to 1/3 in the first year of employment, 1/3 in the third year of employment and 1/3 in the fifth year of employment.

An aggregate of 3,208,945 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,149,125 were issued and 2,070,375 were outstanding at December 31, 2006.

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

15. Long-Term Incentive Plan (continued):

The following table summarizes Trust Units issued under LTIP in 2006 and 2005:

	Number of Units under subscription	Amount
Balance, January 1, 2005	860,000	$ 9,176
June 2, 2005 - sale of Trust Units	(7,500)	(75)
October 4, 2005 - issuance of Trust Units	631,250	9,715
December 9, 2005 - sale of Trust Units	(3,750)	(58)
December 28, 2005 - sale of Trust Units	(5,000)	(54)
Compensation expense	–	434
Balance, December 31, 2005	1,475,000	19,138
June 20, 2006 - sale of Trust Units	(2,500)	(25)
June 23, 2006 - sale of Trust Units	(3,750)	(58)
July 14, 2006 - issuance of Trust Units	657,875	9,039
August 28, 2006 - sale of Trust Units	(23,750)	(366)
November 16, 2006 - sale of Trust Units	(2,500)	(25)
December 28, 2006 - sale of Trust Units	(30,000)	(412)
Compensation expense	–	376
Balance, December 31, 2006	2,070,375	$ 27,667

The market value of the Trust Units at December 31, 2006 was $13.94 per Unit (2005 - $16.00).

The compensation cost attributable to the LTIP of $376 (2005 - $434) is 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 the LTIP is credited to distributions.

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

15. Long-Term Incentive Plan (continued):

The fair value of the LTIP on the date of issuance in 2005 and 2006 was estimated using the Black-Scholes option pricing model with the following assumptions:

	October 4, 2005 and subsequent issuances
Dividend yield	7.0%
Volatility	10.0% - 12.0%
Risk-free interest rate	3.34% - 3.94%
Expected life	1 - 10 years
Average expected employee tenure	6.7 years
Imputed interest benefit	4.60%

At December 31, 2006, Chartwell REIT was committed to issue an additional 557,875 units for eligible employees, all of which were issued subsequent to December 31, 2006.

16. Related party transactions:

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

(a) Spectrum:

	2006	2005
Mezzanine loan interest earned (note 4(a))	$ 5,144	$ 5,278
Development fees	4,523	4,006
Operations management fees	863	591
Financing fees	662	794
Other	627	–

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

16. Related party transactions (continued):

Other assets as of December 31, 2006 include $2,515 (2005 - $2,664) due from Spectrum. Subsequent to December 31, 2006, $1,226 of this balance was paid.

Included in development fees for the year ended December 31, 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 year ended December 31, 2006 are fees of $500 charged to Spectrum for assistance in the raising of $17,500 of equity in December 2005.

Included in distributions payable at December 31, 2006 is $273 (2005 - $205) due to Spectrum.

(b) Melior:

	2006	2005
Mezzanine loan interest earned (note 4(b))	$ 4,120	$ 2,214
Development fees earned	1,981	1,474
Fees paid for net increased economic value created (note 19(g))	(216)	–
Referral and due diligence fees paid (note 19(g))	(3,241)	(430)
Reimbursed expenses paid	(245)	(465)

At December 31, 2006, accounts receivable and other assets includes $2,613 due from Melior and deferred revenue includes $5,062 received from Melior. Subsequent to December 31, 2006, $614 of this balance was collected.

(c) Included in accounts receivable is $34 (2005 - $117) due from an officer of Chartwell REIT related to the previous sale of a facility to the REIT.

16. Related party transactions (continued):

(d) Included in mortgages payable at December 31, 2006 is a vendor take-back mortgage of $2,270 (2005 - $3,407) due to an officer of Chartwell REIT. In addition, one vendor take-back mortgage in the amount of $1,486 due to an officer of the REIT was repaid during 2005. In 2006, the REIT incurred interest expense of $189 (2005 - $144) related to these mortgages.

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.

