CHARTWELL
SENIORS HOUSING REIT

Third Quarter 2005

Report to Unitholders

For the Three and Nine Months Ended
September 30, 2005

November 10, 2005

To Our Unitholders

Our considerable growth over the past year continues to generate significant benefits for our Unitholders. Combined with our internal growth initiatives and solid improvements in operating performance, we are pleased with our strong results in 2005, and look for this progress to continue.

Through the first nine months of 2005 we invested approximately $372.6 million in the acquisition of interests in 23 seniors residential facilities totaling 2,718 suites, including the purchase of CPAC (Care) Holdings of Vancouver, B.C, transforming Chartwell into the largest owner and operator of seniors housing facilities in the Province.

In addition, during the third quarter we entered the vibrant US market with the acquisition, through a U.S. subsidiary jointly owned by Chartwell and ING Real Estate Australia PTY Limited, of a portfolio of retirement residences in Denver, Colorado and Temple, Texas, totaling 1,043 units. The portfolio comprises predominantly higher margin independent living units, Chartwell's core area of focus. In a related transaction, we acquired a 50% interest in a joint venture property management company that will manage our U.S. facilities. Subsequent to the end of the third quarter, we acquired a 50% interest in two additional facilities in Rhode Island and Michigan.

Including these and other acquisitions completed over the last twelve months, our portfolio of owned seniors housing facilities totaled 9,503 suites in 90 facilities at quarter-end, an increase of 53% compared to the same time last year. Including managed suites and suites under development, Chartwell's property portfolio increased 37% to 16,983 suites in 143 facilities compared to last year.

As a result of this significant growth, consolidated revenues in the third quarter rose 60%, and for the first nine months of 2005, increased 71% compared to the same period of last year. "Same property" revenues rose 3.5% and 6.4% in the third quarter and first nine months of 2005 respectively, the result of improved occupancies, fees for the provision of new services to residents, and the positive impact of annual rent increases.

Distributable income increased to $14.1 million in the third quarter compared to $9.4 million last year. Distributions declared during the quarter were $13.7 million. Effective with the March 2005 payment, monthly cash distributions were increased by 4% to $0.8875 per unit. Per unit amounts in 2005 were impacted by the 52% and 45% increase in the weighted average number of units outstanding in the three and nine months ended September 30, 2005 respectively. In addition, the proceeds of an offering of 10.2 million units completed on August 11, 2005 were not fully invested in income producing properties at quarter-end.

Looking ahead, we expect the acquisitions and mezzanine financings completed to date, combined with future contemplated transactions, will result in a 15% increase in distributable income per unit in 2005 compared with the prior year.

(signed)	(signed)	(signed)
Stephen Suske	Robert Ezer	Brent Binions
Vice Chair & President	Chief Executive Officer	Executive Vice President

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Management's Discussion and Analysis

For the three and nine months ended September 30, 2005

(all dollar references, unless otherwise stated, are in thousands of dollars, except per unit amounts)

Chartwell Seniors Housing Real Estate Investment Trust (the "REIT" or "Chartwell") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the three and nine months ended September 30, 2005. This discussion and analysis should be read in conjunction with the REIT's unaudited consolidated financial statements for the three and nine months ended September 30, 2005, the notes thereto and the audited financial statements and management's discussion and analysis for the year ended December 31, 2004. This material is available on the REIT's website at www.chartwellreit.ca. Additional information about the REIT, including the Renewal Annual Information Form can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of November 4, 2005.

FORWARD LOOKING DISCLAIMER

This discussion may contain forward-looking statements that reflect the current expectations of management about the future results, performance, achievements, prospects or opportunities for the REIT and the seniors housing industry. The REIT has tried to identify these forward-looking statements by using words such as "may", "will", "expect", "anticipate", "believe", "intent", "plan", "estimate", "potentially", or the negative thereof or similar expressions. Such forward-looking statements necessarily involve known and unknown risk and uncertainties that may cause Chartwell or the seniors housing industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. Accordingly, the investor should not place undue reliance upon such statements. These risks and uncertainties include, among other things, risk related to: Chartwell's business; real property ownership and lack of diversity; geographic concentration; continued growth; acquisition and development; competition; government regulation; debt financing; mezzanine financing; environmental liabilities; foreign currency fluctuations; third party liability and insurance; personnel costs; labour relations; conflicts of interest; management contracts; availability of cash flows; redemption right; accounting; dilution; nature of Units; Unitholder liability; market for Units and Unit price; and tax. There can be no assurance that the expectations of management of the REIT will prove to be correct. See "Risk Factors". Subject to applicable law, the REIT does not undertake any obligation to publicly update or revise any forward-looking statements.

BUSINESS OVERVIEW

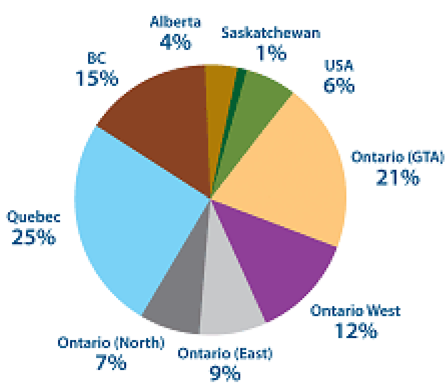
Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly holds a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities ("IL Facilities"), through retirement homes ("Retirement Homes") to long-term care facilities ("LTC Facilities"), which are located in Canada and the United States. All references to "Chartwell" or "the REIT", unless the context otherwise requires, means the REIT and its subsidiaries. For ease of reference "Chartwell" and "the REIT" have been used in reference to ownership of seniors housing facilities and the operation of the seniors housing operations and development management business. Actual direct ownership of such facilities and the operation of such business is conducted by a subsidiary of the REIT. As of September 30, 2005 Chartwell's portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in over 16,900 suites in 143 facilities which are operating, under construction or in various stages of development. The REIT's owned portfolio of 9,503 suites, is 66% Independent Living and Light Care, 19% Full Care and Assisted Living and 15% in Long-Term Care. In addition to managing its own properties, Chartwell provides management and advisory services to third party owners of seniors housing facilities. Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of clients and the demands of each local marketplace. Chartwell employs approximately 4,900 people in its owned properties and corporate and regional offices.

As of September 30, 2005, the REIT operated the following portfolio of homes in its four operating segments:

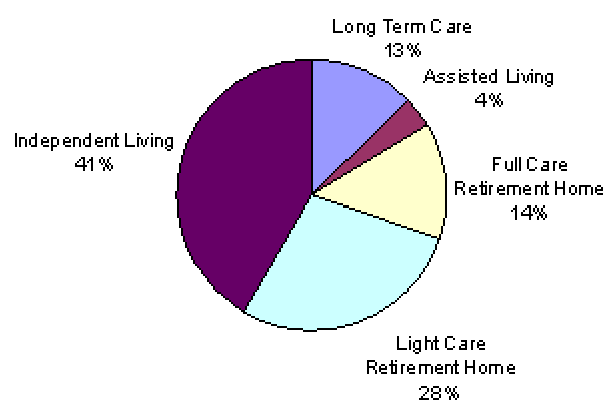
	Retirement Operations	Long-Term Care Operations	United States Operations	Management Operations	Total
Facilities	74(1)	10(1)	6	53(2)	143
Suites/Beds	7,109	1,351	1,043	7,480	16,983

(1) Where a facility provides more than one level of care, it has been designated according to the predominate level of care provided.
(2) Includes stabilized, lease-up and facilities under development.

Composition of portfolio of owned and managed suites by geographical location



Composition of portfolio of owned and managed homes by level of care



Chartwell has a first right to purchase additional stabilized seniors housing facilities through a development program carried out by Spectrum Seniors Housing Development LP ("Spectrum"), a development entity owned principally by the REIT's senior management. Chartwell provides mezzanine financing to Spectrum to develop seniors housing facilities and, in return, receives a first right to purchase Spectrum's interest in such facilities, when stabilized (a facility which has had an average resident occupancy rate of 90% or greater during the preceding three calendar months), at a discount to appraised value. As part of its seniors housing operations and development management business, Chartwell also provides management and advisory services, for a fee, to Spectrum in respect of its facilities and development program.

Chartwell also provides mezzanine financing to entities controlled by Le Groupe Melior (“Melior”) and their joint venture partners to develop seniors housing facilities.

Chartwell has a right to purchase these facilities upon stabilization at fair market value. Chartwell also provides structuring, consulting and advisory services for a fee to Melior and its joint venture partners in respect of their development program.

SIGNIFICANT EVENTS IN THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2005

The following have had a significant effect on the financial results of Chartwell REIT for the three and nine months ended September 30, 2005.

Acquisitions

In the third quarter of 2005, Chartwell REIT acquired 13 seniors housing facilities (1,860 suites) for a total purchase price of $279.7 million. The purchase price was settled by the assumption of mortgages and loans payable of $64.4 million, assumption of accounts payable and other liabilities of $5.2 million, issuance of 0.67 million of Class B Units of Chartwell Master Care LP (“Master LP”), a subsidiary of the REIT, valued at $10.3 million, the settlement of $5.3 million of mezzanine loans receivable and the balance in cash.

Included in the above are the following acquisitions:

On July 11, 2005 Chartwell completed its takeover and acquisition of CPAC (Care) Holdings Ltd. ("CPAC") of Vancouver, British Columbia for consideration of $39.4 million plus closing costs and $5.4 million for redemption of existing convertible debentures. With this transaction, the REIT acquired interests in 1,069 suites in seven facilities in British Columbia (including one development property and 93 condominium suites under development) and became the largest owner and operator of senior’s residential facilities in the Province. The acquisition further enhances the REIT’s geographic diversification and also provides Chartwell with an immediate presence in the B.C. licensed care sector and the opportunity to compete effectively in expanding its presence in this high-growth market through future proposal calls. Subsequent to the closing of this acquisition, the REIT sold its interest in one stabilized facility (85 suites) and the project under development to Spectrum (227 suites). The purchase price was satisfied by a mezzanine loan of $3.3 million, assumption of $3,091 of debt and $580 of cash.

On August 18, 2005, Chartwell completed, through a U.S. subsidiary jointly owned by Chartwell and ING Real Estate Australia PTY Limited, the acquisition of a portfolio of retirement residences in Denver, Colorado and Temple, Texas, totaling 1,043 units. The portfolio comprises predominantly higher margin independent units which is Chartwell’s core focus in the Canadian market and one in which it intends to concentrate on in the United States. The purchase price for Chartwell’s 50% interest in the properties amounted to $139.2 million (U.S.D. $116.0 million) plus closing costs and was satisfied by cash.

In addition, Chartwell acquired a 50% interest in Horizon Bay Chartwell LLC ("HBC") for a purchase price of $3,719 (U.S.D. $3,100). HBC will manage U.S. properties in which Chartwell holds an ownership interest.

In the nine month period ended September 30, 2005, the REIT acquired 23 seniors housing facilities (2,718 suites) for a total purchase price of $372.6 million. The purchase price was settled by the assumption of mortgages payable of $86.6 million, assumption of $5.2 million of amounts payable and accrued liabilities, issuance of 1.9 million of Class B Units of Master LP, a subsidiary of the REIT, valued at $26.4 million, the settlement of $16.3 million of mezzanine loans receivable and the balance in cash.

The following tables summarize the acquisitions completed in the first nine months of 2005 and in the year ended December 31, 2004:

Acquisitions completed in 2005:

#	Property	Location	Type	Effective date of acquisition	Beds/Suites
1	Barclay House	North Bay, ON	Retirement	February 28, 2005	63
2	The Georgian	Timmins, ON	Retirement	February 28, 2005	63
3	The Pinewood	Pembroke, ON	Retirement	February 28, 2005	45
4	The Westmount	Sudbury, ON	Retirement	February 28, 2005	84
5	Glacier Ridge	Thunder Bay, ON	Retirement	March 30, 2005	78
6	Royal Oak	Kingsville, ON	Long-term care	April 1, 2005	160
7	Villa Val des Arbres	Laval, PQ	Retirement	May 1, 2005	163
8	Bridlewood	Gloucester, ON	Retirement	May 2, 2005	59
9	Carrington Place	Vernon, BC	Retirement	May 31, 2005	72
10	Collegiate Heights	Sault Ste. Marie, ON	Retirement	June 29, 2005	71
11	Crescent Gardens	South Surrey, BC	Retirement, Long-term care	July 11, 2005	131
12	Carlton Gardens	Burnaby, BC	Long-term care	July 11, 2005	152
13	Malaspina Gardens	Nanaimo, BC	Long-term care	July 11, 2005	135
14	Langley Gardens(1)	Langley, BC	Retirement, Long-term care	July 11, 2005	153
15	Langley Gardens at Village Square(1)	Langley, BC	Retirement	July 11, 2005	92
16	Centennial Retirement Residence	Oshawa, ON	Retirement	August 15, 2005	74
17	Arvada Meridian(1)	Arvada, Colorado	Retirement	August 18, 2005	125
18	Boulder Meridian(1)	Boulder, Colorado	Retirement	August 18, 2005	96
19	Englewood Meridian(1)	Englewood, Colorado	Retirement	August 18, 2005	266
20	Lakewood Meridian(1)	Lakewood, Colorado	Retirement	August 18, 2005	172
21	Temple Meridian(1)	Temple, Texas	Retirement	August 18, 2005	231
22	Westland Meridian(1)	Lakewood, Colorado	Retirement	August 18, 2005	153
23	Regency Retirement Residence	Mississauga, ON	Retirement	September 14, 2005	80
					2,718

(1) Chartwell acquired a 50% interest in these facilities.

