



Fourth Quarter 2005

and

2005 Year End

Report to Unitholders

**For the Three Months and Year Ended
December 31, 2005**



February 28, 2006

To Our Unitholders

2005 was a year of considerable growth for Chartwell, and we were pleased to have achieved all our operating targets. We invested approximately \$435 million in the acquisition of interests in 28 seniors residential facilities totaling 3,472 suites, strengthening our presence in key growth markets across Canada. Included in this total is the acquisition of a 50% interest in 1,508 suites in the United States with our joint venture financial partner ING Real Estate, Australia. The REIT also acquired a 50% interest in a joint venture property management company to manage our US portfolio.

With this significant growth, our total portfolio, including properties owned, managed or under development, grew 46% to 19,679 suites in 165 facilities as of December 31, 2005 compared to the prior year. Our owned portfolio rose 50% to 10,250 suites in 95 facilities and contributed 91% of total revenues.

During 2005 we advanced mezzanine loans of \$45 million, and as of December 31, 2005 had approximately \$77.4 million in mezzanine loans receivable from our development partners, generating interest revenue as well as development, management, financing and other fees. Once completed and fully stabilized, the future acquisition of these new properties will further enhance the overall quality and average age of our portfolio.

As a result of this significant growth, consolidated revenues for the year increased 63%. "Same property" revenues rose 5.0% in 2005 compared to the prior year, the result of improved occupancies, fees for the provision of new services to residents, and the positive impact of annual rent increases. Occupancies across the retirement portfolio increased to 93% as at December 31, 2005 compared to 92% at the end of the prior year.

Distributable income increased to \$50.2 million or \$1.07 per fully diluted unit in 2005 compared to \$30.7 million or \$0.96 per fully diluted unit last year. During 2005 Chartwell declared cash distributions of \$50.5 million or \$1.07 per fully diluted unit. Effective with the March 2005 payment, monthly cash distributions were increased by 4% to \$0.08875 per unit, or \$1.065 per Unit on an annualized basis.

The 2005 results do not include approximately \$1.5 million in development and other fees charged to Spectrum in respect of services provided prior to year end. The Board of Trustees approved these fees in February 2006 and, under Generally Accepted Accounting Principles, this revenue will be recognized in the first quarter of 2006. Had these fees had been included in the 2005 results as planned, distributable income would have been approximately \$51.7 million or \$1.10 per fully diluted unit. Additionally, our results for the year were affected by the timing of certain acquisitions completed in 2005 and delays in closing of several other acquisitions that have closed or are expected to close in the first half of 2006.

Looking ahead, our target in 2006 is to acquire another \$625 million in properties from third parties and Spectrum, and to invest approximately \$40 million in new mezzanine financings as we continue to capitalize on the highly fragmented nature of the North American seniors housing market. With a full pipeline of development projects underway and acquisition opportunities being evaluated, we are confident we can achieve this goal.

(signed)
Stephen Suske
Vice Chair & President

(signed)
Robert Ezer
Chief Executive Officer

(signed)
Brent Binions
Executive Vice President

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Consolidated Financial Statements
(In Canadian dollars)

**CHARTWELL SENIORS
HOUSING REAL ESTATE
INVESTMENT TRUST**

Years ended December 31, 2005 and 2004



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AUDITORS' REPORT

To the Unitholders of Chartwell Seniors Housing
Real Estate Investment Trust

We have audited the consolidated balance sheets of Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT") as at December 31, 2005 and 2004 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Chartwell REIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chartwell REIT as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

February 17, 2006, except
as to notes 15(a) and 23, which are as
of February 23, 2006

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31, 2005 and 2004

	2005	2004
Assets		
Properties (note 3)	\$ 957,244	\$ 590,412
Mezzanine loans receivable (note 4)	77,436	52,021
Management contracts, resident contracts and customer relationships (note 5)	64,208	55,055
Cash and cash equivalents	14,845	295
Other assets (note 6)	43,355	24,039
Licenses	11,935	8,130
Goodwill (note 7)	22,621	10,300
	\$ 1,191,644	\$ 740,252

Liabilities and Unitholders' Equity

Liabilities:		
Mortgages payable (note 8)	\$ 613,654	\$ 374,520
Loans payable (note 9)	32,024	41,518
Accounts payable and other liabilities (note 10)	43,252	21,482
Distributions payable	4,981	3,158
	693,911	440,678
Non-controlling interest (note 11)	52,448	40,279
Unitholders' equity	445,285	259,295
Commitments and contingencies (notes 17 and 18)		
Guarantees (note 22)		
Subsequent events (notes 15(a) and 23)		
	\$ 1,191,644	\$ 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)

Years ended December 31, 2005 and 2004

	2005	2004
Revenue:		
Resident	\$ 203,345	\$ 123,140
Mezzanine loan interest (notes 4 and 15(a) and (b))	7,859	4,635
Fees (note 15(a), (b) and (c))	9,148	9,415
Bank interest and other	4,275	590
	<u>224,627</u>	<u>137,780</u>
Expenses:		
Direct operating	143,220	85,168
General, administrative and trust	10,181	6,851
	<u>153,401</u>	<u>92,019</u>
	71,226	45,761
Interest expense	27,446	16,901
Foreign exchange loss and losses on derivative financial instruments	1,759	—
	<u>29,205</u>	<u>16,901</u>
	42,021	28,860
Depreciation of properties	21,314	12,092
Amortization of management contracts, resident contracts and customer relationships	29,618	21,094
Write-down in carrying value of assets (notes 3 and 5)	4,253	1,660
Loss before the undernoted	(13,164)	(5,986)
Gain on sale of assets	103	—
Non-controlling interest (note 11)	1,391	539
Loss for the year	<u>\$ (11,670)</u>	<u>\$ (5,447)</u>
Loss per unit:		
Basic and diluted (note 13)	\$ (0.286)	\$ (0.195)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

	Units issued, net (note 12)	LTIP units under subscription	LTIP instalment loan receivable	Losses	Cumulative translation account	Distributions	Total
Unitholders' equity, December 31, 2003, as previously stated	\$ 248,595	\$ 8,753	\$ (8,291)	\$ (1,607)	\$ —	\$ (3,726)	\$ 243,724
Restatement (note 1(r))	(21,500)	—	—	103	—	286	(21,111)
Unitholders' equity, December 31, 2003, as restated	227,095	8,753	(8,291)	(1,504)	—	(3,440)	222,613
Loss for the year	—	—	—	(5,447)	—	—	(5,447)
Distributions to unitholders	—	—	—	—	—	(29,294)	(29,294)
Issuance of Trust Units pursuant to secondary public offering	70,313	—	—	—	—	—	70,313
Issuance of Trust Units on acquisition of properties	3,000	—	—	—	—	—	3,000
Issuance of Trust Units under the Distribution Reinvestment Program	937	—	—	—	—	—	937
Trust Units issued under the Long-Term Incentive Program	—	423	(402)	—	—	—	21
Issue costs	(3,870)	—	—	—	—	—	(3,870)
Repayment of instalment loan receivable	—	—	432	—	—	—	432
Interest on instalment loan receivable	—	—	(312)	—	—	—	(312)
Distributions applied against instalment loan receivable	—	—	902	—	—	—	902
Unitholders' equity, December 31, 2004	297,475	9,176	(7,671)	(6,951)	—	(32,734)	259,295
Loss for the year	—	—	—	(11,670)	—	—	(11,670)
Distributions to unitholders	—	—	—	—	—	(44,856)	(44,856)
Issuance of Trust Units pursuant to public offering	245,353	—	—	—	—	—	245,353
Issuance of Trust Units under the Distribution Reinvestment Program	1,664	—	—	—	—	—	1,664
Trust Units issued on exchange of Class B Units of Chartwell Master LP	7,915	—	—	—	—	—	7,915
Trust Units issued under the Long-Term Incentive Program	—	10,149	(9,715)	—	—	—	434
Deposits received under Long-Term Incentive Program	—	—	194	—	—	—	194
Disposition of Long-Term Incentive Program Units under Subscription (note 14)	187	(187)	172	—	—	—	172
Issue costs	(12,814)	—	—	—	—	—	(12,814)
Interest on instalment loan receivable	—	—	(386)	—	—	—	(386)
Distributions applied against instalment loan receivable	—	—	1,015	—	—	—	1,015
Cumulative translation account	—	—	—	—	(1,031)	—	(1,031)
Unitholders' equity, December 31, 2005	\$ 539,780	\$ 19,138	\$ (16,391)	\$ (18,621)	\$ (1,031)	\$ (77,590)	\$ 445,285

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (11,670)	\$ (5,447)
Items not affecting cash:		
Depreciation and amortization	50,932	33,186
Write-down in carrying value of assets	4,253	1,660
Gain on sale of assets	(103)	–
Amortization of below-market resident contracts	(1,675)	(1,358)
Option benefit granted under the Long-Term Incentive Plan	434	21
Income from long-term investments, net of distributions received	(9)	16
Unrealized loss on derivative financial instruments	325	–
Non-controlling interest	(1,391)	(539)
	41,096	27,539
Amortization of deferred financing expenses	1,956	1,990
Amortization of debt discounts	223	270
Change in non-cash operating items	14,062	(309)
	57,337	29,490
Financing activities:		
Proceeds from mortgage financing	204,148	97,571
Mortgage principal repayments	(70,590)	(42,012)
Proceeds from loans payable	47,084	60,386
Repayment of loans payable	(58,902)	(18,868)
Deferred financing costs	(2,755)	(6,071)
Trust Units issued	245,353	70,313
Issue costs	(12,814)	(3,870)
Distributions paid	(45,182)	(28,450)
Distributions paid to non-controlling interest unitholders	(5,724)	(3,229)
Deposits received under Long-Term Incentive Plan and repayment of instalment loan receivable	366	432
	300,984	126,202
Investing activities:		
Acquisition of assets, net of debt assumed and units issued (note 2)	(273,726)	(168,247)
Payment of deferred consideration on acquisitions of properties	–	(5,694)
Payment of amounts payable for closing adjustments	–	(3,858)
Additions to properties	(27,999)	(3,834)
Proceeds on sale of assets	1,748	–
Mezzanine loans receivable	(41,621)	(27,142)
Restricted cash and deposits in escrow	(2,189)	13,000
Capital funding receivable	219	70
	(343,568)	(195,705)
Foreign exchange loss on U.S. dollar-denominated cash	(203)	–
Increase (decrease) in cash and cash equivalents	14,550	(40,013)
Cash and cash equivalents, beginning of year	295	40,308
Cash and cash equivalents, end of year	\$ 14,845	\$ 295

Supplemental cash flow information (note 19)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

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

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

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

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

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

1. Significant accounting policies:

(a) Basis of presentation:

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(b) Business combinations:

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

(c) Properties:

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

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

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

(d) Deferred expenses:

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

(e) 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(f) Goodwill and other intangibles:

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

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

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

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

(g) Licenses:

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

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

(h) Long-term investments:

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(i) Cash and cash equivalents:

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

(j) Revenue:

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

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

(iii) Fee revenue from development services is recorded on a project specific basis using the percentage-of-completion method based upon the level of effort expended to achieve predetermined project milestones. No development fee revenue is recognized prior to completion of submissions to the Municipality for a building permit (note 1(r)), at which point 65% of the estimated fee is recognized. The remaining portion of the fee revenue is recognized on a straight-line basis over the anticipated period of construction.

(iv) Fee revenue from financing fees and structuring services is recognized upon completion of the contracted services.

(v) Fee revenue earned for services considered integral to Chartwell REIT's lending activities is recognized over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are deferred and expensed over the same period.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

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

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

(k) Revenue from sale of real estate inventory:

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

(l) Long-Term Incentive Plan:

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

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(m) Employee future benefits:

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

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

(n) 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 Canadian income taxes. Therefore, no provision for income taxes is required on income earned by Chartwell REIT, its subsidiary Trusts and flow-through entities.

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(o) Foreign currency:

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

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

(p) Derivative financial instruments:

(i) Interest rate derivatives:

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

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

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

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

(ii) Foreign exchange derivatives:

Chartwell REIT entered into option contracts in order to reduce the impact of foreign currency fluctuations on its proposed investment in foreign assets which do not qualify as hedges for accounting purposes. The realized losses associated with these contracts are recognized as charges against income.

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

(q) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. In determining the estimated construction period over which to recognize development fees, the estimated mezzanine loan term over which fee revenue for services considered integral to the REIT's lending activities is to be recognized, the fair value of assets and liabilities of businesses it acquires, the fair values of financial instruments, the expected gains and losses of variable interest entities, the recoverability of mezzanine loans, the estimated useful lives and net recoverable amounts for properties, as well as the fair value of goodwill, Chartwell REIT relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(r) Changes in accounting policies:

(i) Accounting for exchangeable securities issued by subsidiaries of income trusts:

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 adopted a new accounting policy applicable to the Class B Units of Master LP. Under EIC-151, equity applicable to the Class B Units of Master LP is considered to be a non-controlling interest. Previously, Chartwell REIT included the Class B Units of Master LP as part of its unitholders' equity.

In 2004, Chartwell REIT adopted this change in accounting policy retroactively with the restatement of prior periods' financial statements (note 12). As a result, the net loss was reduced by \$1,391 (\$0.034 per unit) and \$539 (\$0.019 per unit) for the years ended December 31, 2005 and December 31, 2004, respectively. Unitholders' equity was reduced by \$52,449, \$40,279 and \$21,111 at December 31, 2005, 2004 and 2003, respectively.

(ii) Revenue from development management activities:

Effective December 31, 2005, Chartwell REIT changed its accounting policy for recognition of fee revenue from development services. Fee revenue is recognized on a project-specific basis using the percentage of completion method based upon the level of effort expected to achieve predetermined project milestones. Under the new policy, no fee revenue is recognized prior to completion of submissions to the Municipality for a building permit. Previously, Chartwell REIT did not recognize revenue from development services prior to obtaining relevant permits or commencement of construction activities.

Chartwell REIT adopted this change in accounting policy on a retroactive basis. As a result, the net loss was reduced by \$601 (\$0.015 per unit) for the year ended December 31, 2005. There was no material effect on the net loss for the year ended December 31, 2004 resulting from this change.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(s) 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 VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or entitle it to receive a majority of the VIE's expected residual returns or both. AcG-15 is effective for all annual and interim periods, beginning on or after November 1, 2004 and was adopted by Chartwell REIT effective January 1, 2005.

- (i) At December 31, 2005, Chartwell REIT holds variable interests in 10 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 \$272,403.

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

As of December 31, 2005, Chartwell REIT had mezzanine loans receivable of \$31,859 and deferred revenue of \$4,592 from these entities. During the year, Chartwell REIT earned \$1,463 in fees and \$2,482 in interest from these entities.