17. Segmented information:

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

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.

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

17. Segmented information (continued):

2006	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 182,397	$ 85,791	$ 12,487	$ 52,828	$ 333,503
Direct operating expenses	114,556	74,755	4,027	32,728	226,066
Income before the undernoted	67,841	11,036	8,460	20,100	107,437
Interest expense	30,170	4,473	–	11,628	46,271
Income before the following	37,671	6,563	8,460	8,472	61,166
Depreciation and amortization	51,741	5,140	2,573	16,556	76,010
Gain on sale of assets	(396)	–	–	–	(396)
Write-down in carrying value of assets	–	–	858	–	858
	$ (13,674)	$ 1,423	$ 5,029	$ (8,084)	(15,306)
Items not allocated to operating segments:					
Mezzanine loan from interest and other income					17,072
General, administrative and trust expenses					(16,818)
Interest on convertible debentures					(772)
Foreign exchange loss and losses on derivative financial instruments					(126)
Non-controlling interest					1,252
Loss for the year					$ (14,698)
Expenditures for assets by segment:					
Acquisitions - properties, licenses and resident contracts	$ 350,968	$ 43,669	$ –	$ 209,483	$ 604,120
Capital improvements	29,277	3,305	–	1,917	34,499

	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	$ 1,192,399	$ 155,884	$ 18,393	$ 383,845	$ 227,229	$ 1,977,750
Total liabilities	800,451	110,791	6,813	290,404	7,335	1,215,794

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

17. Segmented information (continued):

2005	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total
Revenue	$ 136,665	$ 56,407	$ 9,148	$ 10,273	$ 212,493
Direct operating expenses	83,262	49,586	4,259	6,113	143,220
Income before the undernoted	53,403	6,821	4,889	4,160	69,273
Interest expense	22,145	3,129	–	2,172	27,446
Income before the following	31,258	3,692	4,889	1,988	41,827
Depreciation and amortization	41,891	3,358	2,001	3,682	50,932
Gain on sale of assets	(103)	–	–	–	(103)
Write-down in carrying value of assets	4,253	–	–	–	4,253
	$ (14,783)	$ 334	$ 2,888	$ (1,694)	(13,255)
Items not allocated to operating segments:					
Mezzanine loan from interest and other income					12,134
General, administrative and trust expenses					(10,181)
Foreign exchange loss and losses on derivative financial instruments					(1,759)
Non-controlling interest					1,391
Loss for the year					$ (11,670)
Expenditures for assets by segment:					
Acquisitions - properties, licenses and resident contracts	$ 196,393	$ 36,090	$ –	$ 170,025	$ 402,508
Capital improvements	24,322	3,638	–	39	27,999

	Canadian retirement operations	Canadian long-term care operations	Canadian 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

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

18. Joint venture operations:

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

	2006	2005
Assets	$ 439,660	$ 259,016
Liabilities	323,517	174,531
Revenue	59,129	19,551
Expenses, including depreciation and amortization of $20,219 (2005 - $6,421)	68,801	21,940
Loss for the year	(9,672)	(2,389)
Cash provided by (used in):		
Operating activities	$ 21,181	$ 15,010
Financing activities	198,626	184,316
Investing activities	(217,707)	(195,094)

Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to $323,517. The assets of these joint ventures are available to satisfy these liabilities.

19. 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 $931 to $1,003 over the term of the lease.

19. Commitments and contingencies (continued):

(b) Acquisitions:

As of December 31, 2006, Chartwell REIT has agreed to acquire varying interests in 13 seniors' housing facilities and a 49% leased interest in 25 other facilities for a purchase price of approximately $432,888. Included are the following:

(i) Chartwell REIT has agreed to acquire the Regency Care Portfolio consisting of seven long-term care communities, a 50% interest in another long-term care community, and management contracts for additional six long-term care communities, for a total purchase price of approximately $231,000 including assumption of debt of approximately $150,900.