Acquisitions completed in 2004:

#	Property	Location	Type	Effective date of acquisition	Beds/Suites
1	Aurora Resthaven	Aurora, ON	Long term care	February 11, 2004	240
2	Ballycliffe Lodge	Ajax, ON	Long term care	February 11, 2004	100
			Retirement		42
3	Bon-Air	Cannington, ON	Long term care	February 11, 2004	55
			Retirement		9
4	The Gibson	Toronto, ON	Long term care	February 11, 2004	202
5	Gibson Retirement Residence	Toronto, ON	Retirement	February 11, 2004	73
6	Pine Grove Lodge	Woodbridge, ON	Long term care	February 11, 2004	100
			Retirement		40
7	Residence Champlain	L'Original, ON	Long term care	February 11, 2004	60
8	White Eagle	Toronto, ON	Long term care	February 11, 2004	56
9	Lynnwood	Chilliwack, BC	Retirement	March 1, 2004	121
10	New Edinburgh Square	Ottawa, ON	Retirement	April 29, 2004	95
11	Le Monastere d'Aylmer[1]	Aylmer, PQ	Retirement	June 21, 2004	200
12	Marquis de Tracey I[1]	Sorel-Tracey, PQ	Retirement	June 21, 2004	128
13	Marquis de Tracey II[1]	Tracey, PQ	Retirement	June 21, 2004	65
14	Notre Dame de Hull[1]	Hull, PQ	Retirement	June 21, 2004	205
15	Domaine du Chateaux de Bordeaux[1]	Sillery, PQ	Retirement	June 21, 2004	163
16	La Residence St-Pierre[1]	Rouyn-Noranda, PQ	Retirement	June 21, 2004	122
17	Residence Principale[1]	Cowansville, PQ	Retirement	June 21, 2004	145
18	Cite-Jardin	Gatineau, PQ	Retirement	July 1, 2004	284
19	Willow Manor	Maple Ridge, BC	Long term care	July 29, 2004	33
			Retirement		100
20	Residence Le Duplessis	Trois Rivieres, PQ	Retirement	August 31, 2004	223
21	Residence Ste Genevieve	Ste Foy, PQ	Retirement	August 31, 2004	202
22	Cedar Creek Lodge	Chilliwack, BC	Retirement	September 1, 2004	16
23	Norman Manor	Chilliwack, BC	Retirement	September 1, 2004	29
24	Carrington House	Mission, BC	Retirement	September 1, 2004	70
25	Riverside Manor	Hope, BC	Retirement	September 1, 2004	30
26	Oak Park Terrace	Windsor, ON	Retirement	September 10, 2004	112
27	Rideau Place	Ottawa, ON	Retirement	September 14, 2004	115
28	Number Four Teddington Place	Toronto, ON	Retirement	October 1, 2004	51
29	Nine Twenty One Millwood	Toronto, ON	Retirement	October 1, 2004	58
30	Domaine Cascade	Shawinigan, PQ	Retirement	December 1, 2004	218
31	Oasis St. Jean	St. Jean sur Richeleau, PQ	Retirement	December 1, 2004	239
32	Brookside Manor[1]	Kanata, ON	Retirement	December 1, 2004	80
					4,081

(1) Chartwell acquired a 50% interest in these facilities.

Public Offering of Trust Units

On August 11, 2005, the REIT completed an offering of Trust Units and issued 10.2 million Units at $15.20 per Unit. The net proceeds of $148.8 million, after the payment of issue related costs of $6.2 million, were used to repay the amounts outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

On March 30, 2005, the REIT completed an offering of Trust Units and issued 6.25 million Units at $14.45 per Unit. The net proceeds of $85.2 million, after the payment of issue related costs of $5.1 million, were used to repay the amounts outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

Mezzanine Loans

In the third quarter of 2005, the REIT advanced $14.4 million of new mezzanine loans to Spectrum and other third parties for the development of 6 seniors housing facilities (partial advances on 4 of these projects were made prior to the third quarter of 2005). Two mezzanine loans in the amount of $5.3 million were settled in the quarter on the acquisition of the Centennial Retirement Residence and the Regency Retirement Residence from Spectrum. In addition, the REIT took back mezzanine loans of $3.2 million on the sale of the Arranglen LTC and Qualicum Beach development projects to Spectrum. These properties were acquired by the REIT as part of CPAC transaction and were sold to Spectrum as they were under development, the completion of which is to be undertaken by Spectrum.

For the nine months ended September 30, 2005, the REIT has advanced mezzanine loans totaling $32.0 million to Spectrum and other parties for the development of 9 seniors housing facilities. In addition, five mezzanine loans in the amount of $16.4 million were settled on the acquisition of seniors housing facilities from Spectrum.

The new mezzanine loan advances bear interest at rates between 10% and 14% and are secured by second fixed charges and/or pledges of the borrowers' interests in the respective projects.

New Financing Arrangements

In the third quarter of 2005, the REIT arranged new mortgage financing (or refinanced existing mortgages) for 8 of its facilities (including 6 newly acquired facilities in the United States) in the aggregate amount of $120.1 million (including $96.0 million ($80 million U.S.D.) of U.S. dollar denominated debt). This new debt bears interest at a weighted average rate of 5.28% and matures on various dates up to September 2015.

During the nine-month period ended September 30, 2005, the REIT arranged new financing or refinanced existing mortgages in the aggregate amount of $163.3 million and assumed $86.6 million of mortgages and loans payable on acquisitions of seniors housing facilities.

Management's strategy is to increase the average term to maturity of the mortgage portfolio. The average term to maturity at September 30, 2005 is 5.7 years up from 5.0 years at December 30, 2004.

Increase in Distributions

Effective with the March 31, 2005 distribution, the REIT increased its monthly cash distribution to 0.08875 per unit from 0.0854 per Unit. Annualizing this monthly increase annual cash distributions would rise from $1.025 per Unit to $1.065 per Unit.

Amendments to the Declaration of Trust

At the May 25, 2005 Annual and Special meeting of REIT Unitholders, the following amendments to the Declaration of Trust were approved:

Investments by the REIT in the United States of America

Amendments were authorized to permit the REIT to expand its acquisition activity to include existing income-producing seniors housing facilities located in the United States of America, as well as in Canada, that are substantially occupied, and to include seniors housing operations and development management businesses in the United States of America as well as in Canada.

Maximum REIT Indebtedness

Amendments were authorized to permit the REIT, where the Trustees determine it is appropriate to do so, to incur or assume indebtedness, including convertible debentures, up to a maximum of 65% of the Adjusted Gross Book Value of the REIT and to incur or assume indebtedness, excluding convertible debentures, up to a maximum of 60% of the Adjusted Gross Book Value of the REIT.

Provision of Guarantees by the REIT

The Declaration of Trust previously stated that the REIT could not provide a guarantee in respect of the indebtedness of another person without first obtaining a legal opinion or advance income tax ruling to the effect that such guarantee will not cause the REIT to cease to qualify as a “mutual fund trust” for purposes of the *Income Tax Act* (Canada). Amendments were authorized to remove the requirement to obtain such a legal opinion or advance income tax ruling. The provision of a guarantee by the REIT remains subject to the Trustees being satisfied that such guarantee will not cause the REIT to cease to qualify as a “mutual fund trust” for the purposes of the *Income Tax Act* (Canada).

Amendment to Definition of Distributable Income

The Declaration of Trust previously contained a definition of “Distributable Income” of the REIT which contained a specific reference to ensure that distributions (“Exchangeable Security Distribution Amount”) relating to the Class B Master LP Units of Master LP be included in the calculation of “Distributable Income.” The original intention of this reference was to ensure that Distributable Income of the REIT was calculated on a fully diluted basis. Recent accounting changes required that the Class B Master LP Units be treated as a minority interest on the books of the REIT and therefore the reference to the Exchangeable Security Distribution Amount in the calculation of Distributable Income was deemed redundant. Accordingly, the reference to the Exchangeable Security Distribution Amount was deleted from the Declaration of Trust.

OUTLOOK

The Canadian seniors housing industry is highly fragmented with the ten largest participants in the business accounting for only 23% of Canadian seniors housing suites. As the country's second largest industry participant, Chartwell believes it has the resources and the experience to structure and offer smaller operators an exit strategy that meet their needs.

However, management has seen a compression in capitalization rates in 2005 and as a result, although the acquisition activity is continuing as anticipated, the expected accretiveness of acquisitions has declined from original expectations. Management does not expect capitalization rates to return to their prior levels in the near term.

As a result, management believes that new development will become an increasingly important source of internal growth. As of September 30, 2005 Chartwell has the right to acquire interests in over 4,100 suites in lease up or under development by Spectrum, Melior and other joint venture partners. In the first nine months of 2005, the REIT acquired five seniors housing facilities from Spectrum and expects to acquire one additional property from Spectrum in the last quarter of 2005.

Management's focus in the United States is on independent and light care retirement homes in the sector. In addition, the REIT will focus on acquisitions in markets that are in the same geographical areas as its existing portfolio, in markets where the U.S. management company has an existing presence and where there is a large enough concentration of homes in a new market that will support the creation of a regional structure.

Chartwell also believes that internal revenue growth will come from enhancing the already high occupancies in its owned properties and through the introduction of innovative new services to residents. It is also confident that overall profitability will increase as the REIT captures the economies of scale resulting from the growth in its portfolio, as well as enhanced efficiencies in administration, operations, purchasing and cost control. The REIT continues the implementation of its highly effective marketing programs throughout the portfolio, which had a positive effect on properties occupancies during the first nine months of 2005.

In addition, as a component of its internal growth program, management intends to add new suites to existing facilities through property expansions. For the nine months ended September 30, 2005, the REIT was engaged in the following projects:

- Repositioning of the Gibson Long Term Care Centre to create additional preferred accommodation. This project was completed in the third quarter. Occupancy in this home has steadily increased since the project has been completed and is currently at 97%. The REIT invested approximately $2.9 million in this project.

- Addition of 16 suites and enhanced resident amenities at New Edinburgh Square Retirement Home. The expected completion date is the fourth quarter of 2005. Management estimates that the total project cost will amount to approximately $3.0 million and the REIT has obtained financing commitment for 80% of the estimated cost.

- Repositioning of Devonshire Seniors Residence to configure 44 smaller outdated units into 22 units more attractive to the market place. This project was completed in the second quarter and the new accommodation is successfully leasing-up. Management estimates that the total project cost will amount to $2.5 million and the REIT has obtained financing commitment for 80% of the estimated costs.

- A 86-suite addition at the 50% owned Le Monastere D'Aylmer. The expected completion date is the fourth quarter of 2005 and estimated total project costs are $14.6 million. Management estimates the REIT will invest approximately $2.1 million in the project.

- A 56-suite addition at the 50% owned Le Residence Principale Cowansville. The expected completion date is the second quarter of 2006 and estimated total project costs are $7.1 million. Management estimates the REIT will invest approximately $1.3 million in the project.

- A 42-suite addition at the 50% owned Residence de Hull, which opened at the end of the second quarter. The total project costs were $4.3 million. The REIT invested approximately $0.7 million in the project. The addition is now fully leased.

Management continues to evaluate opportunities within its portfolio to increase the number of suites at sites where there is both the market demand and the available capacity. A number of opportunities both in Canada and the United States are currently under consideration for commencement in 2006.

Overall demand for seniors housing continues to grow significantly in Canada, driven by positive demographics, increased life expectancy, and the fact that seniors are wealthier than ever before, better informed about the range of options available to them and are able to afford the level of service they want and need. Care Planning Partners (Seniors Housing Researchers) estimated that 11,000 new suites would be required each year until 2026 – just to maintain current supply levels. Chartwell believes it is well positioned to capitalize on this increase in demand.

The REIT has, to date in 2005, completed or has under contract acquisitions totalling approximately $433 million, which exceeds the REIT's 2005 acquisitions target of $400 million.

Management expects that the above-mentioned acquisitions, other recently completed acquisitions and mezzanine financings and future contemplated acquisitions and mezzanine financings will result in Distributable Income per unit for the year increasing by approximately 15% over last year.

FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The REIT prepares its financial statements in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles (GAAP). For a full discussion of the significant accounting policies and estimates, refer to the Management Discussion and Analysis section of Chartwell's 2004 Annual Report. The unaudited interim consolidated financial statements for the three month and nine month periods ended September 30, 2005 follow the same accounting policies and methods of application.

The REIT has adopted the following new accounting policies:

(a) Inventory of Real Estate: Inventory of real estate 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.

(b) Revenue Recognition: Revenue from sale of real estate inventory is recognized on closing, which is the point in time where funds are received from purchasers.

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

Chartwell REIT's corporate subsidiaries are subject to income taxes at an approximate rate of 35%. 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.

(d) Foreign Currency: Financial statements of Chartwell REIT's self-sustaining operations in the United States are translated into Canadian currency using 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 period.

(e) Derivative Financial Involvements: Chartwell REIT entered into option contracts in order to reduce the impact of foreign currency fluctuations on its proposed investment in foreign assets. These contract agreements did not qualify for hedge accounting in the REIT's financial statements. The realized losses associated with these contracts are recognized as charges against income.

Other Performance Measures

Distributable Income is presented because management believes this non-GAAP measure is a relevant measure of the ability of the REIT to earn and distribute cash returns to Unitholders. Distributable Income (defined as net earnings before depreciation and amortization, future income tax expense or credits, gains or losses on asset dispositions, amortization of discounts or premiums on long-term debt and deferred financing costs, interest on convertible debentures; plus up to 100% of the principal portion of capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for Long-Term Care facilities, amounts received as contingent consideration for Operating Subsidies that are not included in Net Income under GAAP, and fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP) is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Distributable Income as computed by the REIT may differ from similar computations as reported by other organizations and, accordingly, may not be comparable to distributable income as reported by such organizations.

Effective January 1, 2005, the Board of Trustees adjusted the computation of Distributable Income to include fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP.

To the extent these fees are included in GAAP Net Income in subsequent periods, they will be deducted from Distributable Income.

Effective July 1, 2005, the Board of Trustees amended the computation of Distributable Income to account for the impact of the REIT commencing operations in the United States.

The computation of Distributable Income was adjusted to reverse the impact of the following to the extent included in Net Income under GAAP:

(a) Unrealized foreign currency gains and losses and unrealized gains and losses on derivative financial instruments.
(b) Realized foreign currency gains and losses and gains and losses on derivative financial instruments relating to capital transactions.

The tables presented under the Results of Operations section of this MD&A provides the reconciliation of Distributable Income to Net Income and cash flow from operating activities, as reported on the REIT's consolidated financial statements.

Funds from operations (“FFO”) defined as net income computed in accordance with GAAP, excluding gains or losses from sales of depreciable real estate and extraordinary items, plus depreciation and amortization, and future income taxes and after adjustments for equity accounted for entities and non-controlling interests, is not a recognized measure under GAAP. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts, however, the REIT presents FFO consistent with the definition adopted by the Real Property Association of Canada (“REALPAC”).

The use of FFO, combined with the required primary GAAP presentations has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing the REIT’s comparative operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a REIT’s real estate between periods or as compared to different REITs.

RESULTS OF OPERATIONS

The selected information presented below is based on the unaudited consolidated financial results of the REIT for the three and nine month periods ended September 30, 2005 and 2004.

In the following discussion, "same property" statistics for the three month periods ended September 30, 2005 and 2004 refer to 45 retirement homes and 7 long term care facilities that Chartwell owned for the full quarter in 2004 and in 2005. Same property statistics for the nine month periods ended September 30, 2005 and 2004 refer to 35 retirement homes that Chartwell owned for the full nine months in 2005 and 2004.

The following table compares the results of the REIT for the three and nine months ended September 30, 2005 with the results for the three and nine months ended September 30, 2004.