- (ii) At December 31, 2005, Chartwell REIT, through a holding company, holds variable interests in seven variable interest entities. These entities are structured to lease the respective facilities from Chartwell REIT and an entity controlled by Melior. These facilities are proportionately consolidated with a cost of \$52,962 and accumulated amortization of \$1,621 as at December 31, 2005. Under the terms of the operating lease, Chartwell REIT and the entity controlled by Melior will receive the net revenue of the facilities less \$1 per facility.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

Previously Chartwell REIT accounted for its 50% interest in these entities using the proportionate consolidation method of accounting. Chartwell REIT is not considered to be the primary beneficiary and is required to account for its interest in these entities using the equity method of accounting.

Chartwell REIT adopted this change in accounting policy prospectively commencing January 1, 2005. As a result, at December 31, 2005 total assets were reduced by \$1,047, with the corresponding reduction in liabilities. Revenue and expenses for the year ended December 31, 2005 were reduced by \$6,555.

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

2. Acquisitions:

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

	2005	2004
Assets		
Properties	\$ 358,846	\$ 321,043
Management contracts, resident contracts and customer relationships	39,857	34,288
Capital funding receivable	6,625	2,824
Land held for development	9,299	1,600
Licenses	3,805	8,130
Goodwill	11,907	–
Other assets	4,872	–
	435,211	367,885
Liabilities		
Mortgages and loans payable	107,890	160,242
Below-market resident contracts	–	2,122
Working capital	4,752	2,212
	112,642	164,576
Net assets acquired	\$ 322,569	\$ 203,309

	2005	2004
Settled by:		
Issuance of Trust Units	\$ –	\$ 3,000
Issuance of Class B Units of Chartwell Master LP (note 11)	27,204	23,010
Issuance of non-voting Series A preferred interests of CSH Master Care LLC (note 9)	2,147	–
Vendor take-back mortgage	–	1,358
Deferred consideration on acquisition of properties	–	7,694
Discharge of mezzanine loans receivable (note 4(a))	19,492	–
Cash	273,726	168,247
	\$ 322,569	\$ 203,309

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

2. Acquisitions (continued):

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

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

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

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

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

(b) Acquisitions in the United States of America:

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

Effective October 1, 2005, Chartwell REIT acquired a 50% interest in two properties in the United States. The purchase price of \$25,650 (U.S. \$22,000) plus closing costs was satisfied by assumption of \$13,291 (U.S. \$11,400) in debt, issuance of 144,405 non-voting preferred Series A interests ("Series A Interests") in CSH Master Care LLC valued at \$2,147 (U.S. \$1,850) (note 9) and the remaining balance in cash. These facilities were purchased from entities in which Chartwell REIT's joint venture partners in other projects held minority interest.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

2. Acquisitions (continued):

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

(c) Other acquisitions:

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

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

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

- (a) The acquisition of 50% interest in seven facilities in Quebec for a total purchase price of \$18,424 (note 17);
- (b) Four long-term care facilities acquired from entities controlled by officers of Chartwell REIT for a total purchase price of \$40,126. These properties were previously managed by Chartwell REIT (note 15(c)); and
- (c) Two retirement homes acquired from entities in which one of the directors of a subsidiary of Chartwell REIT holds a significant interest, for a total purchase price of \$14,300.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

3. Properties:

	2005			2004		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 107,548	\$ –	\$ 107,548	\$ 65,745	\$ –	\$ 65,745
Buildings	841,831	26,468	815,363	516,570	10,205	506,365
Furniture, fixtures and equipment	32,513	7,877	24,636	19,569	2,867	16,702
	981,892	34,345	947,547	601,884	13,072	588,812
Land held for development	9,697	–	9,697	1,600	–	1,600
	\$ 991,589	\$ 34,345	\$ 957,244	\$ 603,484	\$ 13,072	\$ 590,412

At December 31, 2005, building costs included \$2,883 related to the development of additional units at existing facilities.

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

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

4. Mezzanine loans receivable:

(a) Spectrum:

	2005	2004
Opening balance, January 1, 2005	\$ 42,800	\$ 24,879
Mezzanine loans issued	15,573	17,921
Mezzanine loans discharged	(19,950)	–
Ending balance, December 31, 2005	\$ 38,423	\$ 42,800

In addition to providing development services, operations management services and financing services in relation to arranging construction loans, in accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT provides mezzanine loans to Spectrum. As at December 31, 2005, mezzanine loans receivable from Spectrum amounted to \$38,423 (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 December 31, 2005 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 29 (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 SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

4. Mezzanine loans receivable (continued):

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

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

(b) Other:

	2005	2004
Melior:		
Opening balance, January 1, 2005	\$ 6,820	\$ –
Mezzanine loans issued	25,039	6,820
Ending balance, December 31, 2005	31,859	6,820
Other:		
Opening balance, January 1, 2005	2,401	–
Mezzanine loans issued	4,753	2,401
Ending balance, December 31, 2005	7,154	2,401
Total Melior and other:		
Opening balance, January 1, 2005	9,221	–
Mezzanine loans issued	29,792	9,221
Ending balance, December 31, 2005	\$ 39,013	\$ 9,221

In addition to providing development services, structuring services, operations management services and financing services in relation to arranging construction loans, Chartwell REIT has advanced 17 mezzanine loans totalling \$39,013 (2004 - \$9,221) to five of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling \$31,859 at December 31, 2005 (2004 - \$6,820), advanced to the entities controlled by Melior (note 1(s)). These loans bear interest at rates ranging from 10% to 14% per annum payable monthly and are secured by second charges or pledges of the Borrowers' interests over 15 development projects.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

4. Mezzanine loans receivable (continued):

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

5. Management contracts, resident contracts and customer relationships:

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Management contracts	\$ 8,563	\$ 2,308	\$ 6,255	\$ 4,721	\$ 1,186	\$ 3,535
Resident contracts	99,234	43,732	55,502	68,418	20,394	48,024
Customer relationships	4,279	1,828	2,451	4,507	1,011	3,496
	<u>\$ 112,076</u>	<u>\$ 47,868</u>	<u>\$ 64,208</u>	<u>\$ 77,646</u>	<u>\$ 22,591</u>	<u>\$ 55,055</u>

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

During 2005, \$252 and \$162 of management contracts and customer relationships, respectively, were transferred to goodwill following the acquisition of the related seniors housing facility by Chartwell REIT.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

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

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

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

6. Other assets:

	2005	2004
Accounts receivable	\$ 7,405	\$ 4,925
Deferred financing costs, net of accumulated amortization of \$3,987 (2004 - \$2,031)	7,410	5,833
Capital funding receivable (a)	9,160	2,754
Deposits on acquisitions	664	-
Long-term investments (b)	4,232	1,523
Due from Spectrum (note 15(a))	2,664	3,127
Prepaid expenses and deposits	7,076	2,537
Deposits in escrow	2,185	-
Other	2,559	3,340
	\$ 43,355	\$ 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 two long-term care facilities.

(b) Included in long-term investments is \$2,654 relating to Chartwell REIT's net investment in a condominium development project in Langley, British Columbia (note 1(s)(iii)).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

7. Goodwill:

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

8. Mortgages payable:

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

	Regular principal payments	Principal due on maturity	Total
2006	\$ 15,792	\$ 60,722	\$ 76,514
2007	14,816	27,617	42,433
2008	13,813	48,751	62,564
2009	10,254	115,432	125,686
2010	8,379	44,838	53,217
	63,054	297,360	360,414
Thereafter	38,345	214,895	253,240
	\$ 101,399	\$ 512,255	\$ 613,654

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

8. Mortgages payable (continued):

	2005	2004
Mortgages at fixed rates	\$590,777	\$366,123
Interest rates	3.29% - 10.00%	3.28% - 8.95%
Weighted average rate	5.22%	5.23%
Mortgages at variable rates	\$22,877	\$8,397
Interest rates	Prime plus 0.5% - prime plus 3.00%	Prime plus 0.5% - prime plus 1.00%
Weighted average rate	5.03%	4.51%

Interest on mortgages payable amounted to \$24,311 (2004 - \$14,217), excluding the amortization of deferred financing costs.

9. Loans payable:

	2005	2004
Secured revolving operating facility (a)	\$ 21,000	\$ 28,418
Secured bridge loans (b)	8,450	13,100
Non-voting Series A preferred interests of CSH Master Care LLC (c)	2,324	-
Other loans	250	-
	\$ 32,024	\$ 41,518

(a) Chartwell REIT has arranged for a \$70,000 secured revolving operating facility. At December 31, 2005, the maximum available borrowing capacity was \$57,900 based on the security provided.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific facilities. The credit facility is due on March 14, 2006. The term may be extended with the consent of the lenders for an additional 364-day period.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

9. Loans payable (continued):

- (b) 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. Subsequent to December 31, 2005, one bridge loan in the amount of \$3,350 was repaid from the proceeds of refinancing of the property.
- (c) On October 1, 2005, CSH Master Care LLC, a U.S. subsidiary of Chartwell REIT, issued 144,405 Series A Interests to the vendors of two seniors housing facilities acquired in the United States at \$14.87 per unit interest. These vendors are joint venture partners of Chartwell REIT in other projects.

Series A Interests become redeemable at the option of the holders at specific points in time over three years ending September 30, 2008. The redemption price is payable in Canadian dollars and will be based on the closing price of Chartwell REIT Trust Units (note 12). Series A Interests are classified as a liability in these financial statements and are measured at their redemption value. Unrealized and realized gains and losses resulting from changes in the redemption value of Series A Interests are recorded in income. At December 31, 2005, the redemption price of Series A Interests was \$16.00 per unit interest; consequently \$163 was recorded as an unrealized loss in these financial statements. Series A Interests receive monthly distributions equal to distributions on Chartwell REIT Trust Units. These distributions are recorded as interest expense in the consolidated financial statements and amounted to \$33 for the year ended December 31, 2005.

10. Accounts payable and other liabilities:

	2005	2004
Accounts payable and accrued liabilities	\$ 30,277	\$ 14,977
Below-market resident contracts, net of accumulated amortization of \$3,158 (2004 - \$1,483)	1,817	3,492
Resident deposits	3,137	1,013
Deferred consideration on acquisition of properties	2,871	2,000
Deferred revenue	5,150	-
	\$ 43,252	\$ 21,482

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

10. Accounts payable and other liabilities (continued):

Included in deferred consideration on acquisition of properties is \$2,000 related to the acquisition of one property completed during 2004 which is due on the earlier of the property achieving certain operating results and September 14, 2006. It also includes \$871 (U.S. \$746) (note 18(d)) in other consideration payable to vendors.

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.

11. Non-controlling interest:

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

The details of non-controlling interests are as follows:

	2005	2004
Opening balance	\$ 40,279	\$ 21,111
Issuance of Class B Units of Master LP (note 2)	27,204	23,010
Non-controlling interest's share of loss for the year	(1,391)	(539)
Distributions on Class B Units of Master LP	(5,602)	(3,303)
Exchange of Class B Units of Master LP for Trust Units	(7,915)	-
Cumulative translation account	(127)	-
Closing balance	\$ 52,448	\$ 40,279

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

12. 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

12. Unitholders' capital (continued):

(a) The following units are issued and outstanding:

	Number of voting units	Amount
Balance, January 1, 2004 (restated - note 1(r))	25,325,500	\$ 227,095
August 6, 2004:		
Units issued pursuant to secondary public offering	6,250,000	70,313
September 14, 2004:		
Issuance of Trust Units on acquisition of properties	257,290	3,000
Units issued pursuant to the Distribution Reinvestment Program	80,215	937
Issue costs	–	(3,870)
Units outstanding, December 31, 2004	31,913,005	297,475
March 30, 2005:		
Trust Units issued pursuant to secondary public offering	6,250,000	90,313
August 11, 2005:		
Trust Units issued pursuant to secondary public offering	10,200,000	155,040
Trust Units issued pursuant to the Distribution Reinvestment Program	116,721	1,664
Trust Units issued in exchange for Class B Units of Master LP	722,126	7,915
Trust Units issued on disposition of Long-Term Incentive Program Units under subscription	16,250	187
Issue costs	–	(12,814)
Units outstanding, December 31, 2005	49,218,102	\$ 539,780

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

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

13. Loss per unit calculation:

	2005		2004	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the year	40,869,634	\$ (11,670)	27,946,587	\$ (5,447)
LTIP units under subscription	1,007,836	–	843,877	–
	41,877,470	\$ (11,670)	28,790,464	\$ (5,447)
Loss per unit (basic and diluted)		\$ (0.286)		\$ (0.195)

14. Long-Term Incentive Plan:

On November 13, 2003, Chartwell REIT established the LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of issuance, which will be payable in cash instalments, over a term not to exceed 10 years. Participants are required to pay interest at 4% and are required to apply cash distributions received by them, in respect of units issued under LTIP, toward payments of that interest and the principal instalments. Participants may prepay any principal at their discretion. If a participant fails to pay interest and/or any principal, Chartwell REIT may elect to reacquire or sell the Trust Units in satisfaction of the outstanding amounts. Chartwell REIT has no recourse to the participants' assets. There were 860,000 Trust Units issued under the original plan of which 852,500 were outstanding at December 31, 2005.

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

On October 4, 2005, an additional 631,250 Trust Units were issued pursuant to the LTIP at \$15.39 per Unit.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

14. Long-Term Incentive Plan (continued):

An aggregate of 2,460,080 Trust Units are reserved for issuance pursuant to the LTIP, of which 1,491,250 were issued and 1,475,000 were outstanding at December 31, 2005.

The following table summarizes Trust Units issued under LTIP in 2005 and 2004.

	Number of Units under subscription	Amount
November 13, 2003	825,000	\$ 8,250
Compensation expense	—	503
Balance, December 31, 2003	825,000	8,753
June 8, 2004	30,000	345
August 11, 2004	5,000	57
Compensation expense	—	21
Balance, December 31, 2004	860,000	9,176
June 2, 2005 - sale of Trust Units	(7,500)	(75)
October 4, 2005 - issuance of Trust Units	631,250	9,715
December 9, 2005 - sale of Trust Units	(3,750)	(58)
December 28, 2005 - sale of Trust Units	(5,000)	(54)
Compensation expense	—	434
	1,475,000	\$ 19,138

The market value of the Trust Units at December 31, 2005 was \$16.00 per Unit (2004 - \$14.10).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

14. Long-Term Incentive Plan (continued):

The compensation cost attributable to the LTIP of \$434 (2004 - \$21) is charged against earnings with a corresponding amount included in unitholders' equity as units under subscription. The unit instalment loans receivable are recognized as a deduction from units under subscription. Distributions received under the LTIP are charged to unitholders' equity while interest received under the LTIP is credited to distributions.