(ii) Chatwell REIT has also agreed to acquire five seniors housing communities in the United States for approximately $338,520 (U.S. $290,500). Chartwell REIT's 50% share of the purchase price amounts to approximately $169,260 (U.S. $145,250). This acquisition was completed subsequent to the year end (note 24).

(iii) Chartwell REIT was also committed to acquire a 49% leased interest in 25 communities for a purchase price of $32,628 (U.S. $28,000). This acquisition was completed subsequent to the year end (note 24).

(c) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As of December 31, 2006, the remaining commitments under these contracts amounted to approximately $9,476.

(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 December 31, 2006, $2,455 of this amount has become payable.

19. Commitments and contingencies (continued):

(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 of 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.

(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 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 December 31, 2006, Chartwell REIT's obligation with respect to the remaining combined consideration was $2,280 (U.S. $1,957).

(e) Mezzanine loans receivable:

As at December 31, 2006, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of $41,577 (2005 - $29,426) (note 4).

(f) Letters of credit:

As of December 31, 2006, Chartwell REIT was contingently liable for letters of credit in the amount of $639 (2005 - $1,080).

19. Commitments and contingencies (continued):

(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 revenue. 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 revenue plus incentive fee based on certain operating targets. Chartwell REIT owns 50% interest in Horizon Bay Chartwell LLC.

(iii) As of December 31, 2006, Chartwell REIT has entered into fixed gas contracts with a third-party gas supplier for $762 to provide gas to its facilities.

(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 (note 16(b)).

(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 internal growth projects in the Province of Quebec, as determined by independent appraisals.

19. Commitments and contingencies (continued):

(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, 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.

20. Supplemental cash flow information:

(a) At December 31, 2006, distributions of $7,335, including $533 applicable to non-controlling interests (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 (note 2) was partially financed through the issuance of $11,091 (2005 - $27,204) of Class B Units of Master LP, the issuance of nil (2005 - $2,147) of Series A Interests in CSH Master Care LLC (note 10(b)) and the discharge of $6,265 (2005 - $19,492) of mezzanine loans receivable. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

(c) Deferred purchase consideration on acquisition of properties of $2,455 that remains payable as of December 31, 2006 (2005 - $2,871) was excluded from operating and investing activities in the consolidated statements of cash flows.

(d) During the year ended December 31, 2006, distributions of $1,848 (2005 - $1,105) and interest of $799 (2005 - $386) 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.

(e) During the year ended December 31, 2006, Trust Units valued at $2,476 (2005 - $1,664) were issued pursuant to the DRIP. This amount has been excluded from financing activities on the consolidated statements of cash flows.

20. Supplemental cash flow information (continued):

(f) During the year ended December 31, 2006, interest paid amounted to $45,296 (2005 - $27,074).

21. Income taxes:

Chartwell REIT currently qualifies as a Mutual Fund Trust for Canadian income tax purposes and, as discussed in note 1(l), does not record a provision for income taxes on income earned by Chartwell REIT, its subsidiary trust and flow through entities. On December 21, 2006, The Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly traded income trusts and certain other publicly traded flow-through entities.

Under the Proposals, certain distributions from a "specified investment flow-through" trust or partnership (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, the Proposals provide that distributions paid by a SIFT as returns of capital will not be subject to the tax.

The Proposals provided that a SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") would become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain safe harbour limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). The REIT is currently in the process of acquiring properties (note 19(b)), which may entail the issuance of equity capital in excess of these Safe Harbour Limits.

21. Income taxes (continued):

Under the Proposals, the new taxation regime will not apply to a Real Estate Investment Trust that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Chartwell REIT does not meet the REIT conditions and therefore is a SIFT. Accordingly, commencing in 2011 or earlier if it exceeds the Safe Harbour Limits as described above, Chartwell REIT would be subject to tax on certain income which would adversely impact the level of cash otherwise available for distribution. At the date of substantive enactment, Chartwell REIT would record future income tax assets and liabilities in respect of accounting and tax basis differences that are expected to reverse on or after the year it exceeds the Safe Harbour Limit or 2011, with a corresponding credit or charge to consolidated earnings for the period.