($000's except per unit amounts)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Revenue:						
Property revenue	57,633	33,919	23,714	145,260	83,404	61,856
Mezzanine loan interest	2,030	1,200	830	5,785	3,087	2,698
Fees:						
Spectrum	979	2,842	(1,863)	3,290	3,463	(173)
Other	659	675	(16)	2,351	1,938	413
Other Income	532	55	477	992	482	510
	61,833	38,691	23,142	157,678	92,374	65,304
Expenses:						
Direct operating	(40,184)	(23,366)	(16,818)	(101,468)	(58,007)	(43,461)
General and administrative	(2,525)	(1,513)	(1,012)	(6,975)	(4,827)	(2,148)
	(42,709)	(24,879)	(17,830)	(108,443)	(62,834)	(45,609)
Income before interest, depreciation and amortization	19,124	13,812	5,312	49,235	29,540	19,695
Interest expense	(7,368)	(4,686)	(2,682)	(18,833)	(10,380)	(8,453)
Foreign exchange loss	(1,434)	-	(1,434)	(1,434)	-	(1,434)
Income before depreciation and amortization	10,322	9,126	1,196	28,968	19,160	9,808
Depreciation and amortization	(12,892)	(9,270)	(3,622)	(34,664)	(22,515)	(12,149)
Write down of carrying value of assets	-	-	-	(817)	(501)	(316)
Gain on sale of assets	-	-	-	103	-	103
Non-controlling interest	271	3	268	708	343	365
Net Income Loss	(2,299)	(141)	(2,158)	(5,702)	(3,513)	(2,189)
Add back (subtract):						
Depreciation and amortization	12,892	9,270	3,622	34,664	22,515	12,149
Amortization of deferred financing expenses	383	452	(69)	1,098	627	471
Amortization of below market leases	(412)	(384)	(28)	(1,263)	(948)	(315)
Amortization of debt premiums, net (1)	(331)	(281)	(50)	(1,031)	(627)	(404)
Write down of carrying value of assets	-	-	-	817	501	316
Gain on sale of assets	-	-	-	(103)	-	(103)
Principal portion of capital funding receivable	67	19	48	152	50	102
Amounts received under Net Operating Income Guarantee	263	466	(203)	1,033	1,337	(304)
Contractually receivable management fees, not included in net income under GAAP(2)	2,526	-	2,526	4,982	-	4,982
Management fees recorded in Net Income under GAAP in the period that were previously recorded in Distributable Income(2)	(134)	-	(134)	(484)	-	(484)
Foreign exchange loss(3)	1,434	-	1,434	1,434	-	1,434
Non-controlling interest	(271)	(3)	(268)	(708)	(343)	(365)
Distributable income	14,118	9,398	4,720	34,889	19,599	15,290
Weighted average number of units outstanding(4)	49,248,173	32,172,481	17,075,692	43,197,006	29,470,462	13,726,544
Dilutive LTIP	852,500	857,717	(5,217)	859,231	838,443	20,788
	50,100,673	33,030,198	17,070,475	44,056,236	30,308,905	13,747,331
Distributable income per unit – basic	0.287	0.292	(0.005)	0.808	0.665	0.143
Distributable income per unit – diluted	0.282	0.285	(0.003)	0.792	0.647	0.145
Distributions declared(5)	13,660	8,585	5,075	35,682	23,438	12,244
Distributions per unit – diluted	0.273	0.260	0.013	0.810	0.773	0.04
Payout ratio – diluted	97%	91%	6%	102%	120%	-18%

(1) Includes amortization of debt discounts of $47 and $150 for the three and six months ended September 30, 2005 and $42 and $106 for the three and nine months ended September 30, 2004, respectively.

(2) Effective January 1, 2005, the Board of Trustees adjusted the computation of Distributable Income to include fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP. These fees are deducted from distributable income in periods when they are included in Net Income under GAAP.

(3) Effective July 1, 2005, the Board of Trustees amended the computation of Distributable Income to account for the impact of the REIT commencing operations in the United States. Accordingly, the computation of Distributable Income was adjusted to reverse the impact of unrealized foreign currency gains and losses and unrealized gains and losses on derivative financial instruments and realized foreign currency gains and losses and gains and losses on derivative financial instruments relating to capital transactions to the extent included in Net Income under GAAP.

(4) Includes the weighted average of 5,365,261 and 5,057,924 of outstanding Class B Units of Master LP for the three and nine months ended September 30, 2005 and 3,029,961 and 2,855,528 for the three and nine months ended September 30, 2004 respectively.

(5) Includes $1,431 and $4,125 of distributions declared on Class B Units of Master LP for the three and nine months ended September 30, 2005 and $777 and $2,224 for the three and nine months ended September 30, 2004 respectively.

Reconciliation of Distributable Income to Cash Flow from Operating Activities

($000's)	For the three months ended September 30		For the nine months ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Cash flow from operating activities	20,513	10,613	42,265	17,078
Add (Subtract):				
Change in non-cash operating items	(10,170)	(1,379)	(13,360)	1,910
Amortization of debt discounts	(47)	(42)	(150)	(106)
Amortization of debt premiums, net	(331)	(281)	(1,031)	(627)
Option benefit granted under the Long-Term Incentive Plan	-	(3)	-	(21)
Principal portion of capital funding receivable	67	19	152	50
Amounts received under Net Operating Income Guarantees	263	466	1,033	1,337
Contractually receivable management fees, net	2,392	-	4,498	-
Income/(Loss) from long-term investment net of distributions	(3)	5	48	(22)
Foreign exchange loss	1,434	-	1,434	-
Distributable Income	14,118	9,398	34,889	19,599

Reconciliation of Funds From Operations

($000's except per unit amounts)	For the three months ended September 30		For the nine months ended September 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Net loss per financial statements	(2,299)	(141)	(5,702)	(3,513)
Add (subtract):				
Depreciation of real estate assets	5,579	3,366	14,488	8,119
Amortization of management contracts, resident contracts and customer relationships	7,313	5,904	20,176	14,396
Depreciation of leasehold improvements included in depreciation of real estate assets	(20)	-	(50)	-
Write down of carrying value of assets	-	-	817	501
Gain on Sale of Assets	-	-	(103)	-
Non-controlling interest	(271)	(3)	(708)	(343)
Funds from Operations	10,302	9,126	28,918	19,160
Funds from Operations per unit diluted	0.206	0.276	0.656	0.632

Property Revenue

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Property Revenue	57,633	33,919	23,714	145,260	83,404	61,856

Three months ended September 30, 2005 and 2004:

- Acquisitions completed subsequent to June 30, 2004 contributed an increase of $22,630.
- Same property revenue increased by $1,084, an increase of 3.5%. This increase is primarily due to the following:
  - Improved occupancies in several retirement homes in Ontario, Western Canada and Quebec.
  - Improved occupancies in Long Term Care facilities in Ontario.
  - Revenue from new services offered for residents.
  - Regular annual rent increases.

Nine months ended September 30, 2005 and 2004:

- Acquisitions completed subsequent to January 1, 2004 contributed $58,851 of the increase.
- Same property revenue increased by $3,005, an increase of 6.4%. As discussed above, the increase is primarily attributable to the improved occupancy, new services offered to residents and regular annual rent increases.

Mezzanine Loan Interest

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Mezzanine Loan Interest	2,030	1,200	830	5,785	3,087	2,698

Mezzanine loan interest was higher in the three and nine month periods ended September 30, 2005 as compared to same periods of last year due to higher average loan balances outstanding in 2005.

Fees

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Spectrum	979	2,842	(1,863)	3,290	3,463	(173)
Other	659	675	(16)	2,351	1,938	413
	1,638	3,517	(1,879)	5,641	5,401	240

Fees earned from Spectrum for the three months ended September 30, 2005 were lower than the fees in the third quarter of 2004 due to the following:

- Development management fees decreased by $1,439 as Spectrum commenced the development of 11 projects in the third quarter of 2004 compared to 2 projects in 2005.

- The REIT earned financing fees of $77 in the third quarter of 2005 for arranging construction financing for Spectrum's projects. This compares to financing fees of $467 earned in the third quarter of 2004.

- Operations management fees were lower in the third quarter of 2005 compared to the same period of last year as REIT has acquired 5 stablized properties from Spectrum during 2005, replacing the management fee income with properties operating income.

Fees earned from Spectrum for the nine months ended September 30, 2005 were also lower than in the same period in 2004 due to lower development and financing fees as discussed above.

Fees from other third parties in the three month period ended September 30, 2005 were in line with the same periods of 2004.

Fees for the nine month period ended September 30, 2005 were higher than in the same period of last year due to the following:

- Higher consulting and management fees earned on development projects.

- Operations management fees increased in 2005 as compared to 2004 primarily due to better occupancies and regular rent increases in the managed facilities.

- These increases were off-set by $297 of fees earned from the four properties operated in escrow in the nine month period ended September 30, 2004. Chartwell ceased earning these fees on completion of the acquisition of these properties in February 2004.

Management anticipates that management operations will continue to generate significant revenues and Distributable Income for the REIT in 2005 and beyond.

Other Income

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Other Income	532	55	477	992	482	510

- Higher other income in the Third Quarter of 2005 was primarily due to interest income earned on funds received from the Offering of REIT Units, which closed on August 11, 2005, that were not fully deployed in the quarter.

Direct Operating Expenses

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Direct Operating Expenses	(40,184)	(23,366)	(16,818)	(101,468)	(58,007)	(43,461)

Three months ended September 30, 2005 and 2004:

- Acquisitions completed subsequent to June 30, 2004 contributed $15,011 of the increase.
- Same property expenses increased by $1,232, an increase of 5.6%. This increase was primarily due to the following:

  - Cost of additional programs and services offered to residents in four Western Canada facilities. These programs and services were necessary to improve occupancies and have been effective to date.
  - Higher operating overhead costs.

- Direct operating expenses of management operations increased by $575 to support the higher revenue stream from the management business.

Nine months ended September 30, 2005 and 2004:

- Acquisitions completed subsequent to January 1, 2004 contributed $38,675 of the increase.
- Same property expenses increased by $2,650, an increase of 9.2%. As discussed above, this increase is primarily attributable to cost of additional programs and services offered to residents and higher operating overhead costs.
- Direct operating expenses of management operations increased by $2,136 to support the higher revenue stream from management business.

General and Administrative

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	**2004**	**Change**	**2005**	**2004**	**Change**
General and Administrative	(2,525)	(1,513)	(1,012)	(6,975)	(4,827)	(2,148)
As % of total revenue	**4.1%**	**3.9%**	**0.2%**	**4.4%**	**5.2%**	**(0.8%)**

- Higher general and administrative costs were primarily due to the addition of new staff during 2004 and in the first nine months of 2005 to manage Chartwell's current and future growth, and the resulting higher salaries, rental and general office expenses.

  In the first nine months of 2005 professional, legal and accounting costs were higher than in the same period of last year due to the increased size of the REIT.

- For the nine month period ended September 30, 2005, general and administrative expenses as percentage of gross revenue declined as compared to the same period of last year due to significant increase in revenue contributions from new acquisitions, mezzanine loans and fees.

Interest Expense

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	**2004**	**Change**	**2005**	**2004**	**Change**
Interest Expense	(7,368)	(4,686)	(2,682)	(18,833)	(10,380)	(8,453)

- Acquisitions completed subsequent to June 30, 2004 and January 1, 2004 contributed $2,717 and $7,987 of the increase for the three and nine months ended September 30, 2005 respectively as compared to the same periods of 2004.

- The REIT incurred interest expense of $346 and $1,053 for the three and nine months ended September 30, 2005 on its operating line and bridge loans. This compares to interest expense of $392 and $483 for the three and nine month periods ended September 30, 2004.

Foreign Exchange Loss

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004	Change	2005	2004	Change
Foreign Exchange Loss	(1,434)	-	(1,434)	(1,434)	-	(1,434)

Management entered into option contracts to acquire $36 million U.S. dollars at a U.S./CAD dollar rate which did not exceed 1.23 for the acquisition of the U.S. portfolio, which closed on August 19, 2005. This strategy ensured that the REIT eliminated the risk of currency fluctuation on its initial investment in the acquired U.S. portfolio.

This transaction did not qualify for hedge accounting under GAAP and, consequently, the REIT recognized a foreign exchange loss of $1,094 in the quarter.

In addition, in anticipation of the closing of two acquisitions in the United States, Chartwell acquired approximately $9 million U.S.D. in August 2005. This acquisition did not close until October 2005 (see Subsequent Events). As a result, Chartwell recorded additional foreign currency loss of $0.3 million due to the change in the foreign exchange rate at the end of the quarter.

Management, in the future, expects to continue with this strategy on foreign denominated acquisitions as it is consistent with management's objective of removing the foreign exchange risk from prospective acquisitions. Future hedging transactions may or may not qualify for hedge accounting treatment under the applicable accounting guidelines.

Depreciation and Amortization

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004	Change	2005	2004	Change
Depreciation and Amortization	(12,892)	(9,270)	(3,622)	(34,664)	(22,515)	(12,149)

- The increase in depreciation and amortization is consistent with the growth in the REIT's property portfolio.

Non-controlling Interest

- In response to Emerging Issues Committee ("EIC") – 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which was issued on January 19, 2005, Chartwell REIT has adopted a new policy applicable to Class B Units of Master LP, a subsidiary of Chartwell REIT effective December 31, 2004. Under EIC-151, equity applicable to the Class B Units of Master LP is considered to be a non-controlling interest. Previously, Chartwell REIT included the Class B Units of Master LP as part of unitholder's equity.

The REIT adopted this change retroactively with the restatement of the prior period's Financial Statements.

- Non-controlling interest represents the amount of net loss allocable to the holders of Class B Units of Master LP.

Net Loss

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Net Loss for the period	(2,299)	(141)	(2,158)	(5,702)	(3,513)	(2,189)
Net Loss per unit	(0.052)	(0.005)	(0.047)	(0.150)	(0.132)	(0.018)

Net loss for the three and nine months ended September 30, 2005 increased in comparison for the same periods of 2004 as increased property income contribution was offset by higher depreciation and amortization expenses, lower fee income, and foreign exchange loss and loss on derivative financial instruments.

Distributable Income and Distributions

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004	Change	2005	2004	Change
Distributable Income(1)(2)	14,118	9,398	4,720	34,889	19,599	15,290
Distributions Declared(3)	13,660	8,585	5,075	35,682	23,438	12,244
Weighted average number of units outstanding (diluted)(4)	50,100,673	33,030,198	17,070,475	44,056,236	30,308,905	13,747,331
Distributable Income per unit – diluted	0.282	0.285	(0.003)	0.792	0.647	0.145
Distributions per unit – diluted	0.273	0.260	0.013	0.810	0.773	0.037
Payout Ratio – diluted	97%	91%	6%	102%	120%	-18%

(1) Effective January 1, 2005, the Board of Trustees adjusted the computation of Distributable Income to include fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP.