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

	November 14, 2003 issuance	October 4, 2005 issuance
Dividend yield	10.5%	7.0%
Volatility	10.0%	10.0% - 12.0%
Risk-free interest rate	4.68%	3.34% - 3.94%
Expected life	10 years	1 to 10 years
Average expected employee tenure	8 years	6.7 years
Imputed interest benefit	2.60%	4.60%

At December 31, 2005, Chartwell REIT committed to issue an additional 833,500 units in 2006 for eligible employees.

15. Related party transactions:

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

(a) Spectrum:

	2005	2004
Mezzanine loan interest (note 4(a))	\$ 5,278	\$ 4,513
Development fees	4,006	4,126
Operations management fees	591	458
Financing fees	794	946

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

15. Related party transactions (continued):

Other assets as of December 31, 2005 include \$2,664 (2004 - \$3,127) due from Spectrum. Subsequent to December 31, 2005, \$1,856 of this balance was paid.

Included in distributions payable at December 31, 2005 is \$205 (2004 - \$170) due to Spectrum.

(b) Melior:

	2005	2004
Mezzanine loan interest earned	\$ 2,214	\$ 38
Development fees earned	1,474	1,436
Referral fees (note 18(g)) paid	(430)	-
Reimbursed expenses paid	(465)	-

At December 31, 2005, accounts receivable and other assets includes \$1,693 due from Melior and deferred revenue includes \$4,592 received from Melior.

- (c) During the year ended December 31, 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.
- (d) Included in accounts receivable is \$117 (2004 - nil) due from an officer of Chartwell REIT related to the previous sale of a facility to the REIT.
- (e) Included in mortgages payable at December 31, 2005 is a vendor-take back mortgage of \$3,407 due to an officer of Chartwell REIT. In addition, one vendor-take back mortgage in the amount of \$1,486 due to an officer of the REIT was repaid during the year. In 2005, the REIT incurred interest expense of \$144 related to these mortgages.

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

16. 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 \$426 for the year ended December 31, 2004 and net loss of long-term care operations segment was decreased by the same amount. Assets of retirement operations segment as at December 31, 2004 were reduced by \$1,314 with the corresponding increase in long-term care operations segments assets. Retirement operations liabilities were decreased by \$138 and long-term care segment liabilities were increased by \$138 as at December 31, 2004.

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

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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

16. Segmented information (continued):

2005	Retirement operations	Long-term care operations	Management operations	United States operations	Total	
Revenue	\$ 136,665	\$ 56,407	\$ 9,148	\$ 10,273	\$ 212,493	
Direct operating expenses	83,262	49,586	4,259	6,113	143,220	
Income before the undernoted Interest expense	53,403 22,145	6,821 3,129	4,889 -	4,160 2,172	69,273 27,446	
Income before the following Depreciation and amortization	31,258 (41,891)	3,692 (3,358)	4,889 (2,001)	1,988 (3,682)	41,827 (50,932)	
Gain on sale of assets	103	-	-	-	103	
Write-down in carrying values of assets	(4,253)	-	-	-	(4,253)	
	<u>\$ (14,783)</u>	<u>\$ 334</u>	<u>\$ 2,888</u>	<u>\$ (1,694)</u>	(13,255)	
Items not allocated to operating segments:						
Mezzanine loan from interest and other income					12,134	
General, administrative and trust expenses					(10,181)	
Foreign exchange loss and losses on derivative financial instruments					(1,759)	
Non-controlling interest					1,391	
Loss for the year					\$ (11,670)	
Expenditures for assets by segment:						
Acquisitions - properties, licenses and resident contracts	\$ 196,393	\$ 36,090	\$ -	\$ 170,025	\$ 402,508	
Capital improvements	24,322	3,638	-	39	27,999	
	Retirement operations	Long-term care operations	Management operations	United States operations	Other	Total
Total assets	\$ 791,023	\$ 114,709	\$ 21,320	\$ 172,311	\$ 92,281	\$ 1,191,644
Total liabilities	487,481	71,278	5,150	125,021	4,981	693,911

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

16. Segmented information (continued):

2004	Retirement operations	Long-term care operations	Management operations	Total
Revenue	\$ 85,739	\$ 37,401	\$ 9,415	\$ 132,555
Direct operating expenses	51,315	32,518	1,335	85,168
Income before the undernoted	34,424	4,883	8,080	47,387
Interest expense	14,802	2,099	–	16,901
Income before the following	19,622	2,784	8,080	30,486
Depreciation and amortization	(26,242)	(4,752)	(2,192)	(33,186)
Write-down in carrying values of management contracts and customer relationships	–	–	(1,660)	(1,660)
	<u>\$ (6,620)</u>	<u>\$ (1,968)</u>	<u>\$ 4,228</u>	(4,360)
Items not allocated to operating segments:				
Mezzanine loan from interest and other income				5,225
General, administrative and trust expenses				(6,851)
Non-controlling interest				539
Loss for the year				\$ (5,447)
Expenditures for assets by segment:				
Acquisitions - properties, licenses and resident contracts	\$ 290,351	\$ 73,110	\$ –	\$ 363,461
Additions to properties	1,791	2,043	–	3,834

2004	Retirement operations	Long-term care operations	Management operations	Other	Total
Total assets	\$ 603,322	\$ 65,936	\$ 16,832	\$ 54,162	\$ 740,252
Total liabilities	394,906	42,614	–	3,158	440,678

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

17. Joint venture operations:

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

	2005	2004
Assets	\$ 259,016	\$ 55,838
Liabilities	174,531	38,715
Revenue	19,551	4,505
Expenses, including depreciation and amortization of \$6,421 (2004 - \$1,204)	21,940	5,303
Net income	(2,389)	(798)
<hr/>		
Cash provided by (used in):		
Operating activities	\$ 15,010	\$ 391
Financing activities	184,316	(270)
Investing activities	(195,094)	(125)

Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to \$174,531. The assets of these joint ventures are available to satisfy these liabilities.

18. Commitments and contingencies:

(a) Operating leases:

Chartwell REIT has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of \$126. In addition, Chartwell REIT has operating leases on office space which expire on various dates up to May 31, 2015. Annual payments on these leases vary from \$1,053 to \$1,469 over the term of the lease.

(b) Acquisitions:

As of December 31, 2005, Chartwell REIT is committed to acquire eight seniors housing facilities for a purchase price of approximately \$58,619 and a parcel of land adjacent to one of its existing facilities for a purchase price of \$875.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

18. Commitments and contingencies (continued):

(c) Purchase obligations:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As of December 31, 2005, the remaining commitments under these contracts amounted to approximately \$2,785.

(d) Contingent consideration on acquisitions:

- (i) The vendor of one property is entitled to receive an additional \$4,250 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually commencing on December 31, 2005.
- (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 \$1,000 instalment was paid in 2005 and recorded as an adjustment to the purchase price.
- (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.
- (iv) The vendors of two properties are entitled to receive an additional \$7,008 (U.S. \$6,000), 50% payable by Chartwell REIT and 50% payable by Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on invested equity, measured quarterly.

Any payments made by Chartwell REIT in respect of contingent consideration will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due. At December 31, 2005, \$1,742 (U.S. \$1,492) was due and payable to the vendors (\$871 (U.S. \$746) at Chartwell REIT's share) and was included in accounts payable and other liabilities in these financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

18. Commitments and contingencies (continued):

(e) Mezzanine loans receivable:

As at December 31, 2005, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of \$29,426 (2004 - \$18,705) (note 4).

(f) Letters of credit:

As of December 31, 2005, Chartwell REIT was contingently liable for letters of credit in the amount of \$1,080 (2004 - \$195).

(g) Other contracts:

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

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

(iii) As of December 31, 2005, Chartwell REIT has entered into fixed gas contracts with a third-party gas supplier for \$257 to provide gas to its facilities.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

18. Commitments and contingencies (continued):

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

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

(b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the greater of \$50,000 and 3% of total budgeted development costs for the related project (note 15(b)).

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

(h) Litigation and claims:

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

19. Supplemental cash flow information:

- (a) At December 31, 2005, distributions of \$4,981, including \$482 applicable to non-controlling interests (2004 - \$3,158, including \$360 applicable to non-controlling interests) remained payable to unitholders. These amounts have been excluded from operating and financing activities in the consolidated statements of cash flows.
- (b) The acquisition of net assets (note 2) was partially financed through the issuance of \$27,204 (2004 - \$23,010) of Class B Units of Master LP, the issuance of \$2,147 (2004 - nil) of Series A Interests in CSH Master Care LLC, the issuance of \$3,286 (2004 - nil) of mezzanine loans receivable and the discharge of \$19,492 (2004 - nil) of mezzanine loans receivable. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.
- (c) Deferred purchase consideration on acquisition of properties of \$2,871 that remains payable as of December 31, 2005 (2004 \$2,000) was excluded from operating and investing activities in the consolidated statements of cash flows.
- (d) During the year ended December 31, 2005, distributions of \$1,105 (2004 - \$902) and interest of \$386 (2004 - \$312) were applied against instalment loans receivable related to the LTIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.
- (e) During the year ended December 31, 2005, Trust Units valued at \$1,664 (2004 - \$937) were issued pursuant to the DRIP. This amount has been excluded from financing activities on the consolidated statements of cash flows.
- (f) During the year ended December 31, 2005, interest paid amounted to \$27,074 (2004 - \$14,488).

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

20. Income taxes:

In respect of assets and liabilities of Chartwell REIT where all taxable income is distributed or designated to unitholders, the carrying value of Chartwell REIT's net assets at December 31, 2005 exceeds their tax basis by approximately \$174,718 (2004 - \$136,861).

Chartwell REIT has certain subsidiaries in the United States which are subject to tax on their taxable income at a rate of approximately 37%. At December 31, 2005, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes of approximately \$245 (U.S. \$210). This loss expires in 2025.

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

21. 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 December 31, 2005, 14% (2004 - nil) of the Trust's assets were held in the United States and for the year ended December 31, 2005, 6% (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. 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.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

21. 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 December 31, 2005, \$57,570 (2004 - \$49,915) of Chartwell REIT's mortgages and loans payable, excluding hedged loans bear interest at floating rates. To mitigate interest rate risk, Chartwell REIT fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell REIT fixes the term of long-term debt within a range from five to 15 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell REIT spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell REIT entered into an interest rate swap contract with a notional principal amount of \$13,836 that entitles Chartwell REIT to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.95% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on cash settlement requirements as of December 31, 2005 is a negative value of \$1,090.

(c) Credit and collection risk:

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

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

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

(d) Fair value:

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

The fair values of mortgages payable as at December 31, 2005 were \$611,539 (2004 - \$379,142) as compared to their carrying values of \$613,654 (2004 - \$374,520).

As of December 31, 2005, the fair values of mezzanine loans receivable and capital funding receivable and loans payable approximate their carrying values.

(e) Reliance on government subsidies:

Chartwell REIT holds licenses related to each of its long-term care facilities, which receive funding from the relevant provincial government. During the year ended December 31, 2005, the REIT received approximately \$39,560 (2004 - \$23,582) in respect of these licenses, which has been recorded to resident revenue.

22. Guarantees:

At December 31, 2005, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of \$21,805. As at December 31, 2005, \$8,208 of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for \$3,865. Spectrum has indemnified Chartwell REIT for these guarantees.

At December 31, 2005, Chartwell REIT remains as a guarantor of the debt of one managed property with the balance of \$5,429. The borrower has indemnified Chartwell for this guarantee. In the opinion of management, these properties have a value in excess of these guarantees.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2005 and 2004

23. Subsequent events:

Subsequent to year-end, Chartwell REIT acquired one seniors housing facility from Spectrum for the purchase price of \$6,800 and one seniors housing facility from a third party for the purchase price of \$11,918.

Subsequent to year-end, Chartwell REIT advanced \$0.7 million of mezzanine loans to Melior.

Subsequent to year end, Chartwell REIT charged Spectrum additional development fees of \$1,001 resulting from increases in the projected costs of the underlying projects and revisions to the development fee charged to conform with the requirements of the Development Agreement between Spectrum and Chartwell. It also charged additional fees of \$0.5 million for providing assistance in raising \$17,500 of Spectrum equity in December 2005.

24. Comparative figures:

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

Management's Discussion and Analysis

For the years ended December 31, 2005 and 2004

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Management's Discussion and Analysis

For the years ended December 31, 2005 and 2004

(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 twelve months ended December 31, 2005. This discussion and analysis should be read in conjunction with the REIT's audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the notes thereto. 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 February 24, 2006.

FORWARD LOOKING DISCLAIMER

This MD&A 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's 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; related party transactions and conflicts of interest; management contracts; availability of cash flows; redemption right; changes in accounting standards; 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

The REIT commenced operations on November 14, 2003 following completion of its initial Public Offering. The REIT did not hold any material assets prior to November 14, 2003 and is considered to have begun operations on that date.

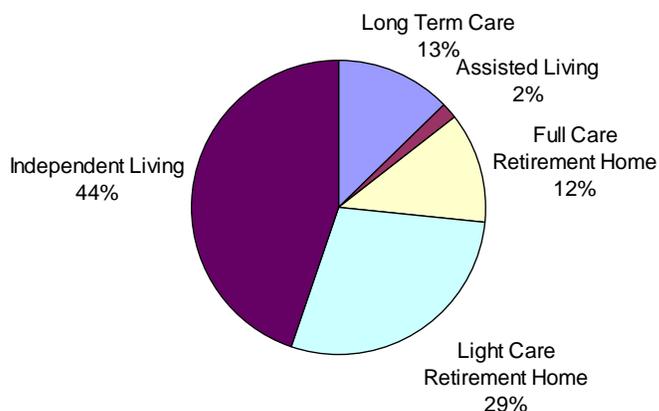
Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly holds a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities (“IL Facilities”), through retirement homes (“Retirement 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 subsidiaries of the REIT. As of December 31, 2005 Chartwell’s portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in over 19,600 suites in 165 facilities which are operating, under construction or in various stages of development. The REIT’s owned portfolio consists of 10,250 suites in 95 facilities. 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, through its subsidiaries, employs approximately 5,000 people in its owned properties and corporate and regional offices.

