CHARTWELL SENIORS HOUSING REIT

FIRST QUARTER REPORT – MARCH 31, 2006

CHARTWELL
SENIORS HOUSING REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the three months ended March 31, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the three months ended March 31, 2006

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

Chartwell Seniors Housing Real Estate Investment Trust (the "REIT", the "Trust" or "Chartwell") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the three months ended March 31, 2006. This discussion and analysis should be read in conjunction with the REIT's unaudited consolidated financial statements for the three months ended March 31, 2006, the notes therein, and the audited financial statements and management's discussion and analysis for the years ended December 31, 2005 and December 31, 2004. This material is available on the REIT's website at www.chartwellreit.ca. Additional information about the REIT, including the 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 May 4, 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 the completion of its Initial Public Offering. The REIT did not hold any material assets prior to November 14, 2003 and is considered to have commenced operations on that date.

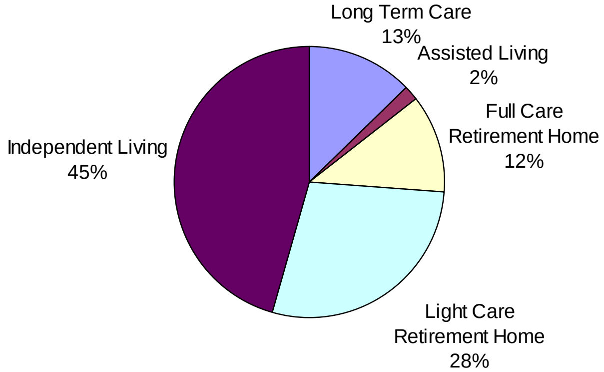
Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly owns and manages a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities (“IL Facilities”), through retirement homes (“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 indicates otherwise, refer to the REIT and its subsidiaries. For ease of reference “Chartwell” and “the REIT” are used in reference to ownership of seniors housing facilities and the operation of the seniors housing operations and the development management business. The direct ownership of such facilities and operation of such business facilities is conducted by subsidiaries of the REIT. As of March 31, 2006 Chartwell’s portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in over 19,900 suites in 164 facilities which are operating, under construction or in various stages of development. The REIT’s owned portfolio consists of 10,681 suites in 97 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 their local marketplace.

The following is the composition of the REIT’s owned and managed portfolio of retirement homes in its four operating segments at March 31, 2006:

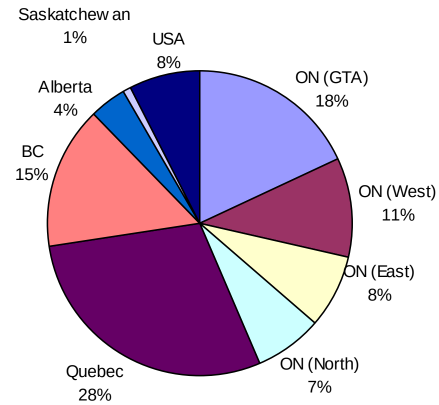
	Retirement Operations	**Long-Term Care Operations**	**United States Operations**	**Management Operations**	**Total**
Facilities	78[(1)(3)]	11[(1)]	8[(4)]	67[(2)]	164
Suites/Beds	7,690	1,478	1,513	9,244	19,925

(1) Where a facility provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Includes stabilized, lease-up and facilities under development.
(3) Includes 10 facilities (1,540 suites) where Chartwell owns a 50% interest and 1 facility (55 suites) where Chartwell owns 39% interest. Chartwell accounts for this property using the equity method of accounting.
(4) Chartwell owns a 50% interest in these facilities.

Composition of portfolio of owned and managed suites by level of care at March 31, 2006



Composition of portfolio of owned and managed suites by geographical location at March 31, 2006



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 the mezzanine financing to Spectrum and to Spectrum's joint venture partners for the development of seniors housing facilities. In return, the REIT receives a first right to purchase Spectrum's interest in such facilities, when stabilized, and at a discount to the appraised value. Stabilization occurs when a facility has had an average resident occupancy rate of 90% or greater during the preceding three calendar months. 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 affiliated 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 their fair market value. Melior and its joint venture partners can obligate Chartwell to acquire their interests in these projects at their appraised value, subject to the satisfaction of certain conditions. Chartwell also provides structuring, consulting and advisory services, for a fee, to Melior and its joint venture partners in respect of their development program.

Chartwell also provides asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited ("ING"). ING is Chartwell's strategic financial partner in acquisitions of seniors housing facilities in the United States of America. At March 31, 2006, Chartwell and ING held a 50% interest each in 8 seniors housing facilities in the United States.