(2) Effective July 1, 2005, the Board of Trustees amended the computation of Distributable Income to account for the impact of the REIT commencing operations in the United States. Accordingly, the computation of Distributable Income was adjusted to eliminate the impact of unrealized foreign currency gains and losses and to eliminate the impact of foreign exchange gains or losses on the acquisition of properties included in net income.

(3) Includes $1,431 and $4,125 of distributions declared on Class B Units of Master LP for the three and nine months ended September 30, 2005 and $777 and $2,224 for the three and nine months ended September 30, 2004 respectively.

(4) Includes the weighted average of 5,365,261 and 5,057,924 of outstanding Class B Units of Master LP for the three and nine months ended September 30, 2005 and 3,029,961 and 2,855,528 for the three and nine months ended September 30, 2004 respectively.

Distributable income increased in the three and nine month period ended September 30, 2005 as compared to the same periods in 2004 primarily due to the positive contributions of acquisitions and lending activities.

In the Third Quarter of 2005, the REIT completed agreements in respect of 3 new development projects with aggregate fees amounting to $2,049. Due to the nature of the related agreements, these fees did not qualify for immediate recognition under GAAP and will be recorded as income over the terms of the REIT's involvement in these projects. In addition, in the third quarter of 2005, the REIT had entered into agreements to provide mezzanine financing to two of Spectrum's joint venture partners for the development of seniors' housing facilities. These agreements provide for the REIT receiving mezzanine placement fees of $477. These fees will also be recorded as income over the terms of the REIT's involvement in these projects.

Effective January 1, 2005, the REIT's Board of Trustees adjusted the computation of Distributable Income to include such contractually receivable fees (refer to "Other Performance Measures" section of this MD&A).

In aggregate, contractually receivable management fees included in Distributable Income amounted to $2,526 and $4,982 for the three and nine months ended September 30, 2005, respectively. In addition, fees of $134 and $484 were deducted from Distributable Income for the three and nine months ended September 30, 2005, respectively. These fees were included in Distributable Income in prior periods.

On August 11, 2005, the REIT raised $148.8 million net of issue costs through the issuance of 10,250,000 Trust Units. This capital was not fully deployed until after September 30, 2005, which negatively impacted per unit amounts.

SEGMENTED INFORMATION

The following discussion and analysis provides information on the financial results for each operating segment of the REIT for the three and nine month periods ended September 30, 2005 compared to the three and nine month periods ended September 30, 2004 and discusses future financial trends.

Effective June 30, 2005, the REIT changed the composition of its reportable segments to classify seniors' housing facilities as retirement homes or long term care facilities based on the primary level of care provided. Previously, revenue, expenses, assets and liabilities of these facilities were allocated to both retirement homes or long-term care facilities based on the number of retirement and long-term care beds. The comparative information for prior periods have been restated to conform with the current classification.

In the third quarter of 2005, the REIT acquired 50% interest in six seniors housing facilities and management operations in the United States of America.

The REIT monitors and operates these operations separately and consequently reports the results of operations and financial position of the United States operations as a separate operating segment.

Retirement Operations

The following table represents the results of operations and financial position of the retirement operations segment of the REIT for the three and nine month periods ended September 30, 2005 and 2004.

$000's	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Revenues	38,726	23,278	15,448	103,836	56,614	47,222
Direct Operating Expenses	(23,560)	(13,636)	(9,924)	(62,945)	(33,820)	(29,125)
	15,166	9,642	5,524	40,891	22,794	18,097
Interest Expense	(6,024)	(4,127)	(1,897)	(16,004)	(9,045)	(6,959)
Income before depreciation and amortization	9,142	5,515	3,630	24,887	13,749	11,138
Depreciation and amortization	(10,746)	(7,290)	(3,456)	(30,278)	(17,634)	(12,644)
Write down of carrying value of assets	-	-	-	(817)	-	(817)
Gain on sale of assets	-	-	-	103	-	103
Net Loss for the period	(1,604)	(1,775)	(171)	(6,105)	(3,885)	(2,220)
Operating Margins[1]	38.5%	40.4%	-1.9%	38.6%	39.2%	-0.6%

	At September 30, 2005	At September 30, 2004 (restated)	Change
Assets	742,957	548,064	194,893
Liabilities	455,896	334,944	120,952

(1) Operating margin is defined as net operating income as a percentage of revenue excluding the amortization of below market resident contracts of $412 and $384 for the three months ended September 30, 2005 and September 30, 2004 respectively, and $1,263 and $948 for the nine months ended September 30, 2005 and September 30, 2004 respectively.

Revenues

The following tables summarize changes in retirement operations revenue for the three and nine months ended September 30, 2005 from the same periods of 2004.

	Three months ended		
	September 30, 2005	September 30, 2004 (restated)	$ Change
Acquisitions	17,224	2,902	14,322
Same Property	21,502	20,376	1,126
Total	38,726	23,278	15,448

	Nine months ended		
	September 30, 2005	September 30, 2004 (restated)	$ Change
Acquisitions	53,909	9,692	44,217
Same Property	49,927	46,922	3,005
Total	103,836	56,614	47,222

- Acquisition of 29 retirement residences since June 30, 2004 (39 retirement residences since January 1, 2004) contributed 93% and 94% of revenue increases for the three and nine months ended September 30, 2005 from the same periods last year, respectively.

- Same property revenues increased by 5% for the three months ended September 30, 2005 and by 6% for the nine month period ended September 30, 2005 due to the following:

  - A facility in Western Canada that was acquired in lease-up with an accompanying income guarantee achieved stabilized occupancy in the first quarter of 2005.
  - Additional resident services were introduced in four facilities in Alberta. The REIT constructed new kitchens and added on-site food services in two independent retirement facilities. The REIT also contracted with local health authorities to provide funded home care in the other two facilities.
  - Improved occupancies in the retirement homes portfolio and regular annual rent increases also contributed to increases in revenues.

- Overall occupancy in the retirement portfolio was 93% as of September 30, 2005, up from 92% at the end of the previous three quarters.

Direct Operating Expenses

The following tables summarize changes in direct operating expenses of the retirement operations for the three and nine months ended September 30, 2005 from the same periods of 2004:

	Three months ended		
	September 30, 2005	September 30, 2004 (restated)	$ Change
Acquisitions	10,123	1,245	8,878
Same Property	13,437	12,391	1,046
Total	23,560	13,636	9,924

	Nine months ended		
	September 30, 2005	September 30, 2004 (restated)	$ Change
Acquisitions	31,747	5,272	26,475
Same Property	31,198	28,548	2,650
Total	62,945	33,820	29,125

- Acquisitions of 29 retirement residences since June 30, 2004 (39 retirement residences since January 1, 2004) contributed 90% and 91% of direct operating expense increases for the three and nine months ended September 30, 2005 from the same periods of last year, respectively.

- Same property direct operating expenses increased by 8% and 9% for the three and nine month period ended September 30, 2005, as compared to the same periods of last year, due to the following:

  - The cost associated with the additional resident services which were introduced in four facilities in Alberta.
  - The higher property operating overheads attributable to the addition of senior operations management personnel in 2004 and 2005.

Operating Margins

Retirement operations operating margins in the second quarter of 2005 were 38.5% compared to 40.4% in the second quarter of 2004.

Operating margins for the nine months ended September 30, 2005 were 38.6%, compared to 39.2% in the same period of last year.

The decrease in operating margins for the three and nine month period ended September 30, 2005 compared to the nine month period ended September 30, 2004 is attributable to the following:

- Higher property operating overhead.

- Addition of new resident service programs introduced in certain facilities, including the aforementioned Western Canada properties. These programs, although they generate positive NOI contribution, normally operate at lower margins, which dilutes the overall portfolio margins.

- Certain of the acquired properties offer enhanced resident care and service programs. These acquisitions, while generating positive NOI contributions and accretive yields, generally operate at lower operating margins.

Interest Expense

The increase in interest costs is due to the acquisitions that were completed in 2004 and the first six months of 2005.

Depreciation and Amortization

The increase in depreciation and amortization expenses was due to the acquisitions completed in 2004 and the first half of 2005.

Net Loss

Net loss for the three and nine month periods ended September 30, 2005 increased, as compared to the same periods in 2004, as the positive net operating income contribution from new acquisitions, new services introduced at certain facilities and improved occupancies were offset by higher interest and depreciation and amortization expenses.

The REIT also recorded a write-down of the carrying value of one retirement home in the First Quarter of 2005.

Long-Term Care Operations

The following table represents results of operations and financial position of the long-term care operating segment for the three and nine months ended September 30, 2005 as compared to the three and nine months ended September 30, 2004.

$000's	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Revenues	16,145	10,641	5,504	38,662	26,790	11,872
Direct Operating Expenses	(14,166)	(9,430)	(4,736)	(33,931)	(23,314)	(10,617)
	1,979	1,211	768	4,731	3,476	1,255
Interest Expense	(734)	(559)	(175)	(2,219)	(1,335)	(884)
Income before depreciation and amortization	1,245	652	593	2,512	2,141	371
Depreciation and amortization	(818)	(1,431)	613	(2,470)	(3,281)	811
Net Income (Loss) for the period	427	(779)	1,206	42	(1,140)	1,182
Operating Margins	12.3%	11.4%	0.9%	12.2%	13.0%	-0.7%

	As September 30, 2005	At September 30, 2004 (restated)
Assets	114,700	65,043
Liabilities	72,744	42,871

Revenues

The following tables summarize changes in long term care operations' revenues for the three and nine month periods ended September 30, 2005 as compared to same periods of 2004:

	Three months ended		
	September 30, 2005	September 30, 2004 (restated)	$ Change
Acquisitions	5,546	-	5,546
Same Property	10,599	10,641	(42)
Total	16,145	10,641	5,504

	Nine months ended		
	September 30, 2005	September 30, 2004 (restated)	$ Change
Acquisitions	38,662	26,790	11,872
Same Property	-	-	-
Total	38,662	26,790	11,872

- The acquisition of 3 long term care facilities since June 30, 2004 (10 long term care facilities since January 1, 2004) contributed $5,546 and $11,872 of revenue increase for the three and nine month periods ended September 30, 2005 as compared to same periods of last year.

- Same property revenues remained flat in the three month period ended September 30, 2005 as funding increases were off-set by occupancy issues experienced in two long term care facilities.

- As previously mentioned in the “Outlook” section of the MD&A, the repositioning of the Gibson Long Term Care Centre has recently been completed. Occupancy in this facility has already started to increase and is expected to continue to do so through the remainder of 2005. The occupancy in the facility is currently 97%. Revenue will increase as a result of both an increase in residents and the receipt of additional preferred accommodation revenue.

- Effective July 1, 2005, the Ontario Government announced a 1.5% increase in funding to the accommodation envelope for long-term care facilities. This will result in approximately $200 of additional revenue to the REIT on an annualized basis assuming stabilized occupancy in all the applicable facilities.

Direct Operating Expenses

The following tables summarize changes in long term care direct operating expenses for the three and nine month periods ended September 30, 2005 as compared to the same periods of 2004.

	Three months ended		
	September 30, 2005	**September 30, 2004 (restated)**	**$ Change**
Acquisitions	4,550	-	4,550
Same Property	9,616	9,430	186
Total	14,166	9,430	4,736

	Nine months ended		
	September 30, 2005	**September 30, 2004 (restated)**	**$ Change**
Acquisitions	33,931	23,314	10,617
Same Property	-	-	-
Total	33,931	23,314	10,617

- The acquisition of 3 long term care facilities since June 30, 2004 (10 long term care facilities since January 1, 2004) contributed $4,550 and $10,617 of the increase to direct operating expenses for the three and nine month periods ended September 30, 2005 as compared to the same periods of last year.

- Same property expenses increased slightly in the three month period ended September 30, 2005 as management was able to reduce facilities' staffing and other variable expenses in two facilities that experienced occupancy issues in the quarter, which offset inflationary expense increases, and higher property operating overhead.

Operating Margins

Long term care operations operating margins in the third quarter of 2005 were 12.3% as compared to 11.4% in the same period of last year.

Operating margins for the nine months ended September 30, 2005 were 12.2% as compared to 13.0% margins in the same period of last year.

- Operating margins for the three months ended September 30, 2005 were higher primarily due to the higher margins generated by 3 LTC facilities acquired in 2005.

- Long term care operating margins declined in the first nine months of 2005 as compared to the same period of 2004 due to the occupancy issues experienced at two long term care facilities in Ontario. Both these facilities have seen a substantial increase in occupancy and are currently at 97% and 98% occupancy in the respective facilities.

Interest Expense

- The increase in interest costs is primarily due to acquisitions.

Depreciation and Amortization

Depreciation and amortization decreased in the three and nine month periods ended September 30, 2005 as compared to the same periods of last year as resident contracts of $4.1 million acquired as part of acquisitions of long term care facilities in 2004 were fully amortized by March 31, 2005.

Net Income (Loss)

The increase in net income (decrease in net loss) is due to lower depreciation and amortization costs as discussed above.

U.S. Operations

The following table represents the results of operations and the financial position of the U.S. operating segment for the three and nine months ended September 30, 2005 as compared to the three and nine months ended September 30, 2004.

$000's	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Revenues	2,762	-	2,762	2,762	-	2,762
Direct Operating Expenses	(1,583)	-	(1,583)	(1,583)	-	(1,583)
	1,179	-	1,179	1,179	-	1,179
Interest Expense	(610)	-	(610)	(610)	-	(610)
Income before depreciation and amortization	569	-	569	569	-	569
Depreciation and amortization	(893)	-	(893)	(893)	-	(893)
					-	
Net Income (Loss) for the period	(324)	-	(324)	(324)	-	(324)
Operating Margins	42.6%	-	42.6%	42.6%	-	42.6%

	As September 30, 2005	At September 30, 2004 (restated)
Assets	162,851	-
Liabilities	101,878	-

As at September 30, 2005, the U.S. Operations segment includes Chartwell's 50% interest in 5 facilities located in Colorado and 1 facility located in Texas (1,043 suites). In addition, the results of U.S. operations include Chartwell's 50% interest in Horizon Bay Chartwell LLC ("HBC"), a property manager for the above 6 facilities. Chartwell acquired its interest in the properties and in HBC on August 18, 2005. These properties are predominately independent living facilities and have operated at over 95% occupancy since acquisition.

We anticipate that these occupancies and high operating margins will continue for the remainder of 2005 and in 2006.