It is possible that changes to the Proposals will be made prior to their enactment in order to accommodate Chartwell REIT. If the Proposals are not changed, Chartwell REIT may need to restructure its affairs in order to minimize their impact. There can be no assurances; however, that changes will be made to the Proposals or that Chartwell REIT would be able to restructure such that Chartwell REIT would not be subject to the tax contemplated by the Proposals.

In respect of assets and liabilities of Chartwell REIT, its subsidiary trust and flow-through entities, the net book value for accounting purposes of those net assets exceeds their tax basis by an amount of approximately $145,340 (2005 - $174,718).

Chartwell REIT has certain subsidiaries in the United States which are subject to tax on their taxable income at a rate of approximately 37%. At December 31, 2006, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes of approximately $1,102 (U.S. $946) expiring in 2025 and $6,017 (U.S. $5,163) expiring in 2026 totalling $7,119 (U.S. $6,109).

In 2006, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of $3,047 (U.S. $2,615) against which a valuation allowance of $3,047 (U.S. $2,615) has been recorded.

In 2005, the net future tax assets of these corporate subsidiaries consist of tax and book basis differences relating to the United States operations of $554 (U.S. $475) against which a valuation allowance of $554 (U.S. $475) has been recorded.

22. 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:

At December 31, 2006, through its self-sustaining United States operations, 19% (December 31, 2005 - 14%) of the Trust's assets and 26% (2005 - 18%) of the Trust's mortgages payable were held in the United States and for the year ended December 31, 2006, 15% (2005 - 5%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in exchange rates between Chartwell REIT's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. denominated financial instruments which are not a component of the self-sustaining U.S. operations.

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 United States 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 December 31, 2006, $78,853 (2005 - $52,577) 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.

22. 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 December 31, 2006 is a loss position of $934, which is included in accrued liabilities on the balance sheet (note 11).

(c) Credit and collection risk:

Chartwell REIT has four significant categories of receivables: mezzanine borrowers, various provincial 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. 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 December 31, 2006 were $994,165 (2005 - $611,539) as compared to their carrying values of $987,046 (2005 - $613,654).

As of December 31, 2006, the fair values of mezzanine loans receivable, capital funding receivable, loans payable and convertible debentures approximate their carrying values.

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

(e) Reliance on government subsidies:

Chartwell REIT holds licenses related to each of its long-term care facilities, which receive funding from the relevant provincial government. During the year ended December 31, 2006, the REIT received approximately $60,176 (2005 - $39,560) in respect of these licenses, which has been recorded to resident revenue.

23. Guarantees:

At December 31, 2006, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of $23,850. As at December 31, 2006, $18,562 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 December 31, 2006, Chartwell REIT remains as a guarantor of the debt of one managed property with the balance of $3,100. The borrower has indemnified Chartwell REIT for this guarantee.

At December 31, 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 $47,911 of which $45,516 was outstanding at December 31, 2006. In the opinion of management, at December 31, 2006, the value of each of these properties exceeds the respective total amount of debt outstanding.

24. Subsequent events:

(a) Subsequent to December 31, 2006, Chartwell REIT acquired four seniors housing facilities and one long-term care facility in Canada for the purchase price of $50,000 and $27,720 from two different vendors.

(b) Subsequent to December 31, 2006, CSH-INGRE LLC, a joint venture between Chartwell REIT and ING Real Estate Investment Management Australia PTY Limited ("ING"), acquired five seniors housing facilities in the United States for an aggregate purchase price of approximately $338,520 (U.S. $290,500). Chartwell REIT financed 100% of the equity required for this acquisition through the series of loans to the joint venture.

(c) Subsequent to December 31, 2006, Chartwell REIT acquired 49% interest in 25 leased properties for an aggregate purchase price of $32,628 (U.S. $28,000).

(d) Subsequent to 2006, Chartwell REIT advanced $1,742 of mezzanine loans to Spectrum, Melior and Spectrum's joint venture partners.