The following is the composition of the REIT’s owned and managed portfolio of homes in its four operating segments at December 31, 2005:

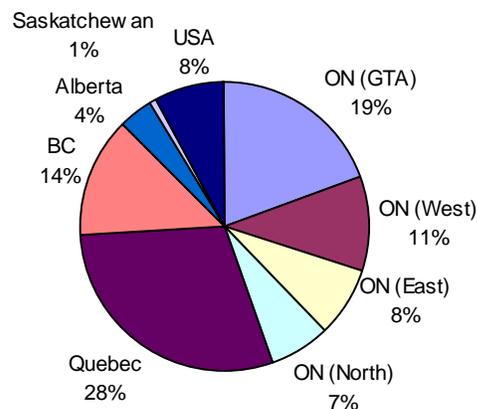
	Retirement Operations	Long-Term Care Operations	United States Operations	Management Operations	Total
Facilities	77 ⁽¹⁾⁽³⁾	10 ⁽¹⁾	8 ⁽⁴⁾	70 ⁽²⁾	165
Suites/Beds	7,391	1,351	1,508 ⁽⁴⁾	9,429	19,679

- (1) Where a facility provides more than one level of care, it has been designated according to the predominant level of care provided.
- (2) Includes stabilized, lease-up and facilities under development.
- (3) Includes 10 facilities (1,352 suites), where Chartwell owns a 50% interest and 1 facility (55 suites) where Chartwell owns 39% interest.
- (4) Chartwell owns a 50% interest in these facilities.

Composition of portfolio of owned and managed homes by level of care at December 31, 2005



Composition of portfolio of owned and managed suites by geographical location



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 in which the REIT’s senior management own a controlling interest. Chartwell provides mezzanine financing to Spectrum and Spectrum’s joint venture partners 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, financing, 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 its joint venture partners to develop seniors housing facilities. Chartwell has a right to purchase these facilities upon stabilization at fair market value. Melior and its joint venture partners can obligate Chartwell to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied. Chartwell also provides structuring, consulting and advisory services, for a fee, to Melior and its joint venture partners in respect of their development program.

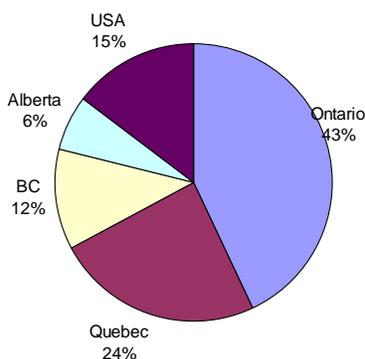
OWNED PROPERTY PORTFOLIO

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

As at	December 31, 2005	December 31, 2004
Number of suites	10,250 ⁽¹⁾	6,818 ⁽²⁾
Number of properties	95 ⁽¹⁾	68 ⁽²⁾

- (1) Includes 18 facilities (2,860 suites) in which Chartwell holds a 50% interest, and 1 facility (55 suites) in which Chartwell holds a 39% interest.
- (2) Includes 1 facility (55 suites) in which Chartwell holds a 39% interest, and 8 facilities (1,108 suites) in which Chartwell holds a 50% interest.

Composition of portfolio of owned suites by geographical location



SIGNIFICANT EVENTS IN 2005

The following have had a significant effect on the financial results of Chartwell REIT for the year ended December 31, 2005.

Acquisitions

In 2005, Chartwell REIT acquired interests in 28 seniors housing facilities (3,472 suites) for a total purchase price of \$435.2 million. The purchase price was settled by the assumption of mortgage debt and other liabilities of \$112.6 million, the issuance of 1,938,212 Class B Units of Chartwell Master Care LP ("Master LP"), a subsidiary of the REIT valued at \$27.2 million, issuance of 144,405 non-voting Preferred Series A Interests in CSH Master Care LLC ("Series A Interests"), a U.S. subsidiary of the REIT valued at \$2.1 million (\$1.8 million U.S.), the discharge of mezzanine loans receivable of \$19.5 million and cash.

Included in the above are the following acquisitions:

On July 11, 2005 Chartwell acquired all outstanding shares 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 six facilities, one development property and 93 condominium suites under development in British Columbia and became the largest owner and operator of senior's housing facilities in British Columbia. The acquisition further enhanced the REIT's geographic diversification and also provided 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 issued by the government for construction of new licensed care facilities. Immediately following the closing of this acquisition, the REIT sold its interest in Arranglen LTC facility (85 suites) and the Qualicum Beach development project (227 suites) to Spectrum at cost. The purchase price was satisfied through a mezzanine loan of \$3.3 million, the assumption of \$3.9 million of debt and \$0.6 million of cash.

On August 19, 2005, Chartwell completed, through a U.S. subsidiary jointly owned by Chartwell and ING Real Estate Investment Management Australia PTY Limited ("ING"), 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 living units which is Chartwell's core focus in the Canadian market and one in which it intends to concentrate in the United States. The purchase price for Chartwell's 50% interest in the properties amounted to \$139.2 million (U.S. \$116.0 million) plus closing costs which was satisfied by cash.

Effective October 1, 2005, Chartwell REIT acquired a 50% interest in two other properties in the United States. The purchase price of \$25.7 million (U.S. \$22.0 million) plus closing costs was satisfied by assumption of \$13.3 million (U.S. \$11.4 million) of debt, the issuance of 144,405 Series A Interests valued at \$2.1 million (U.S. \$1.9 million) and cash. Vendors of these facilities are entitled to receive an additional \$7.0 million (U.S. \$6.0 million), 50% of which is payable by Chartwell, upon the properties achieving a predetermined annualized yield on invested equity.

In addition, Chartwell acquired a 50% interest in Horizon Bay Chartwell LLC (“HBC”) for a purchase price of \$3.7 million (U.S. \$3.1 million). As at December 31, 2005, this entity manages the 8 U.S. properties in which Chartwell holds a 50% ownership interest.

Fourth Quarter

In the Fourth Quarter of 2005, the REIT acquired interests in 5 seniors housing facilities for an aggregate purchase price of \$67.6 million. The purchase price was satisfied through the assumption of mortgage debt of \$26.3 million, the issuance of 59,894 Class B Units of Master LP valued at \$0.8 million, the issuance of 144,405 Series A Interests valued at \$2.1 million (\$1.8 million U.S.), discharge of mezzanine loans receivable of \$3.1 million and cash.

The following tables summarize the acquisitions completed in 2005 and 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 19, 2005	125
18	Boulder Meridian ⁽¹⁾	Boulder, Colorado	Retirement	August 19, 2005	96
19	Englewood Meridian ⁽¹⁾	Englewood, Colorado	Retirement	August 19, 2005	266
20	Lakewood Meridian ⁽¹⁾	Lakewood, Colorado	Retirement	August 19, 2005	172
21	Temple Meridian ⁽¹⁾	Temple, Texas	Retirement	August 19, 2005	231
22	Westland Meridian ⁽¹⁾	Lakewood, Colorado	Retirement	August 19, 2005	153
23	Regency Retirement Residence	Mississauga, ON	Retirement	September 14, 2005	80
24	Pocasset Bay Manor ⁽¹⁾	Providence, Rhode Island	Retirement	October 1, 2005	169
25	Park at Trowbridge ⁽¹⁾	Southfield, Michigan	Retirement	October 1, 2005	300
26	Eau Claire	Calgary, Alberta	Retirement	October 1, 2005	150
27	Jackson Creek	Peterborough, Ontario	Retirement	November 1, 2005	68
28	Ste Marthe	St. Hyacine, Quebec	Retirement	December 1, 2005	67
					3,472

(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.

Internal Growth Initiatives

In 2005, the REIT commenced its enhanced internal growth program. Under this program, management evaluates various strategies of revenue and expense optimization, including additions of new suites to existing facilities, where appropriate.

In 2005, the REIT completed the following internal growth projects:

- Repositioning of the Gibson Long Term Care Centre to create additional preferred accommodation. This project was completed in the third quarter of 2005. Occupancy in this home has steadily increased since the project's completion and is currently at 98%.

The REIT invested approximately \$2.9 million in this project. It is anticipated that this repositioning will generate approximately \$0.7 million of additional net operating income annually, as compared to pre-construction income levels.

- Repositioning of Devonshire Seniors Residence by re-configuring 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. The total project cost amounted to \$2.5 million and the REIT has obtained financing for 50% of these costs.
- An 86-suite addition at the 50% owned Le Monastere D'Aylmer. The construction was substantially completed in the fourth quarter of 2005 and total project costs are expected to amount to \$14.6 million. The REIT invested approximately \$1.5 million of equity in the project and provided a mezzanine loan of \$1.1 million to its joint venture partner.
- A 60-suite addition at the 50% owned Residence Principale Cowansville. The construction was substantially completed in December 2005 and the total project costs are expected to amount to \$7.7 million. The REIT invested approximately \$0.7 million of equity in the project and provided a mezzanine loan of \$0.5 million to its joint venture partner.
- 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 \$0.4 million of equity in the project. The addition is now fully leased.

Mezzanine Loans

During 2005, the REIT advanced mezzanine loans totaling \$45.4 million to Spectrum, Melior and other third parties for the development of 19 seniors housing facilities. Mezzanine loans of \$20.0 million were discharged in the year on acquisitions of 6 seniors housing facilities. One mezzanine loan of \$0.4 million was repaid in 2005.

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.

Fourth Quarter

In the Fourth Quarter of 2005, the REIT advanced mezzanine loans totaling \$10.1 million to Spectrum and other third parties for the development of 8 seniors housing facilities. A mezzanine loan of \$3.1 million was discharged in the quarter on the acquisition of Jackson Creek Retirement Residence from Spectrum.

Public Offering of Trust Units

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.

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 \$147.3 million, after the payment of issue related costs of \$7.7 million, were used to repay the amounts outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

New Financing Arrangements

In 2005, the REIT arranged new mortgage financing (or refinanced existing mortgages) in the aggregate amount of \$204.1 million (including \$94.0 million of U.S. dollar denominated debt). This new debt bears interest at a weighted average rate of 5.6% and matures on various dates up to May, 2025.

Fourth Quarter

During the three month period ended December 31, 2005, the REIT arranged new financing or refinanced existing mortgages in the aggregate amount of \$40.8 million (including \$14.0 million of U.S. dollar denominated debt) and assumed \$26.3 million of mortgages and loans payable on acquisitions of seniors housing facilities, all of which was repaid subsequent to acquisition from the proceeds of new financings.

Management's strategy is to increase the average term to maturity of the mortgage portfolio. The average term to maturity at December 31, 2005 is 5.8 years up from 5.0 years at December 31, 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, which resulted in the annual distribution increasing to \$1.065 per Unit from \$1.025 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 financial statements 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 meets 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 December 31, 2005 Chartwell has the right to acquire interests in over 6,150 suites in lease up or under development by Spectrum, Melior and their joint venture partners.

Management's focus in the United States is on independent living 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 to 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 facilities and through the introduction of innovative new services to residents. It also believes 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 will continue the implementation of its marketing programs throughout the portfolio, which had a positive effect on property occupancies during 2005.

As a component of its internal growth program, management intends to add new suites to existing facilities through property expansions. In addition to the 5 internal growth projects completed in 2005, the following project was in progress as at December 31, 2005:

- Addition of 16 suites and enhanced resident amenities at New Edinburgh Square Retirement Home. The construction was substantially completed in January 2006. The total project cost is expected to amount to approximately \$3.0 million and the REIT has obtained financing for 50% of the estimated cost.

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 and in 2007.

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) estimates that 11,000 new suites will 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.

In 2005, the REIT completed acquisitions totaling \$435.2 million, which exceeded the REIT's 2005 acquisitions target of \$400 million. At this time, Chartwell's acquisitions under contract amounted to \$39.9 million. In addition, two acquisitions were completed subsequent to the year-end (see Subsequent Events).

Management expects that the acquisitions and mezzanine financings completed in 2005 and subsequent to the year-end, future contemplated acquisitions and mezzanine financings will continue to provide positive contribution to Distributable Income and Funds from Operations ("FFO") in 2006 and beyond.

Management also expects that completed and future acquisitions will increase the proportion of Distributable Income contributed by property operations, thereby improving the quality and stability of the REIT's Distributable Income.

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND OTHER PERFORMANCE MEASURES

Changes to Significant Accounting Policies

The REIT prepares its financial statements in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The REIT's significant accounting policies are summarized in Note 1 to its Consolidated Financial Statements.

During 2005, the REIT has adopted the following new accounting policies:

- (a) Income Taxes: Chartwell REIT is a Canadian unincorporated open-ended investment trust created by the Declaration of Trust dated July 7, 2003, as amended. Chartwell REIT is taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, Chartwell REIT intends to make distributions not less than the amount necessary to ensure that Chartwell REIT will not be liable to pay Canadian income taxes. Therefore, no provision for income taxes is required on income earned by Chartwell REIT, its subsidiary Trust and flow-through entities.

Chartwell REIT's corporate subsidiaries are subject to income taxes on their taxable income 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.

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

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

- (c) Foreign Exchange Derivatives: Chartwell REIT entered into option contracts in order to reduce the impact of foreign currency fluctuations on its proposed investment in foreign assets, which did not qualify as hedges for accounting purposes. The realized losses associated with these contracts are recognized as charges against income.

Chartwell REIT enters into option contracts in order to reduce the impact of foreign currency fluctuations on cash flows from its foreign self-sustaining operations, which do

not qualify as hedges for accounting purposes. Unrealized and realized gains and losses associated with these contracts are recognized in income.

- (d) Revenue from Services Related to Lending Activities: Fee revenue earned for services considered integral to the REIT's lending activities is recognized over the estimated term of the related mezzanine loans on an effective yield basis. Related costs are deferred and expensed over the same period.
- (e) Change in Accounting Policy: Effective December 31, 2005, Chartwell REIT changed its accounting policy for recognition of revenue from development management services. Fee revenue is recognized on a project-specific basis using the percentage of completion method based upon the level of effort expected to achieve predetermined project milestones. Under the new policy, no revenue is recognized prior to completion of submissions to Municipality for a building permit. Previously, Chartwell REIT did not recognize the development management fee revenue prior to obtaining relevant permits or commencement of construction activities.

Chartwell REIT adopts this change in accounting policy on a retroactive basis. As a result, the net loss was reduced by \$601 (\$0.015 per unit) for the year ended December 31, 2005. There was no material effect on the net loss for the year ended December 31, 2004 resulting from this change.

- (f) 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 VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or entitle it to receive a majority of the VIE's expected residual returns or both. AcG-15 is effective for all annual and interim periods, beginning on or after November 1, 2004, and was adopted by Chartwell REIT effective January 1, 2005.
- (i) At December 31, 2005, Chartwell REIT holds variable interests in 10 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 \$272,403.

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

As of December 31, 2005, Chartwell REIT had mezzanine loans receivable of \$31,859 and deferred revenue of \$4,593 from these entities. During the year, Chartwell REIT earned \$1,463 in fees and \$2,482 in interest from these entities.