Management Operations

$000's	For the three months ended September 30			For the nine months ended September 30		
	2005	2004	Change	2005	2004	Change
Revenues	1,638	3,517	(1,879)	5,641	5,401	761
Direct Operating Expenses	(875)	(300)	(575)	(3,009)	(873)	(2,136)
	763	3,217	(2,454)	2,632	4,528	(1,375)
Interest Expense	-	-	-	-	-	-
Income before depreciation and amortization	763	3,217	(2,454)	2,632	4,528	(1,375)
Depreciation and amortization	(435)	(549)	114	(1,023)	(1,600)	577
Write down of carrying value of assets	-	-	-	-	(501)	501
Net Income (Loss) for the period	328	2,668	(2,340)	1,609	2,427	(297)
Operating Margins	47%	91%	-44%	47%	84%	-37%

	As September 30, 2005	At September 30, 2004
Assets	20,185	17,962
Liabilities	-	-

Revenues

($000's)	For the three months ended September 30			For the nine months ended September 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Spectrum	979	2,842	(1,863)	3,290	3,463	(173)
Other	659	675	(16)	2,351	1,938	413
	1,638	3,517	(1,879)	5,641	5,401	240

Fees earned from Spectrum for the three months ended September 30, 2005 were lower than the fees in the third quarter of 2004 due to the following:

- Development management fees decreased by $1,439 as Spectrum commenced the development of 11 projects in the third quarter of 2004 compared to 2 projects in 2005.
- The REIT earned financing fees of $77 in the third quarter of 2005 for arranging construction financing for Spectrum's projects. This compares to financing fees of $467 earned in the third quarter of 2004.
- Operations management fees were lower in the third quarter of 2005 compared to the same period of last year as REIT has acquired 5 stablized properties from Spectrum during 2005, replacing management fee income with properties operating income.

Fees earned from Spectrum for the nine months ended September 30, 2005 were also lower than in the same period of 2004 due to lower development and financing fees as discussed above.

Fees from other third parties in the three month period ended September 30, 2005 were in line with the same periods of 2004.

Fees for the nine month period ended September 30, 2005 were higher than in the same period of last year due to the following:

- Higher consulting and management fees earned on development projects.

- Operations management fees increased in 2005 as compared to 2004 primarily due to better occupancies and regular rent increases in managed facilities.

- These increases were off-set by $297 of fees earned from the four properties operated in escrow in the nine month period ended September 30, 2004. Chartwell ceased earning these fees on completion of the acquisition of these properties in February 2004.

In the Third Quarter of 2005, the REIT completed agreements in respect of 3 new development projects with aggregate fees amounting to $2,049. Due to the nature of the related agreements, these fees did not qualify for immediate recognition under GAAP and will be recorded as income over the terms of the REIT's involvement in these projects. In addition in the third quarter of 2005, the REIT had entered into agreements to provide mezzanine financing to two of Spectrum's joint venture partners for development of seniors' housing facilities. The agreement provides for the REIT receiving mezzanine placement fees of $477. These fees will also be recorded as income over the terms of the REIT's involvement in these projects.

Effective January 1, 2005, the REIT's Board of Trustees adjusted the computation of Distributable Income to include such contractually receivable fees (refer to "Other Performance Measures" section of this MD&A).

In aggregate contractually receivable management fees included in Distributable Income amounted to $2,526 and $4,982 for the three and nine months ended September 30, 2005, respectively. In addition, fees of $134 and $484 were deducted from Distributable Income for the three and nine months ended September 30, 2005, respectively. These fees were included in Distributable Income in prior periods.

Management anticipates that management operations will continue to generate significant revenues and Distributable Income for the REIT in 2005 and beyond.

Direct Operating Expenses

Direct operating expenses increased in the three and nine month periods ended September 30, 2005 as compared to the same periods of 2004 as more management efforts were required to support the higher revenue stream and structure new development projects with Spectrum and other parties.

Operating Margins

Operating margins decreased as the increase in fee income recorded in the financial statements did not fully offset higher operating expenses incurred to structure new development projects and support operations management activities.

Depreciation and Amortization

Depreciation and amortization is decreased due to the write-down of four management contracts and related customer relationships on cancellation of these contracts in 2004, as well as the reduction in carrying value of management contracts and customer relationships on acquisition of one long term care facility, previously managed by the REIT in the second quarter of 2005.

QUARTERLY FINANCIAL INFORMATION

The following table summarizes the REIT's quarterly financial information:

($000's, except per unit amounts)	Three Months Ended Sept. 30, 2005	Three Months Ended June 30, 2005	Three Months Ended March 31, 2005	Three Months Ended December 31, 2004	Three Months Ended September 30, 2004 (restated)	Three Months Ended June 30, 2004 (restated)	Three Months Ended March 31, 2004 (restated)	Period From November 14, 2003 to December 31, 2003 (restated)
Revenues	$ 61,833	$ 50,867	$ 44,978	$ 45,406	$ 38,691	$ 29,590	$ 24,093	$ 9,220
Direct Operating Expenses	(40,184)	(31,790)	(29,494)	(27,161)	(23,366)	(19,479)	(15,162)	(5,170)
General, Administrative and Trust Expenses	(2,525)	(2,451)	(1,999)	(2,024)	(1,513)	(1,830)	(1,484)	(1,415)
Income before interest, depreciation and amortization	19,124	16,626	13,485	16,221	13,812	8,281	7,447	2,635
Interest Expense	(7,368)	(5,781)	(5,684)	(6,521)	(4,686)	(3,045)	(2,649)	(1,236)
Foreign Exchange Loss	(1,434)	-	-	-	-	-	-	-
Depreciation and Amortization	(12,892)	(11,003)	(10,769)	(10,671)	(9,270)	(7,581)	(5,664)	(3,006)
Write down of carrying value of assets	-	-	(817)	(1,159)	-	(501)	-	-
Gain on sale of assets	-	103						
Non-controlling interest	271	(11)	448	196	3	266	74	103
Net Loss for the period	(2,299)	(66)	(3,337)	(1,934)	(141)	(2,580)	(792)	(1,504)
Distributable Income	14,118	11,078	9,693	11,145	9,398	5,729	4,472	1,240
Distributable Income Per Unit, diluted	0.282	0.249	0.259	0.305	0.285	0.197	0.158	0.045

Chartwell REIT's quarterly results for the past 7 quarters have been affected by the acquisition of new facilities and an increase in revenue resulting from higher development, management and financing activities.

General, Administration and Trust Expenses have increased over the past 5 quarters to provide additional infrastructure to support the REIT's growth.

Per unit amounts on a quarterly basis have been impacted by timing of the issuance of trust units by the REIT.

FINANCIAL POSITION

($000's)	September 30, 2005	December 31, 2004
Real Property Investments	898,042	$590,412
Mezzanine Loans	70,453	52,021
Total Assets	**1,151,914**	**740,252**
Mortgages Payable	578,486	374,520
Loans Payable	11,550	41,518
Total Liabilities	**635,435**	**440,678**
Non-controlling Interest	55,977	40,279
Unitholders' Equity	460,502	259,295
Total Liabilities and Equity	**1,151,914**	**740,252**

The increase in total assets as at September 30, 2005 compared to December 31, 2004 is due primarily to the acquisition of 23 seniors housing facilities that were completed in the first nine months of 2005.

Mortgages payable increased from December 31, 2004 due to the financing attributable to acquisitions completed in the period and mortgages assumed on these same transactions. This was partially offset by mortgage principal repayments and the retirement of long-term debt of approximately $37.6 million. The REIT re-paid the outstanding balance on its line of credit with the proceeds from the equity issue completed on March 30, 2005, and paid down one bridge loan from the proceeds of permanent re-financing of the property. The REIT also issued an additional 10,200,000 Trust Units on August 11, 2005 raising $148.8 million, net of issue costs.

The non-controlling interest increased from December 31, 2004 mainly due to the issuance of approximately 1.9 million Class B Units of Master LP valued at $26.4 million, offset by $4.1 million of distributions paid on these units, and conversion of 0.5 million of Class B Units valued at $5.7 million to Trust Units.

Outstanding Units Data

The following table summarizes the information with respect to the units outstanding as of September 30, 2005 and December 31, 2004.

($000's)	September 30, 2005	December 31, 2004
Trust Units	48,909,685	31,913,005
LTIP Units under subscription	852,500	860,000
	49,762,185	32,773,005
Class B Units of Master LP	5,644,229	4,213,149
	55,406,414	36,986,154

During the nine months period ended September 30, 2005, the REIT issued 16,450,000 Trust Units pursuant to two Public Offerings, 83,939 Trust Units under its Distribution Reinvestment Program and 1,886,318 Class B Units of Master LP on the acquisition of seven seniors housing facilities. In addition, holders of 455,238 Class B Units of Master LP exchanged them for the REIT Units. The holders of 7,500 of LTIP Units under subscription disposed of their Units in the nine month period ended September 30, 2005 as a result of their termination as employees of the REIT.

In addition, subsequent to September 30, 2005, the REIT issued 631,250 Units pursuant to its Long-Term Incentive Program.

PROPERTY PORTFOLIO

The following table summarizes the composition of Chartwell's real estate portfolio of owned facilities as at September 30, 2005 and December 31, 2004:

As at	**September 30, 2005**	**December 31, 2004**
Number of suites	9,503	6,818
Number of properties	90[(1)]	68[(2)]
Composition (based on the number of suites):		
Independent living	35%	30%
Retirement homes	50%	55%
Long-Term Care facilities	15%	15%

(1) Includes 14 properties in which Chartwell holds a 50% interest, and 1 facility in which Chartwell holds a 39% interest.
(2) Includes 1 facility in which Chartwell holds a 39% interest.

During the nine months ended September 30, 2005, the REIT acquired 23 properties (2,718 suites). In the first nine months of 2005 suites conversions and reconfigurations reduced the owned portfolio suite count by 21 suites. The REIT also disposed of a 15 unit retirement home in this period.

As of September 30, 2005, the REIT's owned portfolio is geographically diversified with 43% of total suites situated in Ontario, 24% in Quebec, 6% in Alberta and 12% in British Columbia; a further 15% of the owned portfolio is the U.S.

MORTGAGE DEBT

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at September 30, 2005:

Year	Regular Principal Payments	Principal Due at Maturity	Total	Weighted Average Interest Rate of Maturing Debt
2005	5,184	33,029	38,213	5.10%
2006	14,491	33,342	47,833	4.39%
2007	14,067	25,449	39,516	4.47%
2008	13,027	48,509	61,536	5.11%
2009	9,430	109,942	119,372	4.70%
2010-2015	34,098	215,671	249,769	5.45%
2016-2025	7,349	14,898	22,247	6.37%
Total	97,646	480,840	578,486	

The average term to maturity for the total mortgage is approximately 5.7 years (December 31, 2004 – 5.0 years), and the weighted average interest rate is 5.19% (December 31, 2004 – 5.23%). Management is pursuing a strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt.

In the third quarter of 2005, the REIT arranged new mortgage financing (or refinanced existing mortgages) for 8 of its facilities in the aggregate amount of $120.1 million (including $96.0 million ($80 million U.S.D.) of U.S. dollar denominated debt). This new debt bears interest at a weighted average rate of 5.28% and matures on various dates up to September, 2015.

In addition, Chartwell obtained additional advances on three of its construction loans in the amount of $3.6 million

Chartwell also assumed $64.4 million of mortgage debt on acquisitions completed in the third quarter of 2005. This debt bears interest at a weighted average rate of 4.49%. Two of the assumed variable rate mortgages of $13.2 million were refinanced with new fixed rate mortgages totaling $20.5 million, having a term to maturity of 7 years, and bearing a weighted average interest rate of 4.67%.

During the third quarter of 2005, the REIT fixed the terms of 5 mortgages maturing in the fourth quarter of 2005 and the first half of 2006. These new mortgages amounting to $17.9 million bear a weighted average interest rate of 5.15% and have terms to maturity of between 7 and 15 years.

In aggregate during the nine month period ended September 30, 2005, the REIT has obtained new mortgages totaling $163.3 million (including variable rate debt of $11.2 million) and assumed $86.6 million of mortgages and loans payable on the acquisition of seniors housing facilities completed in 2005.

The REIT had $27.3 million of variable rate mortgage debt outstanding at September 30, 2005. This debt primarily relates to internal growth projects and facilities in lease-up in the Province of Quebec. The REIT anticipates to convert these loans into permanent fixed rate debt upon completion of the internal growth projects or the stabilization of the facilities in lease-up.

The REIT also entered into an interest rate swap on a $13.8 million mortgage, securing a fixed rate of 5.95% including stamping fee, until the mortgage matures in February 2014.

The maximum debt leverage permitted by Chartwell's Declaration of Trust is 60%. At September 30, 2005 Chartwell's debt leverage ratio was 48.6%. If Chartwell were to increase its borrowing to the maximum 60% allowed under its declaration of trust, it would increase its available cash by approximately $140.0 million. This would allow the REIT to acquire approximately $350.0 million of new assets. Management of the REIT does not expect that its debt leverage ratio will exceed 55% on a long-term basis.

CONTRACTUAL OBLIGATIONS

The REIT's major contractual obligations as at September 30, 2005 were as follows:

Payment due by Period	(000's of dollars)						
	Total	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**
Mortgages Payable	578,486	38,213	47,833	39,516	61,536	119,372	272,016
Loans Payable	11,550	11,550					
Operating Leases	4,811	110	470	500	522	522	2,687
Land Rent	7,088	32	126	126	126	126	6,552
Mezzanine Loan Funding Obligations	25,834	25,834	-	-	-	-	-
Purchase Obligations	70,565	60,315	10,250	-	-	-	-
Total Contractual Obligations	698,334	136,054	58,679	40,142	62,184	120,020	281,255

Operating leases relate to the agreements entered into by the REIT for office space in Ontario and British Columbia.

Land rent relates to an obligation assumed by Chartwell in respect of a land lease which expires on July 17, 2061 with annual payments of $0.126 million.

Mezzanine loan funding obligations relate to approved loans to Spectrum and other parties to fund the development and lease-up of 9 retirement residences in Quebec, Ontario and British Columbia. Partial advances on 3 of these projects were made prior to September 30, 2005.

Purchase obligations relate to the following:

- Acquisitions of three seniors housing facilities for approximately $53.5 million, completed subsequent to September 30, 2005 (see Subsequent Events).

- Three contingent considerations in respect of completed acquisitions:

  - $4.25 million contingent upon the property achieving certain operating targets, the measurement of which is to be made annually commencing in December 31, 2005.

  - $5.0 million in respect of certain suites being added to the acquired facility, payable in installments commencing in the year ended December 31, 2005 and conditional upon the property achieving certain operating targets. The first $1 million installment was payable at September 30, 2005 and was recorded as deferred consideration on acquisition of properties in the Financial Statements.

  - $0.68 million in respect of two properties upon these properties achieving predetermined income targets over a three-year period.

- Deferred purchase consideration of $2 million related to the acquisition of a retirement home in Ontario that is due on the earlier of:

  (i) the property achieving certain operating results commencing March 2005; and
  (ii) September 2006.

- Commitments with respect to various construction contracts, related to the REIT's internal growth projects, are in the amount of approximately $5.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Chartwell's cash commitments include payments related to long-term debt, cash distributions to Unitholders, operating leases and minimum purchase obligations.

Chartwell's principal source of liquidity is cash flow from operations. The REIT has arranged for a secured revolving operating facility of $55 million. As of September 30, 2005, no amounts were outstanding under this facility. 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 March 14, 2006. The term may be extended with the consent of the lenders for an additional 364 day period.

The REIT has received approval to increase the size of the operating facility to $70 million subject to the provision of additional security.

As of September 30, 2005, Chartwell had $8.5 million outstanding on two Bridge Loans secured by second charges over three properties.

The REIT completed an offering of Trust Units on March 30, 2005, issuing 6.25 million Trust Units at $14.45 per unit. The net proceeds after payment of $5.1 million of issue costs amounted to $85.2 million. The proceeds were used to repay the balances outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

On August 11, 2005, the REIT issued 10.2 million Trust Units at $15.20 per unit. The net proceeds of $148.8 million after the repayment of issue related costs of $6.2 million, were used to repay the balances outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

Due to the issues discussed under Distributable Income and Distributions section of this MD&A, the REIT's total distributions for the nine months ended September 30, 2005 exceeded the amount of its Distributable Income. These excess distributions were financed from the REIT's credit facilities. Management believes that the REIT will generate sufficient cash from its activities to maintain its current level of distributions.

Management expects that the principal use of funds in the future will be for the acquisition of seniors housing properties, debt repayments, distributions, mezzanine financing to Spectrum and other third parties, and capital expenditures on the existing property portfolio.

Capital Expenditures

For the three and nine month period ended September 30, 2005, the REIT incurred $10.6 million and $22.2 million of capital additions to its properties, respectively. These expenditures fall within the following major categories:

- Building improvements and additions include capital expenditures that increase revenue generating potential of the properties such as additions of new units and capital expenditures incurred in order to introduce new services to residents.

- Long-term replacement items include expenditures for assets that will likely be replaced several times over the life of the building, such as roofing, paving, HVAC equipment, etc.

- Furniture, Fixtures and Equipment ("FF&E") purchases.

The additions to real estate properties are reduced by the amounts receivable under the Net Operating Income guarantees provided to the REIT by the vendor of certain facilities acquired in 2004, and reduced by the carrying amount of the property sold in the second quarter of 2005.

The following table summarizes additions to properties for the three and nine months ended September 30, 2005:

(000's)	Three months ended September 30, 2005	Nine months ended September 30, 2005
Building improvements and additions	9,317	18,936
Long-Term Replacement Items	285	756
Furniture, Fixtures and Equipment	515	1,503
Other	578	1,000
	10,695	22,195

Cash Flows

The following table summarizes Chartwell's cash flows for the three and nine month periods ended September 30, 2005 and 2004:

	Three month period ended		Nine month period ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Cash provided by (used in):				
Operating Activities	20,513	10,613	42,265	17,078
Financing Activities	231,972	59,761	287,551	102,477
Investing Activities	(219,221)	(71,395)	(289,336)	(159,544)
Foreign exchange loss on U.S. dollar denominated cash	(7)	-	(7)	-
Increase (decrease) in each:				
and cash equivalent	33,257	(1,021)	40,473	(39,989)

Three months period ended September 30, 2005 and 2004:

Cash provided by operating activities was higher in 2005 than that in 2004 due to positive funds from operations from the contribution of new acquisitions, lending and management activities.

Cash provided by financing activities increased primarily due to higher proceeds on new mortgage financings and proceeds from the issuance of Trust Units pursuant to public offering on August 11, 2005.

Cash used in investing activities was increased due to the higher cash component of the purchase price of properties acquired in 2005 and higher capital additions to properties mainly for internal growth projects and mezzanine loans advances.

Nine month period ended September 30, 2005 and 2004:

Cash provided by operating activities increased due to positive funds from operations from contributions of new acquisitions, lending and management activities.

Cash provided by financing activities increased primarily due to the proceeds of public offerings of REIT Units. This was offset by higher distributions and repayments of loans and mortgages payable.

Cash used in investing activities increased primarily due to the higher cash component of the purchase price of properties acquired in 2005, higher capital additions to the properties, mainly for internal growth projects and higher mezzanine loans advances.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the REIT enters into transactions with various related parties. The following is a summary of significant related party transactions for the three and nine months ended September 30, 2005:

i) Under the terms of the Development Agreement with Spectrum, a company controlled by the senior management of the REIT (including Stephen Suske, Vice Chairman and President, Robert Ezer, Chief Executive Officer, Brent Binions, Executive Vice President, Leslie Veiner, Chief Financial Officer, Richard Noonan, Chief Operating Officer and Peter Gaskill, Senior Vice President, Development), the REIT provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee.

As of September 30, 2005, mezzanine loans receivable from Spectrum amounted to $40.1 million (December 31, 2004 - $42.8 million). These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 27 seniors' housing development properties.

During the three-month and nine-month periods ended September 30, 2005, Chartwell REIT earned mezzanine loan interest of $1.3 million and $4.0 million respectively from Spectrum. During the three-month and nine-month periods ended September 30, 2005, Chartwell REIT earned management fees of $0.9 million and $2.9 million, respectively in respect of these services.

In addition, Chartwell REIT earned $0.1 million and $0.4 million in financing fees from Spectrum during the three-month and nine-month periods ended September 30, 2005, respectively.

Other assets as of September 30, 2005 include $1.0 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to September 30, 2005, $0.5 million of this balance was repaid. In addition, other assets include advances of $0.1 million due from a joint venture where Spectrum holds a 72.5% interest.

Included in distributions payable at September 30, 2005 is $0.2 million due to Spectrum.

ii) In the third quarter of 2005, Chartwell acquired two seniors housing facilities from Spectrum – the Centennial Retirement Home, a 75-suite facility in Oshawa, Ontario and the Regency Retirement Residence, an 80-suite facility in Mississauga, Ontario (including a 27.5% interest in this facility held by Spectrum's Joint Venture Partner). The total purchase price for these acquisitions amounted to $32.3 million and was settled by the assumption of mortgages payable of $13.2 million, issuance of 670,231 Class B Units of Master LP valued at $10.2 million, settlement of mezzanine loans payable of $5.3 million and cash.

In the nine month period ended September 30, 2005, the REIT acquired 5 seniors housing facilities from Spectrum for a total purchase price of $45.2 million. The purchase price was settled by the issuance of 841,777 Class B Units of Master LP valued at $12.7 million, retirement of mezzanine loans receivable of $16.3 million, assumption of debt and cash.

iii) In the three month period ended September 30, 2005, Chartwell disposed of one seniors housing facility and one property under development to Spectrum.

The purchase price of $7.8 million was satisfied by the assumption of $3.9 million of debt, provision of mezzanine loan receivable of $3.3 million and cash.

At September 30, 2005, the REIT remains as a guarantor on the debt of these two properties to a maximum amount of $21.8 million. At September 30, 2005, $5.5 million of these loans were outstanding. Spectrum has indemnified the REIT for these guarantees. The REIT earns a fee for providing these guarantees.

iv) As of September 30, 2005, the REIT had mezzanine loans receivable of $30.0 million from three of Spectrum's joint venture partners (including $23.5 million advanced to entities controlled by Melior) (the "Borrowers"). These loans bear interest at rates between 10% and 14% and are secured by second fixed charges or pledges of Borrower's interests in 10 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 the second anniversary of the date upon which the property achieved stabilized occupancy, as defined in the Development Agreement with Spectrum and loan agreements with the Borrower.

v) During the three and nine month periods ended September 30, 2005, the REIT earned interest income of $0.7 and $1.5 million, respectively and fees of $0.1 million and $0.9 million from Melior.

Accounts receivable at September 30, 2005 include $0.2 million due from Melior and deferred revenue includes $2.3 million from Melior, and accounts payable and accrued liabilities included $0.5 million due to Melior.

<u>Subsequent Events</u>

Subsequent to September 30, 2005, Chartwell REIT completed the acquisition of one seniors housing facility in Alberta for a purchase price of $26,875 plus acquisition costs.

In addition, Chartwell REIT completed the acquisition of 50% interest in two seniors housing facilities in the United States for a purchase price of $25,650 (U.S.D. $22,000) plus closing costs. These facilities were acquired from entities controlled by Chartwell's joint venture partner in other projects.

Subsequent to September 30, 2005, Chartwell REIT completed the acquisition of one senior's housing facility in Ontario from Spectrum for a purchase price of $9,100 plus closing costs.

Subsequent to September 30, 2005, Chartwell REIT advanced $5,573 in mezzanine loans to Spectrum and other parties. These loans bear interest at 10%.

Subsequent to September 30, 2005, the REIT issued an additional 631,250 Units pursuant to its Long-Term Incentive Program.

Risks and Uncertainties

The REIT is subject to certain risks and uncertainties described in the MD&A for the year ended December 31, 2004 and other regulatory filings, including the Prospectus dated August 4, 2005.

On September 8, 2005, the Department of Finance (Canada) released a consultation paper on tax and other issues related to publicly listed flow-through entities and invited interested parties to make submissions prior to December 31, 2005. The stated focus of the consultation paper is to assess the tax and economic efficiency implications of flow-through entities to determine if the current tax system is appropriate or should be modified. On September 19, 2005, the Minister of Finance (Canada) announced that he had requested that Canada Revenue Agency postpone providing advance rulings respecting flow-through entity structures pending these consultations, that the Department of Finance (Canada) is closely monitoring developments in the flow-through entity market with a view to proposing measures in response to the consultations and that consideration would be given to what, if any, transitional measures were appropriate. Further initiatives in this area, if any, including the possible initiatives referred to in the consultation paper, may be taken following the completion of such consultations. Accordingly, legislative changes in this area are possible. Such changes could result in income taxes being materially and possibly adversely different in certain respects and may adversely affect Chartwell's cash flow available for distribution and the market price and liquidity of its Units.

Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month and nine-month periods ended
September 30, 2005
(Unaudited)

CHARTWELL SENIORS HOUSING
REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	September 30, 2005	December 31, 2004
	(Unaudited)	
Assets		
Properties (note 3)	$ 898,042	$ 590,412
Mezzanine loans receivable (note 4)	70,453	52,021
Management contracts, resident contracts and customer relationships (note 5)	68,093	55,055
Cash and cash equivalents	40,768	295
Other assets (note 6)	39,947	24,039
Licences	11,935	8,130
Goodwill (note 5)	22,676	10,300
	$ 1,151,914	$ 740,252
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7)	$ 578,486	$ 374,520
Loans payable (note 8)	11,550	41,518
Accounts payable and other liabilities (note 9)	40,482	21,482
Distributions payable	4,917	3,158
	635,435	440,678
Non-controlling interest (note 10)	55,977	40,279
Unitholders' equity	460,502	259,295
Commitments and contingencies (notes 15 and 16)		
Subsequent events (note 21)		
	$ 1,151,914	$ 740,252

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 September 30, 2005	Three-month periods ended September 30, 2004	Nine-month periods ended September 30, 2005	Nine-month periods ended September 30, 2004
		(Restated - note 1(b))		(Restated - note 1(b))
Revenue:				
Resident	$ 57,633	$ 33,919	$ 145,260	$ 83,404
Mezzanine loan interest (notes 4 and 13(a) and (b))	2,030	1,200	5,785	3,087
Fees (note 13(a), (b) and (c))	1,638	3,517	5,641	5,401
Other (note 6)	532	55	992	482
	61,833	38,691	157,678	92,374
Expenses:				
Direct operating	40,184	23,366	101,468	58,007
General and administrative	2,525	1,513	6,975	4,827
	42,709	24,879	108,443	62,834
	19,124	13,812	49,235	29,540
Interest expense (note 13(c))	7,368	4,686	18,833	10,380
Foreign exchange loss and losses on settlement of derivative financial instruments	1,434	–	1,434	–
	8,802	4,686	20,267	10,380
	10,322	9,126	28,968	19,160
Depreciation of properties	5,579	3,366	14,488	8,119
Amortization of management contracts, resident contracts and customer relationships	7,313	5,904	20,176	14,396
Write-down in carrying value of assets	–	–	817	501
	12,892	9,270	35,481	23,016
Loss before the undernoted	(2,570)	(144)	(6,513)	(3,856)
Gain on sale of assets	–	–	103	–
Non-controlling interest	271	3	708	343
Loss for the period	$ (2,299)	$ (141)	$ (5,702)	$ (3,513)
Loss per unit - basic and diluted (note 12)	$ (0.052)	$ (0.005)	$ (0.150)	$ (0.132)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Nine-month period ended September 30, 2005
(Unaudited)

	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loans 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 September 30, 2005	–	–	–	(5,702)	–	–	(5,702)
Distributions to unitholders	–	–	–	–	–	(31,557)	(31,557)
Issuance of Trust Units pursuant to secondary public offering	245,353	–	–	–	–	–	245,353
Issue costs	(12,814)	–	–	–	–	–	(12,814)
Issuance of Trust Units under the Distributions Reinvestment Program	1,193	–	–	–	–	–	1,193
Trust Units issued on exchange of Class B Units of Chartwell Master Care Limited Partnership	5,723	–	–	–	–	–	5,723
Repayment of instalment loan receivable (note 11(c))	75	(75)	64	–	–	–	64
Interest on instalment loan receivable	–	–	(221)	–	–	–	(221)
Distributions applied against instalment loan receivable	–	–	676	–	–	–	676
Cumulative translation account	–	–	–	–	(1,508)		(1,508)
Unitholders' equity, September 30, 2005	$ 537,005	$ 9,101	$ (7,152)	$ (12,653)	$ (1,508)	$ (64,291)	$ 460,502

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING
REAL ESTATE INVESTMENT TRUST

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

Nine-month period ended September 30, 2004
(Unaudited)

	Units issued, net (note 11)	LTIP units under subscription	LTIP instalment loans receivable	Losses	Distributions	Total
Unitholders' equity, January 1, 2004, as previously stated	$ 248,595	$ 8,753	$ (8,291)	$ (1,607)	$ (3,726)	$ 243,724
Restatement (note 1(g))	(21,500)	–	–	103	286	(21,111)
Unitholders' equity, January 1, 2004, as restated	227,095	8,753	(8,291)	(1,504)	(3,440)	222,613
Loss for the period from January 1, 2004 to September 30, 2004	–	–	–	(3,513)	–	(3,513)
Distributions to unitholders	–	–	–	–	(20,980)	(20,980)
Issuance of Trust Units pursuant to secondary public offering	66,600	–	–	–	–	66,600
Issue costs	(157)	–	–	–	–	(157)
Issuance of Trust Units on acquisition of properties	3,000	–	–	–	–	3,000
Issuance of Trust Units under the Distributions Reinvestment Program	565	–	–	–	–	565
Issuance of Trust Units under the Long-Term Incentive Program	–	423	(382)	–	–	41
Repayment of instalment loan receivable	–	–	412	–	–	412
Interest on instalment loan receivable	–	–	(234)	–	–	(234)
Distributions applied against instalment loan receivable	–	–	682	–	–	682
Unitholders' equity, September 30, 2004 restated - note 1(g))	$ 297,103	$ 9,176	$ (7,813)	$ (5,017)	$ (24,420)	$ 269,029