- (ii) At December 31, 2005, Chartwell REIT, through a holding company, holds variable interests in seven variable interest entities. These entities are structured to lease the respective facilities from Chartwell REIT and Melior. These facilities are proportionately consolidated with a cost of \$52,962 and accumulated amortization of \$1,621 at December 31, 2005. Under the terms of the operating leases, Chartwell and Melior will receive the net revenue of the facilities less \$1 per facility.

Previously Chartwell REIT accounted for its 50% interest in these entities using the proportionate consolidation method of accounting. As these entities were determined to be VIEs, the proportionate consolidation method of accounting is no longer permitted. Chartwell REIT is not considered to be the primary beneficiary and is required to account for its interest in these entities using the equity method of accounting.

Chartwell REIT adopted this change in accounting policy prospectively commencing January 1, 2005. As a result, at December 31, 2005, total assets were reduced by \$1,047, with the corresponding reduction in liabilities. Revenue and expenses for the year ended December 31, 2005 were reduced by \$6,555.

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

Critical Accounting Estimates

- (a) Goodwill: Significant accounting policies that require management's judgements and estimates include the valuation of assets and liabilities including goodwill and other intangibles.

Under GAAP, goodwill is not amortized but instead assessed for impairment on an annual basis by comparing the carrying value of the related reporting unit with their fair market value. If the fair value of goodwill is less than its carrying value, goodwill is considered impaired and an impairment charge to income will be recognized. The fair value of goodwill is determined using valuation models that consider various factors such as normalized and projected earnings, price earnings multiples and discount rates. The REIT's management uses its best judgement in estimating fair values in this process. Imprecision in estimates can affect the valuation of goodwill.

- (b) Purchase Price Allocation: On September 12, 2003 the CICA issued the Emerging Issues Committee Abstract (EIC-140), "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination". Under this guidance a portion of the purchase price of acquired properties should be allocated to in-place leases, above or below market leases and customer relationships.

The value attributable to resident contracts represents the avoided cost of originating the acquired resident contracts, plus the value of lost net resident revenue over the estimated lease-up period of the property.

The value allocated to below market leases represents the net present value of the difference between the contracted amounts to be paid pursuant to the in-place lease and management estimate of the fair market lease rate for the corresponding in-place lease measured over a period of the average tenant stay in the facility.

In order to effect such purchase price allocation, management is required to make estimates of the average building lease-up period, average resident stay at the facility and the average lease-up costs. These estimates were based on historical, financial and market information.

Imprecision in these estimates can affect the allocation of purchase price paid on acquisition of seniors housing facilities between intangible assets and real estate properties and the related depreciation and amortization.

- (c) Variable Interest Entities: The REIT continuously evaluates the impact of AcG-15 on the accounting for its relationships with and interests in various entities.

In order to complete its evaluation under AcG-15, management is required, among other things, to make estimates of expected losses and/or residual returns, the probabilities of any such losses and/or residual returns relating to Spectrum, Melior, joint ventures, mezzanine financings and other relationships, and the impact of changing economic conditions. These estimates are based on historical and available market information. Imprecision in these estimates can affect the assessment of expected losses and/or residual returns.

- (d) Impairment of Assets: Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. The REIT's long-lived assets consist of investments in properties and mezzanine loans receivable.

The fair value of investments in properties is dependent upon anticipated future cash flows from operations over the anticipated holding period. The review of anticipated cash flows involves assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved. In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected from the direct use and eventual disposition of the property, an impairment would be recognized.

During 2005, the REIT recorded a write-down of carrying value of two properties in the amount of \$4,253.

The fair value of mezzanine loans receivable depends upon the financial stability of the borrower and the economic value of the underlying security. There were no impairments of mezzanine loans receivable for the year ending December 31, 2005.

- (e) Fair Value of Mortgages Payable: Management determines and discloses the fair value of REIT's mortgages payable on a quarterly basis. In determining the fair value, management uses internally developed models that are based upon current market conditions. The process involves discounting the future contractual mortgage payments based upon a current market rate. In determining market rates, management adds a credit spread to the quoted yields on Canadian government bonds with similar maturity dates to the REIT's mortgages. The credit spread is estimated based upon experience in obtaining similar financing and is also affected by current market conditions.
- (f) Revenue from Development Management Activities: Revenue from development management activities is recorded on a project specific basis using the percentage-of-completion method based upon the level of effort expended to achieve predetermined milestones. In order to determine the effort expended on particular projects, management makes estimates of the time it spends on typical development activities performed during the course of the development cycle. Management engaged the services of an independent cost consultant who supported the assumptions being made. Imprecision in these estimates can affect the timing of development management fee recognition.

Future Changes in Significant Accounting Policies

Management monitors the Canadian Institute of Chartered Accountants ("CICA") recently issued accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on the REIT's consolidated financial statements and note disclosures.

The CICA released section 3855, Financial Instruments – Recognition and Measurement, which standard is applicable to Chartwell commencing January 1, 2007. This standard provides more comprehensive guidance on how to recognize financial instruments on the balance sheet, how to measure them, and how to account for gains and losses. The Trust is in the process of assessing the impact of this new standard on its consolidated financial statements.

CONTROLS AND PROCEDURES

The Trust's Management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Trust's disclosure controls and procedures (as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*) for the year ended December 31, 2005, and have concluded that such disclosure controls and procedures are operating effectively.

Other Performance Measures

Distributable Income

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 is not a measure recognized under GAAP and should not be construed as

an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP as an indicator for the REIT's performance. 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. Distributable Income is defined by Chartwell's Declaration of Trust and is based on consolidated net earnings adjusted for (i) non-cash items; (ii) items that are not representative of the REIT's operating performance; (iii) cash items that are not included in net earnings under GAAP; and (iv) other items as determined by Chartwell's Board of Trustees.

The following specific adjustments are made to consolidated net earnings in calculation of Distributable Income:

- * 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 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;
- * Fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP;
- * Non-cash compensation expense related to issuance of Trust Units under Long-Term Incentive Program;
- * 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.

Effective January 1, 2005, the Board of Trustees amended 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 represent amounts earned and due to the REIT in the reporting period and are non-refundable. These fees will be recorded in Net Income under GAAP in future periods. To the extent these fees are included in GAAP Net Income in subsequent periods, they will be deducted from Distributable Income in such subsequent periods.

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.

These items are not considered to be representative of the REIT's operating performance. Foreign exchange gains and losses and gains and losses on derivative financial instruments will be included in Distributable Income when realized.

Effective October 1, 2005, the Board of Trustees amended the computation of Distributable Income to add back non-cash compensation expense related to issuance of Trust Units under Long-Term Incentive Program.

The tables presented under the Results of Operations section of this MD&A provide 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 to the users of the financial information, 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 audited consolidated financial results of the REIT for the twelve month periods ended December 31, 2005 and 2004, and unaudited results for the three months periods ended December 31, 2005 and 2004.

In the following discussion, "same property" statistics for the three month periods ended December 31, 2005 and 2004 refer to 55 retirement homes and 7 long term care facilities that Chartwell owned for the full fourth quarter in 2005 and in 2004. Same property statistics for the year ended December 31, 2005 and 2004 refer to 35 retirement homes that Chartwell owned for the full twelve months in 2005 and 2004.

Table – Results of Operations

(\$000's except per unit amounts)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Revenue:						
Property revenue	203,345	123,140	80,205	65,134	39,736	25,398
Mezzanine loan interest	7,859	4,635	3,224	2,074	1,548	526
Fees:						
Spectrum	5,391	5,531	(140)	2,101	2,068	33
Other	3,757	3,884	(127)	1,406	1,946	(540)
Other Income	4,275	590	3,685	997	108	889
	224,627	137,780	86,847	71,712	45,406	26,306
Expenses:						
Direct operating	(143,220)	(85,168)	(58,052)	(46,515)	(27,161)	(19,354)
General and administrative	(10,181)	(6,851)	(3,330)	(3,206)	(2,024)	(1,182)
	(153,401)	(92,019)	(61,382)	(49,721)	(29,185)	(20,536)
Income before interest, depreciation and amortization	71,226	45,761	25,465	21,991	16,221	5,770
Interest expense	(27,446)	(16,901)	(10,545)	(8,613)	(6,521)	(2,092)
Foreign exchange loss and losses on derivative financial instruments	(1,759)	-	(1,759)	(325)	-	(325)
Income before depreciation and amortization	42,021	28,860	13,161	13,053	9,700	3,353
Depreciation and amortization	(50,932)	(33,186)	(17,746)	(16,268)	(10,671)	(5,597)
Write down of carrying value of assets	(4,253)	(1,660)	(2,593)	(3,436)	(1,159)	(2,277)
Gain on sale of assets	103	-	103	-	-	-
Non-controlling interest	1,391	539	852	683	196	487
Net Income Loss	(11,670)	(5,447)	(6,223)	(5,968)	(1,934)	(4,034)
Add back (subtract):						
Depreciation and amortization	50,932	33,186	17,746	16,268	10,671	5,597
Amortization of deferred financing expenses	1,956	1,990	(34)	858	1,363	(505)
Amortization of below market leases	(1,675)	(1,358)	(317)	(412)	(409)	(3)
Amortization of debt premiums, net ⁽¹⁾	(1,649)	(701)	(948)	(618)	(74)	(544)
Write down of carrying value of assets	4,253	1,660	2,593	3,436	1,159	2,277
Gain on sale of assets	(103)	-	(103)	-	-	-
Principal portion of capital funding receivable	219	70	149	67	19	48
Amounts received under Net Operating Income Guarantee	1,185	1,883	(698)	152	546	(394)
Contractually receivable management fees, not included in net income under GAAP ⁽²⁾	6,801	-	6,801	1,819	-	1,819
Management fees recorded in Net Income under GAAP in the period that were previously recorded in Distributable Income ⁽²⁾	(860)	-	(860)	(376)	-	(376)
Foreign exchange loss and losses on derivative financial instruments ⁽³⁾	1,759	-	1,759	325	-	325
Non-cash compensation expense related to the issuance of Trust Units under the Long-Term Incentive Program ⁽⁴⁾	434	-	434	434	-	434
Non-controlling interest	(1,391)	(539)	(852)	(683)	(196)	(437)
Distributable income	50,191	30,744	19,447	15,302	11,145	4,157
Weighted average number of units outstanding ⁽⁵⁾	46,075,277	31,050,303	15,024,974	54,605,921	35,738,309	18,867,612
Dilutive LTIP	1,007,836	843,877	163,959	1,456,304	860,000	596,304
	47,083,113	31,894,180	15,188,933	56,062,225	36,598,309	19,463,916
Distributable income per unit – basic	1.09	0.99	0.10	0.28	0.31	(0.03)
Distributable income per unit – diluted	1.07	0.96	0.11	0.27	0.30	(0.03)
Distributions declared ⁽⁶⁾	50,457	32,596	17,861	14,775	9,394	5,381
Distributions per unit – diluted	1.07	1.02	0.05	0.26	0.26	-
Payout ratio – diluted	101%	106%	(5%)	97%	84%	13%

See accompanying notes to the table.

Notes to the Table – Results of Operations

- (1) Includes amortization of debt discounts of \$73 and \$223 for the three and twelve months ended December 31, 2005 and \$153 and \$270 for the three and twelve months ended December 31, 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) Effective October 1, 2005, the Board of Trustees amended the computation of Distributable Income to add back non-cash compensation expense related to the Issuance of Trust Units under the Long-Term Incentive Plan.
- (5) Includes the weighted average of 5,587,069 and 5,205,643 of outstanding Class B Units of Master LP for the three and twelve months ended December 31, 2005 and 3,840,188 and 3,103,716 for the three and twelve months ended December 31, 2004 respectively.
- (6) Includes \$1,477 and \$5,602 of distributions declared on Class B Units of Master LP for the three and twelve months ended December 31, 2005 and \$777 and \$3,303 for the three and twelve months ended December 31, 2004 respectively.

Reconciliation of Distributable Income to Cash Flow from Operating Activities

(\$000's)	For the year ended December 31		For the three months ended December 31	
	2005	2004	2005 (unaudited)	2004 (unaudited)
Cash flow from operating activities	57,337	29,490	15,073	12,412
Add (Subtract):				
Change in non-cash operating items	(14,062)	309	(703)	(1,601)
Amortization of debt discounts	(223)	(270)	(73)	(164)
Amortization of debt premiums, net	(1,649)	(701)	(618)	(74)
Option benefit granted under the Long-Term Incentive Plan	-	(21)	-	-
Principal portion of capital funding receivable	219	70	67	20
Amounts received under Net Operating Income Guarantees	1,185	1,883	152	546
Contractually receivable management fees, net	5,941	-	1,443	-
Income/(Loss) from long-term investment net of distributions	9	(16)	(39)	6
Foreign exchange loss	1,434	-	-	-
Distributable Income	50,191	30,744	15,302	11,145

Reconciliation of Funds from Operations

(\$000's except per unit amounts)	For the year ended December 31		For the three months ended December 31	
	2005	2004	2005 (unaudited)	2004 (unaudited)
Net loss per financial statements	(11,670)	(5,447)	(5,968)	(1,934)
Add (subtract):				
Depreciation of real estate assets	21,314	12,092	6,826	3,973
Amortization of management contracts, resident contracts and customer relationships	29,618	21,094	9,442	6,698
Depreciation of leasehold improvements included in depreciation of real estate assets	(65)	(13)	(15)	(4)
Write down of carrying value of assets	4,253	1,660	3,436	1,159
Gain on Sale of Assets	(103)	-	-	-
Non-controlling interest	(1,391)	(539)	(683)	(196)
Funds from Operations	41,956	28,847	13,038	9,696
Funds from Operations per unit diluted	0.89	0.90	0.23	0.26

The primary differences between FFO and Distributable Income were adjustments related to contractually receivable management fees, foreign exchange losses and losses on derivative financial instruments, amounts received under net operating income guarantees and non-cash compensation expense related to the issuance of Trust Units under LTIP.

Property Revenue

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Property Revenue	203,345	123,140	80,205	65,134	39,736	25,398

- Acquisitions and internal growth projects completed subsequent to January 1, 2004 contributed revenue of \$86.5 million.
- Same property revenue increased by \$3.2 million, an increase of 5%. This increase is primarily attributed to the following:
 - Improved occupancies in the REIT's retirement portfolio.
 - One facility in Alberta which was in lease-up during 2004 achieved stabilization in 2005.
 - Additional revenue from new programs and services offered to residents in four of the REIT's properties in Western Canada.
 - Regular annual rent increases.
- As discussed under the Significant Accounting Policies section of this MD&A, the REIT is now required to account for its interest in seven operating companies co-owned with Melior using the equity method of accounting. Previously, Chartwell accounted for its interest in these entities using the proportionate consolidation method of accounting.

This change in accounting policy (“Change in Accounting for VIEs”) resulted in a re-classification of property revenue of \$9.5 million for the year ended December 31, 2005.