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 September 30, 2005	Three-month periods ended September 30, 2004 (Restated - note 1(g))	Nine-month periods ended September 30, 2005	Nine-month periods ended September 30, 2004 (Restated - note 1(b))
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (2,299)	$ (141)	$ (5,702)	$ (3,513)
Items not affecting cash:				
Depreciation and amortization	12,892	9,270	34,664	22,515
Write-down in carrying value of assets	–	–	817	501
Gain on sale of assets	–	–	(103)	–
Amortization of below-market resident contracts	(412)	(384)	(1,263)	(948)
Option benefit granted under the Long-Term Incentive Plan	–	3	–	21
Income (loss) from long-term investment	3	(5)	(48)	(24)
Distributions received on long-term investment	–	–	–	46
Non-controlling interest	(271)	(3)	(708)	(343)
	9,913	8,740	27,657	18,255
Amortization of deferred financing expenses	383	452	1,098	627
Amortization of debt discounts	47	42	150	106
Change in non-cash operating items	10,170	1,379	13,360	(1,910)
	20,513	10,613	42,265	17,078
Financing activities:				
Proceeds from mortgage financing	120,074	–	163,319	50,035
Proceeds from loans payable	17,435	3,868	25,834	18,868
Mortgage principal repayments	(16,599)	(1,743)	(37,654)	(7,079)
Repayments of loans payable	(23,201)	–	(61,402)	–
Deferred financing costs	(601)	(1,414)	(1,891)	(3,422)
Trust units issued pursuant to:				
Secondary public offerings	155,040	70,313	245,353	70,313
Issue costs	(7,701)	(3,713)	(12,814)	(3,870)
Distributions paid to unitholders	(11,067)	(6,732)	(29,274)	(20,675)
Distributions paid to non-controlling interest unitholders	(1,408)	(824)	(3,984)	(2,299)
Repayment of instalment loan receivable	–	–	64	–
Deposits received under Long-Term Incentive Plan	–	6	–	606
	231,972	59,761	287,551	102,477
Investing activities:				
Acquisition of assets, net of debt assumed and units issued (note 2)	(194,610)	(57,772)	(238,041)	(151,713)
Additions to properties	(10,695)	(1,463)	(20,990)	(3,264)
Proceeds on sale of property	1,130	–	1,648	–
Proceeds on sale of management contract	–	–	100	–
Mezzanine loans receivable	(14,398)	(12,180)	(31,490)	(17,618)
Restricted cash and deposits in escrow	(715)	–	(715)	13,000
Capital funding receivable	67	20	152	51
	(219,221)	(71,395)	(289,336)	(159,544)
Foreign exchange loss on U.S. dollar-denominated cash	(7)	–	(7)	–
Increase (decrease) in cash and cash equivalents	33,257	(1,021)	40,473	(39,989)
Cash and cash equivalents, beginning of period	7,511	1,340	295	40,308
Cash and cash equivalents, end of period	$ 40,768	$ 319	$ 40,768	$ 319

Supplemental cash flow information (note 17)

See accompanying notes to consolidated financial statements.

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

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, 2004. During the period, Chartwell REIT adopted new accounting policies described in (b) to (f) below.

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to financial statements; therefore, they should be read in conjunction with the audited consolidated financial statements.

(b) Inventory of real estate:

Inventory of real estate 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.

(c) Revenue from sale of real estate inventory:

Revenue from sale of real estate inventory is recognized on closing which is the point in time where funds are received from purchasers.

1. Significant accounting policies (continued):

(d) Income taxes:

Chartwell REIT is a Canadian unincorporated open-ended investment trust created by the Declaration of Trust, dated July 7, 2003. 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 income taxes.

Chartwell REIT's corporate subsidiaries are subject to income taxes at an approximate rate of 35%. 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.

(e) Foreign currency:

Financial statements of Chartwell REIT's self-sustaining operations in the United States are translated into Canadian currency using 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 period.

1. Significant accounting policies (continued):

(f) Derivative financial instruments:

Chartwell REIT entered into option contracts in order to reduce the impact of foreign currency fluctuations on its proposed investment in foreign assets. These option contract agreements did not qualify for hedge accounting in these financial statements. The realized losses associated with these contracts were recognized as charges against income.

(g) Change in accounting policy:

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

Chartwell REIT adopted this change in accounting policy retroactively with the restatement of prior periods' consolidated financial statements (note 10). As a result, the net loss was reduced by $235 ($0.005 per unit) and $672 ($0.018 per unit) for the three-month and nine-month periods ended September 30, 2005, respectively, and reduced by $3 (nil per unit) and $343 ($0.13 per unit) for the three-month and nine-month periods ended September 30, 2004, respectively. Unitholders' equity was reduced by $55,977 and $40,279 at September 30, 2005 and December 31, 2004, respectively.

1. Significant accounting policies (continued):

(h) Impact of new accounting pronouncements:

In June 2003, The Canadian Institute of Chartered Accountants 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 VIE 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.

At September 30, 2005, Chartwell REIT holds variable interests in six variable interest entities. 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 $146,472.

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 September 30, 2005, Chartwell REIT had mezzanine loans receivable of $28,696 and deferred revenue of $2,229 from these entities.

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

2. Acquisitions:

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2005	2004	2005	2004
Assets				
Properties	$ 221,818	$ 128,189	$ 296,996	$ 268,973
Management contracts	4,519	–	4,519	–
Customer relationships	400	–	400	–
Resident contracts	20,653	15,323	29,474	28,039
Capital funding receivable	–	–	6,625	2,824
Inventory of real estate	7,121	–	7,121	–
Land held for development	8,074	1,600	8,599	1,600
Licences	2,205	–	3,805	8,130
Goodwill	11,962	–	11,962	–
Other assets	2,926	–	3,126	–
	279,678	145,112	372,627	309,566
Liabilities				
Mortgages and loans payable	64,363	75,181	86,600	132,973
Below-market leases	–	988	–	2,122
Accounts payable and other liabilities	5,207	477	5,207	1,787
	69,570	76,646	91,807	136,882
Net assets acquired	$ 210,108	$ 68,466	$ 280,820	$ 172,684
Settled by:				
Issuance of Trust Units	$ –	$ 3,000	$ –	$ 3,000
Issuance of Class B Units of Chartwell Master LP	10,247	–	26,435	8,919
Repayment of mezzanine loan receivable	5,251	–	16,344	–
Vendor take-back mortgage	–	–	–	1,358
Deferred consideration on acquisition of properties	–	7,694	–	7,694
Cash, net of cash acquired	194,610	57,772	238,041	151,713
	$ 210,108	$ 68,466	$ 280,820	$ 172,684

2. Acquisitions (continued):

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

Included in the above 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 Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management 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.

(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.

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 September 30, 2005, this entity manages six facilities in which Chartwell REIT holds a 50% interest.

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

2. Acquisitions (continued):

(c) Other acquisitions:

Included in 2005 acquisitions are five facilities acquired from Spectrum for a purchase price of $62,677.

Included in acquisitions completed in the nine-month period ended September 30, 2004 are four long-term care facilities acquired from entities controlled by officers of Chartwell REIT for a total purchase price of $39,468. These properties were previously managed by Chartwell REIT (note 13(c)).

3. Properties:

			September 30, 2005			December 31, 2004
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 97,218	$ –	$ 97,218	$ 65,745	$ –	$ 65,745
Buildings	789,962	21,232	768,730	516,570	10,205	506,365
Furniture, fixtures and equipment	29,421	6,305	23,116	19,569	2,867	16,702
	916,601	27,537	889,064	601,884	13,072	588,812
Land held for development	8,978	–	8,978	1,600	–	1,600
	$ 925,579	$ 27,537	$ 898,042	$ 603,484	$ 13,072	$ 590,412

At September 30, 2005, building costs included $12,742 related to four building additions being developed at existing facilities.

During the three-month period ended September 30, 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. Closing costs amounted to $39 and no gain or loss was recognized on this sale.

During the nine-month period ended September 30, 2005, Chartwell REIT recorded a write-down of the carrying value of a property in the amount of $817.

4. Mezzanine loans receivable:

(a) Spectrum:

In accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT provides mezzanine loans to Spectrum. As at September 30, 2005, mezzanine loans receivable from Spectrum amounted to $40,085 (December 31, 2004 - $42,800). 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 September 30, 2005 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 27 (December 31, 2004 - 27) 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.

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.

4. Mezzanine loans receivable (continued):

(b) Other:

In addition, Chartwell REIT has advanced 12 mezzanine loans totalling $30,368 (2004 - $9,221) to four of Spectrum's joint venture partners (the "Borrowers"). One of the Borrowers, with an outstanding loan balance of $23,464 at September 30, 2005 (2004 - $6,820), is a significant joint venture partner of Chartwell REIT on other unrelated properties. These loans bear interest at rates of 10% to 14% per annum payable monthly and are secured by second charges or pledges of Borrowers' interests over 10 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 10 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, unless otherwise indicated, except per unit amounts)

5. Management contracts, resident contracts and customer relationships:

			September 30, 2005			December 31, 2004
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	$ 8,545	$ 1,605	$ 6,940	$ 4,721	$ 1,186	$ 3,535
Resident contracts	93,290	35,201	58,089	68,418	20,394	48,024
Customers relationships	4,679	1,615	3,064	4,507	1,011	3,496
	$ 106,514	$ 38,421	$ 68,093	$ 77,646	$ 22,591	$ 55,055

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.

During the nine-month period ended September 30, 2005, $252 and $162 of management contracts and customer relationships were transferred to goodwill following the acquisition of the related seniors housing facility by Chartwell REIT.

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

At June 30, 2005, cost and accumulated amortization of resident contracts were reduced by $4,027 for fully amortized resident contracts.

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

6. Other assets:

	September 30, 2005	December 31, 2004
Accounts receivable	$ 3,665	$ 4,925
Deferred financing costs, net of accumulated amortization of $3,129 (2004 - $2,031)	6,611	5,833
Capital funding receivable (a)	9,227	2,754
Deposits on acquisitions	354	–
Long-term investment	1,571	1,523
Due from Spectrum (note 13(a))	1,003	3,127
Inventory of real estate (b)	5,853	–
Prepaid expenses	6,391	2,537
Other (note 13(a))	4,582	3,340
Deposits in escrow	690	–
	$ 39,947	$ 24,039

(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 certain long-term care facilities.

(b) Inventory of real estate relates to a condominium development project in Langley, British Columbia. Other income for the three-month and nine-month periods ended September 30, 2005 includes the net proceeds from the sale of condominium units as follows:

Sales	$ 1,794
Cost of sales	1,712
	$ 82

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

7. Mortgages payable:

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

	Regular principal payments	Principal due on maturity	Total
2005	$ 5,184	$ 33,029	$ 38,213
2006	14,491	33,342	47,833
2007	14,067	25,449	39,516
2008	13,027	48,509	61,536
2009	9,430	109,942	119,372
Thereafter	41,447	230,569	272,016
	$ 97,646	$ 480,840	$ 578,486

	September 30, 2005	December 31, 2004
Mortgages at fixed rates	$551,166	$366,123
Interest rates	3.28% - 8.95%	3.28% - 8.95%
Weighted average rate	5.19%	5.23%
Mortgages at variable rates	$27,320	$8,397
Interest rates	Prime - prime plus 3%	Prime - prime plus 1%
Weighted average rate	5.08%	4.51%

Interest on mortgages payable amounted to $6,745 and $17,514 for the three-month and nine-month periods ended September 30, 2005, respectively (2004 - $4,169 and $9,688, respectively), excluding the amortization of deferred financing costs.

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

8. Loans payable:

	September 30, 2005	December 31, 2004
Secured revolving operating facility	$ –	$ 28,418
Secured bridge loans	8,450	13,100
Non-revolving demand construction loan	3,100	–
	$ 11,550	$ 41,518

At September 30, 2005, Chartwell REIT has arranged for a secured revolving operating facility in the amount of $55,000.

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 March 14, 2006.

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

The non-revolving demand construction loan bears interest at prime plus 0.90%, is secured by first charge on the condominium development project and is repayable from the proceeds on sale of condominium units. The loan matures in November 2006.

9. Accounts payable and other liabilities:

	September 30, 2005	December 31, 2004
Accounts payable and accrued liabilities	$ 30,024	$ 14,977
Below-market resident contracts, net of accumulated amortization of $2,746 (2004 - $1,483)	2,229	3,492
Resident deposits	3,000	1,013
Deferred consideration on acquisition of property (note 16(c))	3,000	2,000
Deferred revenue	2,229	–
	$ 40,482	$ 21,482

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

9. Accounts payable and other liabilities (continued):

Included in deferred consideration on acquisition of property is $2,000, which relates to the acquisition of one property completed during 2004 and is due on the earlier of the property achieving certain operating results and September 14, 2006. It also includes $1,000 related to the first instalment of contingent consideration payable on the acquisition of another property (note 16(c)).

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.

10. Non-controlling interest:

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

The details of non-controlling interest are as follows:

Balance, January 1, 2005	$ 40,279
Issuance of Class B Units of Master LP (note 2)	26,435
Non-controlling interest's share of loss for the period	(708)
Distributions on Class B Units of Master LP	(4,125)
Exchange of Class B Units of Master LP for Trust Units	(5,723)
Cumulative translation account	(181)
Balance, September 30, 2005	$ 55,977

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.

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, unless otherwise indicated, except per unit amounts)

11. Unitholders' capital (continued):

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

	Number of voting units	Amount
Balance, January 1, 2004 (restated - note 1(b))	25,325,500	$ 227,095
Trust units issued pursuant to the Distribution Reinvestment Plan	21,470	242
Issue costs	–	(157)
Balance, June 30, 2004	25,346,970	227,180
August 6, 2004:		
Trust Units issued pursuant to secondary public offering	6,250,000	70,313
September 14, 2004:		
Issuance of Trust Units on acquisition of properties	235,820	2,758
Trust units issued pursuant to the Distribution Reinvestment Program	80,215	937
Issue costs	–	(3,713)
Balance, December 31, 2004	31,913,005	297,475
March 30, 2005:		
Trust 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 disposition of Long-Term Incentive Program Units under subscription	7,500	75
Issue costs	–	(5,113)
Balance, June 30, 2005	38,273,539	384,089
August 4, 2005:		
Trust units issued pursuant to secondary public offering	10,200,000	155,040
Trust Units issued pursuant to the Distribution Reinvestment Program	29,851	437
Trust Units issued in exchange for Class B Units of Master LP	406,295	5,140
Issue costs	–	(7,701)
Units outstanding, September 30, 2005	48,909,685	$ 537,005

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

11. 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%.

(c) Long-Term Incentive Plan ("LTIP"):

During the nine-month period ended September 30, 2005, holders of 7,500 LTIP units under subscription repaid their loans under the LTIP with an outstanding balance of $64. As a result, the underlying Trust Units have been transferred from LTIP units under subscription to Trust Units issued.

12. Loss per unit calculation:

	Three-month periods ended September 30,				Nine-month periods ended September 30,			
	2005		2004		2005		2004	
	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount
			(Restated - note 1(g))				(Restated - note 1(g))	
Loss for the period	43,882,912	$ (2,299)	29,142,520	$ (141)	38,140,269	$ (5,702)	26,614,934	$ (3,513)
LTIP units under subscription	852,500	–	857,717	–	859,231	–	838,443	–
	44,735,412	$ (2,299)	30,000,237	$ (141)	38,999,500	$ (5,702)	27,453,377	$ (3,513)
Loss per unit - basic and diluted		$ (0.052)		$ (0.005)		$ (0.150)		$ (0.132)

13. Related party transactions:

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

(a) During the three-month and nine-month periods ended September 30, 2005, Chartwell REIT earned mezzanine loan interest of $1,247 and $4,062, respectively (2004 - $1,200 and $3,087, respectively) from Spectrum. Under the terms of the Development Agreement (note 4), Chartwell REIT also provides operations management and development management services to Spectrum. During the three-month and nine-month periods ended September 30, 2005, Chartwell REIT earned fees of $901 and $2,895, respectively (2004 - $2,374 and $2,995, respectively) in respect of these services.

In addition, Chartwell REIT earned $77 and $398 (2004 - $468) in financing fees from Spectrum during the three-month and nine-month periods ended September 30, 2005, respectively.

Other assets as of September 30, 2005 include $1,003 (2004 - $3,127) due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to September 30, 2005, $492 of this balance was paid.

Included in distributions payable at September 30, 2005 is $200 (2004 - $170) due to Spectrum.

(b) During the three-month and nine-month periods ended September 30, 2005, Chartwell REIT earned fees of $149 and $863, respectively, and interest of $712 and $1,514, respectively, from entities controlled by one of its significant joint venture partners.

No such fees were earned in the corresponding periods of 2004.

At September 30, 2005, accounts receivable include $199 (2004 - $1,474) due from these entities, deferred revenue includes $2,229 (2004 - nil) from these entities, and accounts payable and accrued liabilities include $465 due to these entities.

13. Related party transactions (continued):

(c) During the nine months ended September 30, 2004, in accordance with an Escrow Agreement, Chartwell REIT earned management fees in the amount of $298 and incurred interest expense in the amount of $40 from an entity controlled by an officer of Chartwell REIT.

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

14. Segmented information:

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

Effective June 30, 2005, Chartwell REIT changed the composition of its reportable segments to classify seniors' housing facilities containing both retirement and long-term care beds as retirement homes or long-term care facilities based on the primary level of care provided. Previously, revenue, expenses, assets and liabilities of these facilities were allocated to both operating segments based on the number of retirement and long-term care beds. The financial information for the comparative periods has been restated to conform with the current classification. As a result, net loss of the retirement operations segment was increased by $26 and $267 for the three-month and nine-month periods ended September 30, 2004 and net loss of long-term care operations segment was decreased by the same amounts. Assets of retirement operations segment as at December 31, 2004 were reduced by $1,885 with the corresponding increase in long-term care operations segments assets. Retirement operations liabilities were reduced by $708 and long-term care segment liabilities were increased by $708 as at December 31, 2004.

14. Segmented information (continued):

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

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, unless otherwise indicated, except per unit amounts)

14. Segmented information (continued):

Assets not allocated to operating segments consist primarily of mezzanine loans and cash, liabilities not allocated to operating segments consist of distributions payable.

	Three-month period ended September 30, 2005				
	Retirement operations	Long-term care operations	Management operations	United States operations	Total
Revenue	$ 38,726	$ 16,145	$ 1,638	$ 2,762	$ 59,271
Direct operating expenses	23,560	14,166	875	1,583	40,184
Income before the undernoted	15,166	1,979	763	1,179	19,087
Interest expense	6,024	734	–	610	7,368
Income before depreciation and amortization and write-down	9,142	1,245	763	569	11,719
Depreciation and amortization	10,746	818	435	893	12,892
	$ (1,604)	$ 427	$ 328	$ (324)	(1,173)
Items not allocated to operating segments:					
Mezzanine loan interest and other income					2,562
General and administrative expenses					(2,525)
Foreign exchange loss and losses on settlement of derivative financial instruments					(1,434)
Non-controlling interest					271
					(1,126)
Loss for the period					$ (2,299)
Expenditures for assets by segment:					
Acquisitions - properties, licences and resident contracts	$ 81,553	$ 23,086	$ –	$ 140,037	$ 244,676
Capital improvements	9,821	874	–	–	10,695

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

14. Segmented information (continued):

	Three-month period ended September 30, 2004			
	Retirement operations	Long-term care operations	Management operations	Total
		(Restated)		
Revenue	$ 23,278	$ 10,641	$ 3,517	$ 37,436
Direct operating expenses	13,636	9,430	300	23,366
Income before the undernoted	9,642	1,211	3,217	14,070
Interest expense	4,127	559	–	4,686
Income before depreciation and amortization and write-down	5,515	652	3,217	9,384
Depreciation and amortization	7,290	1,431	549	9,270
	$ (1,775)	$ (779)	$ 2,668	114
Items not allocated to operating segments:				
Mezzanine loan interest and other income				1,255
General, administrative and trust expenses				(1,513)
Non-controlling interest				3
				(255)
Loss for the period				$ (141)
Expenditures for assets by segment:				
Acquisitions - properties licences and resident contracts	$ 138,549	$ 4,963	$ –	$ 143,512
Capital improvements	757	706	–	1,463

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

14. Segmented information (continued):

	Nine-month period ended September 30, 2005				
	Retirement operations	Long-term care operations	Management operations	United States operations	Total
Revenue	$ 103,836	$ 38,662	$ 5,641	$ 2,762	$ 150,901
Direct operating expenses	62,945	33,931	3,009	1,583	101,468
Income before the undernoted	40,891	4,731	2,632	1,179	49,433
Interest expense	16,004	2,219	–	610	18,833
Income before depreciation and amortization and write-down	24,887	2,512	2,632	569	30,600
Depreciation and amortization	30,278	2,470	1,023	893	34,664
Write-down in carrying values of assets	(817)	–	–	–	(817)
Gain on sale of assets	103	–	–	–	103
	$ (6,105)	$ 42	$ 1,609	$ (324)	(4,778)
Items not allocated to operating segments:					
Mezzanine loan interest and other income					6,777
General and administrative expenses					(6,975)
Foreign exchange loss and losses on settlement of derivative financial instruments					(1,434)
Non-controlling interest					708
					(924)
Loss for the period					$ (5,702)
Expenditures for assets by segment:					
Acquisitions - properties, licences and resident contracts	$ 154,148	$ 36,090	$ –	$ 140,037	$ 330,275
Capital improvements	17,872	3,118	–	–	20,990

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

14. Segmented information (continued):

	Nine-month period ended September 30, 2004			
	Retirement operations	Long-term care operations	Management operations	Total
		(Restated)		
Revenue	$ 56,614	$ 26,790	$ 5,401	$ 88,805
Direct operating expenses	33,820	23,314	873	58,007
Income before the undernoted	22,794	3,476	4,528	30,798
Interest expense	9,045	1,335	–	10,380
Income before depreciation and amortization and write-down	13,749	2,141	4,528	20,418
Depreciation and amortization	17,634	3,281	1,600	22,515
Write-down in carrying values of assets	–	–	(501)	(501)
	$ (3,885)	$ (1,140)	$ 2,427	(2,598)
Items not allocated to operating segments:				
Mezzanine loan interest and other income				3,569
General and administrative expenses				(4,827)
Non-controlling interest				343
				(915)
Loss for the period				$ (3,513)
Expenditures for assets by segment:				
Properties	$ 232,032	$ 73,110	$ –	$ 305,142
Capital improvements	2,333	931	–	3,264

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

14. Segmented information (continued):

	September 30, 2005					
	Retirement operations	Long-term care operations	Management operations	United States operations	Other	Total
Total assets	$ 742,957	$ 114,700	$ 20,185	$ 162,851	$ 111,221	$ 1,151,914
Total liabilities	455,896	72,744	–	101,878	4,917	635,435

	December 31, 2004				
	Retirement operations	Long-term care operations	Management operations	Other	Total
		(Restated)			
Total assets	$ 602,751	$ 66,507	$ 16,832	$ 54,162	$ 740,252
Total liabilities	394,336	43,184	–	3,158	440,678

15. Joint venture operations:

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

	September 30, 2005	December 31, 2004
Assets	$ 236,655	$ 55,838
Liabilities	162,081	38,715

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

15. Joint venture operations (continued):

	Three-month periods ended September 30, 2005	2004	Nine-month periods ended September 30, 2005	2004
Revenue	$ 8,786	$ 2,296	$ 13,978	$ 2,296
Expenses	8,875	2,643	15,002	2,643
Depreciation and amortization included in expenses above	1,807	563	3,273	563
Cash provided by (used in):				
Operating	21,407	93	22,226	93
Financing	154,054	41	158,109	41
Investing	(176,397)	67	(176,887)	67

At September 30, 2005, Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to $162,081. The total assets of these joint ventures are available to satisfy these liabilities.

16. Commitments and contingencies:

Other than disclosed elsewhere in these financial statements, commitments and contingencies include the following:

(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 $470 to $522 over the term of the lease.

(b) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As of September 30, 2005, the remaining commitments under these contracts amounted to approximately $5,180.

16. Commitments and contingencies (continued):

(c) Contingent consideration on acquisitions:

(i) The vendor of one property is entitled to receive an additional $4,250 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually commencing on December 31, 2005. Any payments made by Chartwell REIT will be recorded in the 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.

(ii) The purchase and sale agreement related to one property acquired commits Chartwell REIT to the payment of up to $5,000 in respect of certain suites that are being added to the property. The first instalment of $1,000 was due as at September 30, 2005 and was included in accounts payable and other liabilities in these financial statements. The ultimate amount paid will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when the suites are complete and/or the property achieves stabilization.

(iii) The purchase and sale agreement related to two properties acquired provides the vendor with a right to receive an additional $675 over a three-year period subject to the properties achieving certain earnings targets. Any payments made by Chartwell REIT will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due.

(d) Mezzanine loans receivable:

As at September 30, 2005, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of $25,834 (note 4).

16. Commitments and contingencies (continued):

(e) Chartwell REIT's properties in the Province of Quebec are managed by CM Management Limited Partnership ("CM"). 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.

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.

(f) Letters of credit:

As of September 30, 2005, Chartwell REIT was contingently liable for letters of credit in the amount of $735.

(g) Litigations and claims:

In the normal course of operations, Chartwell REIT becomes a defendant in actions brought against it from time to time. It is not possible to predict the ultimate outcome of the various proceedings at this time or estimate additional costs that may result.

17. Supplemental cash flow information:

(a) At September 30, 2005, distributions of $4,917, including $501 applicable to non-controlling interest (2004 - $3,158, including $360 applicable to non-controlling interest) remained payable to unitholders. This amount has been excluded from financing and operating activities in the consolidated statements of cash flows.

(b) The acquisition of net assets in the three-month and nine-month periods ended September 30, 2005 (note 2) were partially financed through the issuance of $10,247 and $26,435 of Class B Units of Master LP, respectively, and the settlement of mezzanine loans receivable of $5,251 and $16,344, respectively. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

17. Supplemental cash flow information (continued):

(c) During the three-month and nine-month periods ended September 30, 2005, distributions of $228 and $676, respectively (2004 - $219 and $682, respectively), and interest of $75 and $221, respectively (2004 - $78 and $234, 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 nine-month periods ended September 30, 2005, Trust Units valued at $437 and $1,193, respectively (2004 - $323 and $565, respectively) were issued pursuant to the DRIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.

(e) Interest paid during the three-month and nine-month periods ended September 30, 2005 amounted to $7,096 and $18,403, respectively (2004 - $4,649 and $10,211, respectively).

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 September 30, 2005, 12% (December 31, 2004 - nil) of the Trust's assets were held in the United States and for the three-month and nine-month periods ended September 30, 2005, 6% and 2%, respectively, (2004 - nil) of its net operating income was generated in the United States.

Chartwell REIT may use derivative financial instruments to hedge its foreign currency exposures only. 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.

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

(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 September 30, 2005, $38,870 (2004 - $49,915) of Chartwell REIT's mortgages and loans payable bear interest at floating rates. To mitigate interest rate risk, Chartwell REIT fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell REIT fixes the term of long-term debt within a range from 5 to 15 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell REIT spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on all of its mortgages payable, Chartwell REIT entered into an interest rate swap contract with a notional principal amount of $13,836 that entitles Chartwell REIT to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.95%. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on cash settlement requirements as of September 30, 2005 is a negative value of $1,315.

(c) Credit and collection risk:

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

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

(d) Fair values:

Fair values represent management's estimates of the market values 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 value of mortgages payable as at September 30, 2005 were $579,969 as compared to their carrying value of $578,486.

As of September 30, 2005, the fair value of capital funding receivable approximates its carrying value.

19. Guarantees:

At September 30, 2005, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of $21,805. As at September 2005, $5,524 of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for $7,767. Spectrum has indemnified Chartwell REIT for these guarantees. In the opinion of management, these properties have a value in excess of these guarantees.

20. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2005.

21. Subsequent events:

Subsequent to September 30, 2005, Chartwell REIT completed the acquisition of one seniors housing facility in Alberta for a purchase price of $26,875 plus acquisition costs.

In addition, Chartwell REIT completed the acquisition of 50% interest in two seniors housing facilities in the United States for a purchase price of $25,650 (U.S. $22,000) plus closing costs. These facilities were acquired from entities controlled by Chartwell REIT's joint venture partners in other projects.

Subsequent to September 30, 2005, Chartwell REIT completed the acquisition of one seniors housing facility in Ontario from Spectrum for a purchase price of $9,100 plus closing costs.

Subsequent to September 30, 2005, Chartwell REIT advanced $5,573 in mezzanine loans to Spectrum and other parties. These loans bear interest at 10%.

Subsequent to September 30, 2005, Chartwell REIT issued 631,250 Units under the LTIP.