Fourth Quarter

- Acquisitions completed subsequent to September 30, 2004 contributed \$25.9 million of additional revenues in the quarter.
- Same property revenues increased by \$1.9 million, an increase of 5%. This increase is attributable to improved occupancies in both retirement and long-term care portfolios, stabilization of several facilities which were in lease-up or redevelopment in the Fourth Quarter of 2004, and new services offered to residents at several independent living facilities.
- Change in accounting for VIEs resulted in a re-classification in property revenue of \$2.4 million in the Fourth Quarter of 2005.

Mezzanine Loan Interest

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Mezzanine Loan Interest	7,859	4,635	3,224	2,074	1,548	526

Mezzanine loan interest was higher in the year ended December 31, 2005 and in the Fourth Quarter of 2005 as compared to same periods of the previous year due to higher average loan balances outstanding in 2005.

Fees

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Spectrum	5,391	5,531	(140)	2,101	2,068	33
Melior	1,474	1,436	38	574	1,436	(862)
Other	2,283	2,448	(165)	832	510	322
	9,148	9,415	(267)	3,507	4,014	(507)

Fees from Spectrum for the year ended December 31, 2005 were comparable with the fees earned in the prior period:

- As discussed under Significant Accounting Policies, Chartwell changed its accounting policy for recognition of revenue from development management activities effective December 31, 2005, which resulted in \$0.6 million of fees being recognized in the Fourth Quarter of 2005. Including these fees the development fees for the year were slightly below 2004 fees.
- Operations management and financing fees for the year ended December 31, 2005 were comparable with the 2004 amounts.

Fees from Melior and other third parties for the year ended December 31, 2005 were comparable with the 2004 amounts.

Fourth Quarter

In the Fourth Quarter of 2005 fees from Melior were lower than in the Fourth Quarter of 2004 due to lower development related fees earned from Melior. Management fees from other third parties were higher than the fees earned in the Fourth Quarter of 2004, primarily due to fees earned from the joint venture partners on certain properties acquired as part of CPAC acquisition and asset management fees earned from ING for management of the US property portfolio, jointly owned by Chartwell and ING.

Other Income

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Other Income	4,275	590	3,685	997	108	889

- Change in accounting for VIEs resulted in an increase in other income of \$2.9 million for the year ended December 31, 2005, and an increase of \$0.6 million in the Fourth Quarter of 2005.
- Higher other income in 2005 was also due to interest income earned on funds received from the two offerings of REIT Units completed in the year.

Direct Operating Expenses

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Direct Operating Expenses	(143,220)	(85,168)	(58,052)	(46,515)	(27,161)	(19,354)

- Acquisitions completed subsequent to January 1, 2004 contributed \$58.6 million of additional operating expenses in 2005.
- Same property expenses increased by \$3.1 million, an increase of 8.1%. This increase was primarily attributable to the following:
 - Cost of additional programs and services offered to residents in four Western Canada facilities, including one time programs start-up costs. These programs and services were necessary to improve occupancies and have been effective to date.
 - Higher operating overhead costs, as the REIT continued building its operating platforms across Canada to accommodate current and future growth.

- Direct operating expenses of management operations increased by \$2.9 million to support the higher revenue stream from the management business.
- Change in accounting for VIEs resulted in a re-classification of direct operating expenses of \$6.6 million for the year ended December 31, 2005.

Fourth Quarter

- Acquisitions completed subsequent to September 30, 2004 contributed \$17.9 million of the increase in direct operating expenses in the Fourth Quarter of 2005.
- Same property expenses increased by \$2.4 million, an increase of 10%. This increase is primarily attributable to higher operating overhead costs and higher costs of additional programs and services offered to residents in four Western Canada facilities.
- Direct Operating Expenses of management operations increased by \$0.8 million to support the higher revenue from the management business.
- Change in accounting for VIEs resulted in a decrease of direct operating expenses of \$1.8 million for the Quarter.

General and Administrative

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
General and Administrative	(10,181)	(6,851)	(3,330)	(3,206)	(2,024)	(1,182)
As % of total revenue	4.5%	5.0%	(0.5%)	4.5%	4.5%	-

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

In 2005 professional, legal and accounting costs were significantly higher than in 2004 due to the increased size of the REIT and new regulatory requirements.

- General and Administrative expenses as percentage of revenue declined in 2005 as compared to 2004 due to a significant increase in revenue contributions from new acquisitions, mezzanine loans and fees.

Interest Expense

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Interest Expense	(27,446)	(16,901)	(10,545)	(8,613)	(6,521)	(2,092)

Increase in the interest expense for the year ended December 31, 2005 as compared to the year ended December 31, 2004 was primarily due to assumed debt and new mortgage financing obtained in relation to acquisitions completed in 2005 and in 2004.

The REIT incurred interest expense of \$1.5 million in 2005 on its bridge loans and its operating line as compared to \$2.1 million in 2004.

Foreign Exchange Loss and Losses on Derivative Financial Instruments

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Foreign Exchange Loss and Losses on Derivative Financial Instruments	(1,759)	-	(1,759)	(325)	-	(325)

Included in the above are the following items:

	Year ended December 31, 2005	Three months ended December 31, 2005 (unaudited)
Loss on settlement of the derivative financial instruments related to the acquisition of the Meridian portfolio	\$1,094	-
Foreign exchange loss related to the acquisition of two properties in the United States which closed in October, 2005	\$ 340	-
Unrealized loss on changes in redemption value of Series A preferred interests of CSH Master Care LLC	\$ 163	\$ 163
Unrealized foreign exchange losses	\$ 162	\$ 162
	<u>\$1,759</u>	<u>\$ 325</u>

Management entered into option contracts to acquire \$36.0 million U.S. dollars at a U.S./CAD dollar rate which did not exceed 1.23 for the acquisition of the Meridian 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 \$1.1 million in 2005.

In addition, in anticipation of the closing of two acquisitions in the United States, Chartwell acquired approximately \$9.0 million U.S. in August 2005. As a result, Chartwell recorded additional foreign currency loss of \$0.3 million due to the change in the foreign exchange rate in 2005. 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.

Chartwell also incurred unrealized losses on changes in redemption value of Series A Interests related to 144,408 Series A Interests issued by CSH Master Care LLC, a U.S. subsidiary of Chartwell on the acquisition of two facilities in the United States in October 2005. These Series A Interests are redeemable at the option of the holder over three years ending September 2008. The redemption price is payable in Canadian dollars and will be based on the closing price of REIT's units. Series A Interests are classified as liability in the financial statements and unrealized gains and losses resulting from the changes in the redemption value of Series A Interests are charged to income.

Depreciation and Amortization

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Depreciation and Amortization	(50,932)	(33,186)	(17,746)	(16,268)	(10,671)	(5,597)

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

Non-Controlling Interest

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Non-controlling Interest	1,391	539	852	683	196	487

- 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, 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 year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Net Loss for the period	(11,670)	(5,447)	(6,223)	(5,968)	(1,934)	(4,034)

Net loss for the three and twelve months ended December 31, 2005 increased in comparison with the same periods of 2004 as increased property and fee income contribution was offset by higher depreciation and amortization expenses, higher general and administrative expenses, interest expenses, foreign exchange losses and losses on derivative financial instruments.

Distributable Income and Distributions

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005 (unaudited)	2004 (unaudited)	Change	2005 (unaudited)	2004 (unaudited)	Change
Distributable Income	50,191	30,744	19,447	15,302	11,145	4,157
Distributions Declared ⁽¹⁾	50,457	32,596	17,861	14,775	9,394	5,381
Weighted average number of units outstanding (diluted) ⁽²⁾	47,083,113	31,894,180	15,188,933	56,062,225	36,598,309	19,463,916
Distributable Income per unit – diluted	1.07	0.96	0.11	0.27	0.30	(0.03)
Distributions per unit – diluted	1.07	1.02	0.05	0.26	0.26	-
Payout Ratio – diluted	101%	106%	(-5)%	97%	84%	13%

(1) Includes \$1,477 and \$5,602 of distributions declared on Class B Units of Master LP for the three and twelve months ended December 31, 2005 and \$777 and \$3,303 for the three and twelve months ended December 31, 2004 respectively.

(2) Includes the weighted average of 5,587,069 and 5,205,643 of outstanding Class B Units of Master LP for the three and twelve months ended December 31, 2005 and 3,840,188 and 3,103,716 for the three and twelve months ended December 31, 2004 respectively.

Distributable income increased in 2005 as compared to 2004 primarily due to the positive contributions of acquisitions completed in 2005 and 2004 and higher mezzanine loan interest and fee income. This was partially offset by higher general and administrative and interest expenses in 2005.

In addition, Distributable Income was positively affected by contractually receivable management fees in the amount of \$6.8 million and \$1.8 million for the twelve and three months ended December 31, 2005, respectively. 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. Fees of \$0.9 million and \$0.4 million were deducted from Distributable Income for the twelve and three months ended December 31, 2005, respectively. These fees were included in Distributable Income in prior periods.

UNITHOLDERS' TAXATION

In 2005, 85% (2004 – 85%) of the REIT's distributions were made on a tax deferred basis. These amounts are not taxable when received, but reduce the Unitholders' adjusted cost base of their Units.

SEGMENTED INFORMATION

The following discussion and analysis provides information on the financial results for each operating segment of the REIT for the three and twelve month periods ended December 31, 2005 compared to the three and twelve month periods ended December 31, 2004.

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, revenues, 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 has been restated to conform with the current classification.

In 2005, the REIT acquired a 50% interest in management operations and in eight seniors housing facilities in the United States of America. Two of these facilities were acquired in the fourth quarter of 2005. 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 presents the results of operations and financial position of the retirement operations segment of the REIT for the twelve and three month periods ended December 31, 2005 and 2004.

\$000's	For the year ended December 31			For the three months ended December 31		
	2005	2004 (restated)	Change	2005 (unaudited)	2004 (unaudited) (restated)	Change
Revenues	136,665	85,739	50,926	39,878	29,125	10,753
Direct Operating Expenses	(83,262)	(51,315)	(31,947)	(25,101)	(17,495)	(7,606)
	53,403	34,424	18,979	14,777	11,630	3,147
Interest Expense	(22,145)	(14,802)	(7,343)	(6,317)	(5,757)	(560)
Income before depreciation and amortization	31,258	19,622	11,636	8,460	5,873	2,587
Depreciation and amortization	(41,891)	(26,242)	(15,649)	(13,509)	(8,608)	(4,901)
Write down of carrying value of assets	(4,253)	-	(4,253)	-	-	-
Gain on sale of assets	103	-	103	-	-	-
Net Loss for the period	(14,783)	(6,620)	(8,163)	(5,049)	(2,735)	(2,314)
Operating Margins ⁽¹⁾	38.3%	39.2%	(0.9%)	36.4%	39.1%	(2.7%)

	At December 31, 2005	At December 31, 2004 (restated)	Change
Assets	\$791,023	\$603,322	\$187,701
Liabilities	\$487,481	\$394,906	\$ 92,575

(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 409 for the three months ended December 31, 2005 and December 31, 2004 respectively, and 1,675 and 1,358 for the year ended December 31 30, 2005 and December 31, 2004 respectively.

Revenues

\$000's	Year ended		\$ Change
	December 31, 2005	December 31, 2004 (restated)	
Acquisitions	79,430	22,219	57,211
Same Property	66,686	63,520	3,166
Change in accounting for VIEs	(9,451)	-	(9,451)
Total	136,665	85,739	50,926

- Acquisitions of 43 retirement residences since January 1, 2004 contributed \$57.2 million of revenue increases for the year ended December 31, 2005.
- Same property revenues increased by 5% due to the following:
 - Improved occupancies in the retirement portfolio to 93% as at December 31, 2005 compared to 92% occupancy as at December 31, 2004.

- Additional revenue generated by new services and programs introduced to residents in four facilities in Western Canada.
- Completion of a lease-up of one facility in Western Canada, which achieved stabilized occupancy in the First Quarter of 2005.
- Regular annual rent increases.

Fourth Quarter

\$000's	Three months ended		\$ Change
	December 31, 2005 (unaudited)	December 31, 2004 (unaudited) (restated)	
Acquisitions	13,766	1,699	12,067
Same Property	28,514	27,426	1,088
Change in accounting for VIEs	(2,402)	-	(2,402)
Total	39,878	29,125	10,753

- Acquisition of 22 retirement residences since September 30, 2004 contributed \$12.1 million of revenue increases for the three months ended December 31, 2005 from the same period of 2004.
- Same property revenues increased by 4% for the three months ended December 31, 2005 due to improved occupancies; additional services offered to residents and regular annual rent increases.

Direct Operating Expenses

\$000's	Year ended		\$ Change
	December 31, 2005	December 31, 2004 (restated)	
Acquisitions	48,756	13,337	35,419
Same Property	41,061	37,978	3,083
Change in accounting for VIEs	(6,555)	-	(6,555)
Total	83,262	51,315	31,947

- Acquisition of 43 retirement residences since January 1, 2004 contributed \$35.4 million of direct operating expense increases for the year ended December 31, 2005 from 2004.
- Same property direct operating expenses increased by 8% for the year ended December 31, 2005 as compared to the year ended December 31, 2004, due to the following:
 - The cost associated with the additional resident services which were introduced in four facilities in Western Canada.
 - The higher property operating overheads attributable to the addition of senior operations management personnel in 2004 and 2005.

Fourth Quarter

\$000's	Three months ended		
	December 31, 2005 (unaudited)	December 31, 2004 (unaudited) (restated)	\$ Change
Acquisitions	8,800	981	7,819
Same Property	18,094	16,514	1,580
Change in accounting for VIEs	(1,793)	-	(1,793)
Total	25,101	17,495	7,606

- Acquisition of 22 retirement residences since September 30, 2004 contributed \$7.8 million of the increase in direct operating expenses for the Fourth Quarter of 2005, as compared to the same period of 2004.
- Same property expenses increased by \$1.6 million or 10% in the Fourth Quarter of 2005 over the same period of 2004 primarily due to higher operating overhead costs and cost of new services offered to residents.

Operating Margins

Operating margins decreased from 39.2% in 2004 to 38.3% in 2005 due to the following:

- Higher property operating overhead costs.
- Addition of new resident service programs introduced in certain facilities, including the aforementioned Western Canada properties. These programs, although they generate positive net operating income contribution, normally operate at lower margins, which dilutes the overall portfolio margins.
- Certain of the acquired properties offer enhanced resident care and service programs. In the year of implementation of these programs, certain costs had to be incurred prior to these programs generating substantial additional revenue. These acquisitions, while generating positive net operating income contributions and accretive yields, generally operate at lower operating margins.

Fourth Quarter

- Operating margins decreased in the Fourth Quarter of 2005 as compared to the Fourth Quarter of 2004 due to higher property overhead costs and new services introduced to residents at certain facilities, which resulted in lower operating margins.

Interest Expense

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

Depreciation and Amortization

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

Net Loss

Net loss for the year and quarter ended December 31, 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 two retirement homes in 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 twelve months ended December 31, 2005 as compared to the three and twelve months ended December 31, 2004.

\$000's	For the year ended December 31			For the three months ended December 31		
	2005	2004 (restated)	Change	2005 (unaudited)	2004 (unaudited) (restated)	Change
Revenues	56,407	37,401	19,006	17,745	10,611	7,134
Direct Operating Expenses	(49,586)	(32,518)	(17,068)	(15,634)	(9,204)	(6,430)
	6,821	4,883	1,938	2,111	1,407	704
Interest Expense	(3,129)	(2,099)	(1,030)	(734)	(764)	30
Income before depreciation and amortization	3,692	2,784	908	1,377	643	734
Depreciation and amortization	(3,358)	(4,752)	1,394	(888)	(1,471)	583
Net Income (Loss) for the period	334	(1,968)	2,302	489	(828)	1,317
Operating Margins	12.1%	13.1%	-1%	11.9%	13.3%	-1.4%

	As December 31, 2005	At December 31, 2004 (restated)	Change
Assets	\$114,709	\$65,936	\$48,773
Liabilities	\$ 71,278	\$42,614	\$28,664

Revenues

\$000's	Year ended		\$ Change
	December 31, 2005	December 31, 2004 (restated)	
Acquisitions	56,407	37,401	19,006
Same Property	-	-	-
Total	56,407	37,401	19,006

- The acquisition of 10 long term care facilities since January 1, 2004 contributed \$19.0 million of revenue increase for the year ended December 31, 2005 as compared to same periods of 2004.

- The repositioning of the Gibson Long Term Care Centre has recently been completed. 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 accommodation revenue for private rooms.
- 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 \$0.2 million of additional revenue to the REIT on an annualized basis assuming stabilized occupancy in all the applicable facilities.

Fourth Quarter

\$000's	Three months ended		
	December 31, 2005 (unaudited)	December 31, 2004 (unaudited) (restated)	\$ Change
Acquisitions	6,287	-	6,287
Same Property	11,458	10,611	847
Total	17,745	10,611	7,134

- Acquisitions of 3 long-term care facilities since September 30, 2004 contributed \$6.3 million of revenue increases in the Fourth Quarter of 2005 as compared to the same period of 2004.
- Same property revenue increased by \$0.9 million, an increase of 8%, due to stabilization of the Gibson Long-Term Care Centre, which was under re-development in the Fourth Quarter of 2004, as well as increases received from the government in the nursing envelope.

Direct Operating Expenses

\$000's	Year ended		
	December 31, 2005	December 31, 2004 (restated)	\$ Change
Acquisitions	49,586	32,518	17,068
Same Property	-	-	-
Total	49,586	32,518	17,068

- The acquisition of 10 long term care facilities since January 1, 2004 contributed \$17.1 million of the increase to direct operating expenses for the year ended December 31, 2005 as compared to the year ended December 31, 2004.

Fourth Quarter

\$000's	Three months ended		\$ Change
	December 31, 2005 (unaudited)	December 31, 2004 (unaudited) (restated)	
Acquisitions	5,562	-	5,562
Same Property	10,072	9,204	868
Total	15,634	9,204	6,430

- Acquisitions of 3 long-term care facilities since September 30, 2004 contributed \$5.6 million of additional operating expenses in the Fourth Quarter of 2005 as compared to the same period of 2004.
- Same property operating expenses increased by \$0.9 million due to the fact that reduced staffing levels at the Gibson Long-Term Care Centre introduced while the property was in re-development in 2004 and 2005 were brought to the normalized levels upon the stabilization of the facility in 2005. In addition, increased funding received from the government in the nursing envelope was utilized to add nursing staff.

Operating Margins

Operating margins decreased for the year ended December 31, 2005 as compared to 2004 as increased government funding to nursing envelope in 2005 does not contribute to property operating income.

Interest Expense

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

Depreciation and Amortization

Depreciation and amortization decreased in the three and twelve month periods ended December 31, 2005 as compared to the same periods of 2004 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 primarily due to lower depreciation and amortization costs as discussed above and positive contributions of newly acquired facilities.

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 twelve months ended December 31, 2005 as compared to the three and twelve months ended December 31, 2004.

\$000's	For the year ended	For the three months ended
	December 31	December 31
	2005	2005
Revenues	10,273	7,511
Direct Operating Expenses	(6,113)	(4,530)
	4,160	2,981
Interest Expense	(2,172)	(1,562)
Income before depreciation and amortization	1,988	1,419
Depreciation and amortization	(3,682)	(893)
Net Income (Loss) for the period	(1,694)	526
Operating Margins	40.5%	39.7%

As December 31, 2005	
Assets	\$172,311
Liabilities	\$125,021

As at December 31, 2005, the U.S. Operations segment includes Chartwell's 50% interest in 5 facilities located in Colorado, 1 facility located in Texas, 1 facility located in Rhode Island and 1 facility located in Michigan (1,508 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 8 facilities. Chartwell acquired its interest in 6 of the properties and in HBC on August 19, 2005 and the remaining 2 properties on October 1, 2005. The U.S. portfolio is predominantly independent living facilities and has operated at 96% occupancy since the acquisitions, with the exception of the 1 facility in Michigan which is currently in lease-up.

We anticipate that these occupancies and high operating margins will continue in 2006.

Management Operations

\$000's	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Revenues	9,148	9,415	(267)	3,507	4,014	(507)
Direct Operating Expenses	(4,259)	(1,335)	(2,924)	(1,250)	(462)	(788)
	4,889	8,080	(3,191)	2,257	3,552	(1,295)
Interest Expense	-	-	-	-	-	-
Income before depreciation and amortization	4,889	8,080	(3,191)	2,257	3,552	(1,295)
Depreciation and amortization	(2,001)	(2,192)	191	(978)	(592)	(386)
Write down of carrying value of assets	-	(1,660)	1,660	-	(60)	60
Net Income (Loss) for the period	2,888	4,228	(1,340)	1,279	2,900	(1,621)
Operating Margins	53%	86%	(33%)	64%	89%	(25%)
	As December 31, 2005	At December 31, 2004				Change
Assets		21,320		16,832		4,488
Liabilities		5,150		-		5,150

Revenues

(\$000's)	For the year ended December 31			For the three months ended December 31		
	2005	2004	Change	2005 (unaudited)	2004 (unaudited)	Change
Spectrum	5,391	5,531	(140)	2,101	2,068	33
Melior	1,474	1,436	38	574	1,436	(862)
Other	2,283	2,448	(165)	832	510	322
	9,148	9,415	(267)	3,507	4,014	(507)

Fees earned from Spectrum for the year ended December 31, 2005 were lower by \$0.1 million than the fees for the year ended December 31, 2004. The following are the main components of these fees:

- Development management fees earned from Spectrum in 2005 amounted to \$4.0 million, a \$0.1 million decrease from 2004.
- The REIT earned fees of \$0.8 in 2005 for arranging construction financing for Spectrum's projects. This compares to financing fees of \$0.9 million in 2004.
- 2005 operations management fees were higher than 2004 amounts as higher fees resulting from better occupancies and regular rent increases in managed facilities were partially offset by the REIT acquiring 6 stabilized properties from Spectrum during 2005, which replaced management fee income with properties operating income.

Fees from Melior and other third parties for the year ended December 31, 2005 were comparable with the 2004 amounts.

Fourth Quarter

In the Fourth Quarter of 2005 fees from Melior were lower than in the Fourth Quarter of 2004 due to lower development related fees earned from Melior. Management fees from other third parties were higher than the fees earned in the Fourth Quarter of 2004, primarily due to fees earned from the joint venture partners on certain CPAC properties and asset management fees earned from ING for management of the US portfolio jointly owned by Chartwell and ING.

Direct Operating Expenses

Direct operating expenses increased in the year ended December 31, 2005 as compared to 2004 as greater management efforts were required to support the higher revenue stream and to 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 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. The quarterly results for the three month periods ended September 30, 2005, June 30, 2005 and March 31, 2005 have been restated to reflect changes in accounting for VIEs (see Significant Accounting Policies). As a result of this change, both Revenues and Direct Operating Expenses for the periods ended September 30, 2005, June 30, 2005 and March 31, 2005 were reduced by \$1,579, \$1,552 and \$1,632 respectively.

(\$000's, except per unit amounts)	Three Months Ended Dec. 31, 2005 (unaudited)	Three Months Ended Sept. 30, 2005 (restated) (unaudited)	Three Months Ended June 30, 2005 (restated) (unaudited)	Three Months Ended March 30, 2005 (restated) (unaudited)	Three Months Ended Dec. 31, 2004 (unaudited)	Three Months Ended Sept. 30, 2004 (restated) (unaudited)	Three Months Ended June 30, 2004 (restated) (unaudited)	Three Months Ended March 30, 2004 (restated) (unaudited)
Revenues	\$ 71,712	\$ 60,254	\$ 49,315	\$ 43,347	\$ 45,406	\$ 38,691	\$ 29,590	\$ 24,093
Direct Operating Expenses	(46,515)	(38,605)	(30,238)	(27,863)	(27,161)	(23,366)	(19,479)	(15,162)
General, Administrative and Trust Expenses	(3,206)	(2,525)	(2,451)	(1,999)	(2,024)	(1,513)	(1,830)	(1,484)
Income before interest, depreciation and amortization	21,991	19,124	16,626	13,485	16,221	13,812	8,281	7,447
Interest Expense	(8,613)	(7,368)	(5,781)	(5,684)	(6,521)	(4,686)	(3,045)	(2,649)
Foreign Exchange Loss	(325)	(1,434)	-	-	-	-	-	-
Depreciation and Amortization	(16,268)	(12,892)	(11,003)	(10,769)	(10,671)	(9,270)	(7,581)	(5,664)
Write down of carrying value of assets	(3,436)	-	-	(817)	(1,159)	-	(501)	-
Gain on sale of assets	-	-	103	-	-	-	-	-
Non-controlling interest	683	271	(11)	448	196	3	266	74
Net Loss for the period	(5,968)	(2,299)	(66)	(3,337)	(1,934)	(141)	(2,580)	(792)
Distributable Income	15,302	14,118	11,078	9,693	11,145	9,398	5,729	4,472
Distributable Income Per Unit, diluted	0.27	0.28	0.25	0.26	0.30	0.29	0.20	0.16

Chartwell REIT's quarterly results for the past 8 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 in 6 of the past 8 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)	December 31, 2005	December 31, 2004
Real Property Investments	957,244	\$588,812
Mezzanine Loans	77,436	52,021
Total Assets	1,191,644	740,252
Mortgages Payable	613,654	374,520
Loans Payable	32,024	41,518
Total Liabilities	693,911	440,678
Non-controlling Interest	52,448	40,279
Unitholders' Equity	445,285	259,295
Total Liabilities and Equity	1,191,644	740,252

The increase in total assets as at December 31, 2005 compared to December 31, 2004 is due primarily to the acquisition of 28 seniors housing facilities that were completed in 2005.

Mortgages payable increased from December 31, 2004 due to the financing attributable to acquisitions completed in 2005 and mortgages assumed on these same transactions. This was

partially offset by mortgage principal repayments and the retirement of long-term debt of approximately \$70.6 million.

Loans payable at December 31, 2005 were lower than at December 31, 2004 as the 2005 acquisitions and new mezzanine loans were funded primarily from the proceeds of two public offerings completed in 2005. In these offerings, the REIT raised \$245.4 million of new equity through the issuance of 16,450,000 of Trust Units.

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 \$27.2 million, offset by \$5.6 million of distributions paid on these units, and conversion of 0.7 million of Class B Units valued at \$7.9 million to Trust Units.

Outstanding Units Data

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

	December 31, 2005	December 31, 2004
Trust Units	49,218,102	31,913,005
LTIP Units under subscription	1,475,000	860,000
	50,693,102	32,773,005
Class B Units of Master LP	5,429,235	4,213,149
	56,122,337	36,986,154

During the year ended December 31, 2005, the REIT issued 16,450,000 Trust Units pursuant to two Public Offerings, 116,721 Trust Units under its Distribution Reinvestment Program and 1,938,212 Class B Units of Master LP on the acquisition of eight seniors housing facilities. In addition, holders of 722,126 Class B Units of Master LP exchanged them for REIT Units. The holders of 16,250 of LTIP Units under subscription disposed of their Units in 2005 as a result of their termination as employees of the REIT.

In addition, on October 4, 2005, the REIT issued 631,250 Units pursuant to its LTIP.

MORTGAGE DEBT

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2005:

((\$000's))	Regular	Principal		Weighted Average
Year	Principal	Due at	Total	Interest Rate of
	Payments	Maturity		Maturing Debt
2006	15,792	60,722	76,514	4.98%
2007	14,816	27,617	42,433	4.48%
2008	13,813	48,751	62,564	5.11%
2009	10,254	115,432	125,686	4.68%
2010	8,379	44,838	53,217	5.80%
2011-2015	29,151	194,860	224,011	5.36%
2016-2025	9,194	20,035	29,229	6.15%
Total	101,399	512,255	613,654	

At December 31, 2005 the average term to maturity for the total mortgage is approximately 5.8 years (December 31, 2004 – 5.0 years), and the weighted average interest rate is 5.21% (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.

During 2005, the REIT arranged new mortgage financing or refinanced existing mortgages for 17 of its facilities and obtained construction financing for three building additions in the amount of \$204.1 million (including \$94.0 million of U.S. dollar denominated debt). The new debt bears interest at a weighted average rate of 5.6% and matures on various dates up to May 2025.

Chartwell also assumed \$107.9 million of mortgages on acquisitions completed in 2005. This debt bears interest at a weighted average interest rate of 6.01%.

At December 31, 2005, the REIT had \$22.9 million of variable rate mortgage debt. 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 is a party to 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% (65% including convertible debentures). At December 31, 2005 Chartwell's debt leverage ratio was 50.8%. 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 \$118.0 million. This would allow the REIT to acquire approximately \$295.0 million of new assets. Management of the REIT does not expect that its debt leverage ratio will exceed 55% on a long-term basis.

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 up to \$70.0 million. As of December 31, 2005, \$21.0 million was outstanding under this facility, leaving unused capacity at \$36.9 million based on available security. 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 requested an extension for the additional 364 day period ending March 13, 2007 and is now working with the lenders to obtain the necessary approvals. Management believes that it will obtain such approvals and the requested extension will be granted.

As of December 31, 2005, Chartwell had \$8.5 million outstanding on two bridge loans secured by second charges over three properties. One of these loans in the amount of \$3.4 million was repaid after the year-end on re-financing of the property.

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 \$147.3 million after the repayment of issue related costs of \$7.7 million, were used to repay the balances outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

The REIT's distributions for the year ended December 31, 2005 exceeded its distributable income by \$0.3 million. 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 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

Chartwell classifies its capital expenditures under the following categories:

- Building improvements and additions include capital expenditures that improve revenue generating potential of the properties such as additions of new suites, conversion of suites 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 vendors of certain facilities acquired in 2004, reduced by the carrying amount of the property sold in the second quarter of 2005, and reduced by write-downs in carrying values of two properties recorded in 2005.

The following table summarizes additions to properties for the year ended December 31, 2005:

(\$000's)	Year ended December 31, 2005
Building improvements and additions	20,709
Long-Term Replacement Items	2,698
Furniture, Fixtures and Equipment	3,280
Other	1,312
	27,999

Cash Flows

The following table summarizes Chartwell's cash flows for the years ended December 31, 2005 and 2004:

(\$000's)	Year ended	
	Dec. 31, 2005	Dec. 31, 2004
Cash provided by (used in):		
Operating Activities	57,337	29,490
Financing Activities	300,984	126,202
Investing Activities	(343,568)	(195,705)
Foreign exchange loss on U.S. dollar denominated cash	(203)	-
	14,550	(40,013)
Increase (decrease) in cash and cash equivalents		

Cash provided by operating activities was higher in 2005 than that in 2004 due to higher funds from operations from the contribution of new acquisitions, lending and management activities, as well as positive change in non-cash operating items primarily due to higher accounts payable and other liabilities, resulting from the increased size of the REIT's portfolio.

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 offerings on March 30, 2005 and 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.

CONTRACTUAL OBLIGATIONS

The REIT's major contractual obligations as at December 31, 2005 were as follows:

(\$000's)	Total	2006	2007	2008	2009	2010	Thereafter
Mortgages Payable	613,653	76,514	42,433	62,564	125,686	53,217	253,240
Loans Payable	32,024	32,024	-	-	-	-	-
Operating Leases	13,151	1,053	1,383	1,393	1,393	1,469	6,459
Land Rent	7,056	126	126	126	126	126	6,426
Mezzanine Loan Funding Obligations	29,426	29,426	-	-	-	-	-
Purchase Obligations	76,965	75,213	1,752	-	-	-	-
Total Contractual Obligations	772,275	214,356	45,694	64,083	127,205	63,192	257,744

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 \$0.1 million.

Mezzanine loan funding obligations relate to approved loans to Spectrum and other parties to fund the development and lease-up of 10 retirement residences in Quebec, Ontario and British Columbia. Partial advances on 2 of these projects were made prior to December 31, 2005.

Purchase obligations relate to the following:

- Acquisitions of three seniors housing facilities and one parcel of land for approximately \$59.5 million.
- Four 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 on December 31, 2005.
 - \$4.0 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 of the original \$5.0 million deferred purchase consideration was paid in 2005.
 - \$0.68 million in respect of two properties upon these properties achieving predetermined income targets over a three-year period.
 - The vendors of two properties are entitled to receive an additional \$7.0 million (U.S. \$6.0 million), 50% payable by Chartwell and 50% payable by Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on investment equity, measured quarterly. Any payments made by Chartwell REIT in respect of contingent consideration will be recorded in the consolidated financial statements with a corresponding

adjustment to the purchase price of the property when, and if, the targets are met and payments become due. At December 31, 2005, \$1.7 million (U.S. \$1.5 million) was due and payable to the vendors and \$0.9 million (U.S. \$0.7 million) being Chartwell REIT's 50% share of this amount was included in accounts payable and other liabilities in the financial statements.

- Deferred purchase consideration of \$2.0 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 \$2.8 million.
- Commitments with respect of fixed gas purchase contracts of \$0.3 million.

Guarantees

At December 31, 2005, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of \$21.8 million. As at December 31, 2005, \$8.2 million of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for \$3.9 million. Spectrum has indemnified Chartwell REIT for these guarantees.

At December 31, 2005, Chartwell REIT remains as a guarantor of the debt of one managed property with the balance of \$5.4 million. The borrower has indemnified Chartwell for this guarantee. In the opinion of management, these properties have a value in excess of these guarantees.

Other Contracts

- (i) 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.
- (ii) Chartwell REIT's properties in the United States are managed by Horizon Bay Chartwell LLC. The properties' management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenues plus incentive fees based on certain operating targets. Chartwell REIT owns a 50% interest in Horizon Bay Chartwell LLC.
- (iii) In accordance with contracts between Chartwell REIT and Melior, Chartwell REIT committed to the following:
 - (a) For a period of 10 years, expiring February 5, 2016, payment of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell REIT in the Province of Quebec whether or not such acquisition is introduced, presented or referred by Melior and 2.0% of the purchase amount of each and every acquisition by Chartwell REIT of properties in Canada, excluding the Province of Quebec, which is introduced, presented or referred by Melior.
 - (b) Reimbursement of legal fees incurred by Melior in relation to mezzanine financings in excess of the greater of \$50,000 and 3% of total budgeted development costs for the related project (note 15(b)).

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

At December 31, 2005 Chartwell was committed to issue an additional 833,500 units under its LTIP program.

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 year ended December 31, 2005:

Spectrum

Under the terms of the Development Agreement with Spectrum, a company in which the REIT's senior management owns a controlling interest (including Stephen Suske, Vice Chairman and President, Robert Ezer, Chief Executive Officer, Brent Binions, Executive Vice President, Leslie Veiner, Senior Vice President, Real Estate, Richard Noonan, Chief Operating Officer, Peter Gaskill, Senior Vice President, Development and Evan Miller, 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 December 31, 2005, mezzanine loans receivable from Spectrum amounted to \$38.4 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 29 seniors' housing development properties.

During the twelve month and three month periods ended December 31, 2005, Chartwell REIT earned mezzanine loan interest of \$5.3 million and \$1.3 million respectively from Spectrum. During the twelve month and three month periods ended December 31, 2005, Chartwell REIT earned management fees of \$4.6 million and \$1.7 million, respectively in respect of the development and operations management services.

In addition, Chartwell REIT earned \$0.8 million and \$0.4 million in financing fees from Spectrum during the twelve month and three month periods ended December 31, 2005, respectively.

Other assets as of December 31, 2005 include \$2.7 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to December 31, 2005, \$1.9 million of this balance was repaid.

Included in distributions payable at December 31, 2005 is \$0.2 million due to Spectrum.

In 2005, the REIT acquired 6 seniors housing facilities from Spectrum and its joint venture partner for a total purchase price of \$72.0 million. The purchase price was settled by the issuance of 893,671 Class B Units of Master LP valued at \$13.5 million, discharge of mezzanine loans receivable of \$19.5 million, assumption of \$17.5 million of mortgages payable and the remaining balance in cash.

In the fourth quarter of 2005, Chartwell acquired one seniors housing facility from Spectrum – the Jackson Creek Retirement Home, a 68-suite facility in Peterborough, Ontario. The total purchase price for this acquisition amounted to \$9.3 million and was settled by issuance of 51,894 Class B Units of Master LP valued at \$0.8 million, discharge of mezzanine loans payable of \$3.1 million and the remaining balance in cash.

In addition in 2005, Chartwell sold a parcel of land to a joint venture partially owned by Spectrum and Melior for \$1.1 million.

In 2005, immediately following the acquisition of CPAC, Chartwell disposed of one seniors housing facility and one property under development to Spectrum. The combined 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 December 31, 2005, the REIT remains as a guarantor on the debt of these two properties to a maximum amount of \$21.8 million. At December 31, 2005, \$8.2 million of these loans were outstanding. Spectrum has indemnified the REIT for these guarantees. The REIT earns a fee for providing these guarantees.

Melior and Other Spectrum Partners

As of December 31, 2005, the REIT had mezzanine loans receivable of \$39.0 million from five of Spectrum's joint venture partners (including \$31.9 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 the Borrower's interests in 15 development projects.

Each mezzanine loan matures on the earliest of the fifth anniversary of the initial advance of the funds, the date of sale of the related development property, or the second anniversary of the date upon which the property achieves stabilized occupancy, as defined in the Development Agreement with Spectrum and the loan agreements with the Borrowers.

During the twelve and three month period ended December 31, 2005, the REIT earned interest income of \$2.2 and \$0.7 million, respectively and fees of \$1.5 million and \$0.6 million from Melior.

Accounts receivable and other assets at December 31, 2005 included \$1.7 million due from Melior and deferred revenue includes \$4.6 million from Melior.

Also in 2005, Chartwell paid referral fees of \$0.4 million to Melior related to acquisitions of two properties in the Province of Quebec.

Chartwell also reimbursed Melior for certain costs incurred with respect to mezzanine financing provided by Chartwell in the amount of \$0.5 million.

Other

Included in mortgages payable at December 31, 2005 is a vendor-take-back mortgage of \$3.4 million due to an officer of Chartwell REIT. In addition, one vendor-take-back mortgage in the

amount of \$1.5 million due to an officer of the REIT was repaid during the year. In 2005, the REIT incurred interest expense of \$0.1 million with respect of these mortgages.

SUBSEQUENT EVENTS

Subsequent to year end, the REIT completed acquisition of one retirement facility from Spectrum for the purchase price of \$6.8 million.

Subsequent to year-end, Chartwell acquired one seniors housing facility from a third party for the purchase price of \$11.9 million.

Subsequent to the year-end, the REIT advanced mezzanine loans totaling \$0.7 million to Melior.

Subsequent to the year-end, Chartwell's Board of Trustees approved the following additional fees to be charged by Chartwell to Spectrum:

- Additional development fee of \$1.0 million related to 14 existing Spectrum projects resulting from the increases in the projected costs of the underlying projects and revisions to the development fee charged to conform with the requirements of the Development Agreement between Spectrum and Chartwell.
- Additional fees of \$0.5 million for assistance in a \$17.5 million equity raise completed by Spectrum Seniors Housing Development Corporation in December 2005.

These additional fees will be recorded as income in the First Quarter of 2006.

RISKS AND UNCERTAINTIES

- (a) **Business Risks:** Chartwell REIT is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date at the Properties and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to the REIT.
- (b) **Geographic Concentration:** A substantial portion of the business and operations of the REIT is conducted in Ontario, which represents 45% of the total number of suites. The market value of these Properties and the income generated from them could be negatively affected by changes in local and regional economic conditions or legislative/regulatory changes.

- (c) Acquisition and Development: The REIT's external growth prospects will depend in large part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing facilities acquired by the REIT. If the REIT is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.
- (d) Competition: Numerous other developers, managers and owners of seniors housing facilities will compete with the REIT in seeking residents. The existence of competing developers, managers and owners and competition for the REIT's residents could have an adverse effect on the REIT's ability to find residents for its seniors housing facilities and on the rents charged, and could adversely affect the REIT's revenues and, consequently, its ability to meet its debt obligations. The supply of LTC Facility suites in the regions in which REIT owns Retirement Homes may have an impact on the demand for suites in Retirement Homes. The Province of Ontario is currently completing an initiative to add 20,000 new LTC Facility beds. Although more than 19,000 of the new beds are already operational, the increase in supply of LTC Facility suites as a result of this initiative may result in a temporary lower occupancy of suites in the REIT's seniors housing facilities in some markets.
- (e) Government Regulation: Healthcare in Canada is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect the REIT. In addition, new regulatory standards and requirements are being considered in a number of provinces which may affect all types of seniors housing facilities.
- (f) Debt Financing: The REIT has and will continue to have substantial outstanding consolidated indebtedness comprised primarily of the Property Mortgages. The REIT intends to finance its growth strategy, including acquisitions and developments, through a combination of its working capital and liquidity resources, including its cash flow from operations, additional indebtedness and public or private sales of equity or debt securities.

A portion of the REIT's cash flow is devoted to servicing its debt, and there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT were unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The REIT is also subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such refinancing may not be as favourable as the terms of its existing indebtedness.

- (g) Mezzanine Financing: The mezzanine financing that has been provided and may be provided by the REIT to Spectrum pursuant to the Development Agreement, to Melior, to Spectrum's joint venture Partners, is generally secured behind construction financing. In addition, the \$20 million of equity that the shareholders of Spectrum were initially required to maintain in Spectrum is primarily invested in Units or Class B Master LP Units. Consequently, if mezzanine loan borrowers face financial difficulty and are not able to meet their commitments to their lenders, including the REIT, the REIT could suffer a loss of management fees and of either interest or principal or both on the mezzanine loans it has advanced since lenders under the construction financing will rank ahead of the REIT in any recovery from the assets of mezzanine loan borrowers. Additionally, the REIT may not, at the applicable time, have the financial capacity to acquire all facilities that it is entitled to acquire from mezzanine loan borrowers. In the event that the REIT does not exercise its purchase option, the REIT would expect to have the principal and any unpaid interest relating to its mezzanine financing returned to it at which time the REIT would cease to receive mezzanine interest, or may cease to receive its management fees when mezzanine loan borrowers sell the property to a third party. There is no guarantee that the level of development carried on by mezzanine loan borrowers will be maintained at current levels. Mezzanine loan borrowers' level of development activity may be constrained by its capital resources.
- (h) Environmental Liabilities: Under various environmental laws and regulations, the REIT, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations sometimes regardless of whether or not the REIT knew of or was responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, management of the REIT is not aware of any material non-compliance, liability or other claim in connection with any of the owned properties and the managed properties in respect of which acquisition mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that its believes would involve material expenditure by the REIT.

Environmental laws and regulation may change and the REIT may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on the REIT's business, financial condition or results of operation and distributions.

- (i) Liability and Insurance: The businesses, which are carried on, directly or indirectly, by the REIT, entail an inherent risk of liability. Management expects that from time to time the REIT may be subject to such lawsuits as a result of the nature of its businesses. The REIT maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

- (j) Personnel Costs: The REIT competes with other healthcare providers with respect to attracting and retaining qualified personnel. The REIT is also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the REIT to enhance its wage and benefits package in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.
- (k) Labour Relations: Chartwell REIT, directly and indirectly, employs or supervises approximately over 5,000 persons, of whom approximately 65% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that the REIT will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on the REIT's business, operating results and financial condition. However, most seniors housing facilities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing facility sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

Non-unionized seniors housing facilities may become unionized in the event they are targeted for certification by a trade union. There can be no assurance that the seniors housing facilities owned by the REIT that are currently not unionized will not in the future be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing facilities' employees.