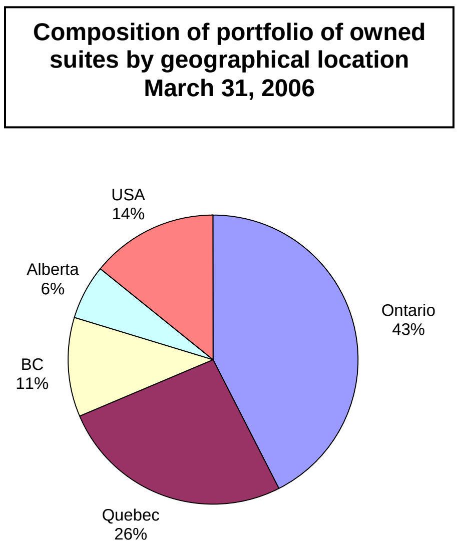
Owned Property Portfolio

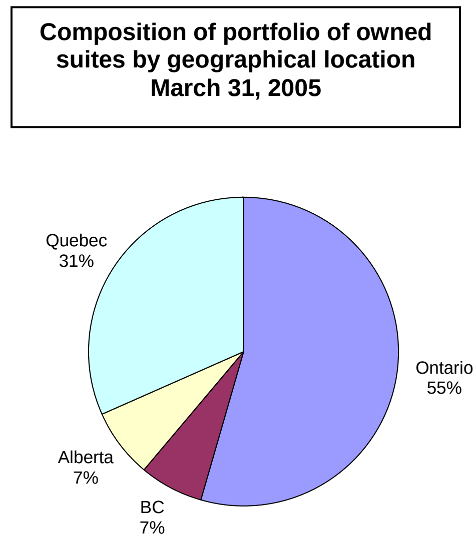
The following table summarizes the composition of Chartwell's real estate portfolio of owned facilities as at March 31, 2006 and March 31, 2005:

As at	**March 31, 2006[(1)]**	**March 31, 2005 (restated)[(2)]**
Number of suites	10,681	7,130
Number of properties	97	73

(1) Includes 18 facilities (3,053 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.





SIGNIFICANT EVENTS

The following have had a significant effect on the financial results of Chartwell REIT for the three months ended March 31, 2006, relative to the three months ended March 31, 2005.

Acquisitions

In the first quarter of 2006, Chartwell acquired two seniors housing facilities (228 suites) for an aggregate purchase price of approximately $19.6 million (inclusive of closing costs). The purchase price was settled by the assumption of approximately $11.7 million of mortgages payable, the discharge of an approximate $2.8 million mezzanine loan receivable, and cash of approximately $5.1 million.

One of these facilities with a purchase price of approximately $7.0 million was acquired from Spectrum. An additional consideration of $0.9 million will be payable to Spectrum if the facility reaches certain earnings targets within three years following the closing of the acquisition.

During the year ended December 31, 2005, the REIT acquired varying interests in 28 seniors housing facilities (3,472 suites) for an aggregate purchase price of approximately $435.2 million.

The following tables summarize the acquisitions completed in the first quarter of 2006 and in 2005:

Acquisitions completed in the first quarter of 2006:

#	Property	Location	Type	Effective date of acquisition	Beds/Suites
1	Chateau Cornwall	Cornwall, ON	Retirement	January 13, 2006	101
2	Manoir Pierrefonds	Montreal, QC	Long-term care	February 23, 2006	127
					228

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. Hyacinthe, Quebec	Retirement	December 1, 2005	67
					3,472

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

Internal Growth Initiatives

In the first quarter of 2006, the REIT completed the construction of a 16 suite addition and enhanced resident amenities at the New Edinburgh Square Retirement Home in Ottawa. The total project costs amounted to approximately $3.6 million of which approximately $1.0 million was financed with a construction loan. The leasing of new units is progressing on schedule with 10 new units leased as of March 31, 2006.

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

- Repositioning of the Gibson Long-Term Care Centre in Toronto, Ontario to create additional preferred accommodation. The project was completed in the third quarter of 2005 and achieved stabilized occupancy in the following quarter. The REIT invested approximately $2.9 million in this project and management expects that the repositioning will generate approximately $0.7 million of additional net operating income annually compared to pre-construction income levels.

- Repositioning of Devonshire Seniors Residence in Windsor, Ontario by re-configuring 44 smaller outdated suites into 22 suites that are more attractive to the marketplace. This project was completed in the second quarter and achieved stabilized occupancy in the first quarter of 2006. The total project cost amounted to approximately $2.5 million and the REIT has obtained financing for approximately $1.1 million of these costs.

- An 86-suite addition at the 50% owned Le Monastere D'Aylmer in Aylmer, Quebec. The construction was substantially completed in the fourth quarter of 2005 and total project costs amounted to approximately $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 Melior. The loan is expected to be repaid in the third quarter of 2007 by refinancing the property upon the stabilization of the new suites. As of March 31, 2006, 25 of the new suites were leased.

- A 60-suite addition at the 50% owned Residence Principale Cowansville in Cowansville, Quebec. The construction was substantially completed in December 2005 and the total project costs were approximately $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 Melior. The loan is expected to be repaid in the third quarter of 2007 by refinancing the property upon the stabilization of the new units. As of March 31, 2006, 9 of these new suites were leased.

- A 42-suite addition at the 50% owned Residence de Hull in Hull, Quebec, which opened at the end of the second quarter. The total project costs were approximately $4.3 million. The REIT invested approximately $0.4 million of equity in the project. The addition achieved stabilized occupancy in 2005.

Mezzanine Loans

In the First Quarter of 2006, the REIT advanced mezzanine loans totaling $8.7 million to Spectrum, Melior and Spectrum's joint venture partners. A mezzanine loan in the amount of $2.8 million was discharged in the first quarter of 2006 on the acquisition of the Chateau Cornwall from Spectrum.

During 2005, the REIT advanced mezzanine loans totaling $45.4 million to Spectrum, Melior and their joint venture partners for the development of 19 seniors housing facilities. Mezzanine loans of $20.0 million were discharged in the year on the acquisition of six seniors housing facilities from Spectrum. One other mezzanine loan of $0.4 million was repaid in 2005.

Public Offerings of Trust Units in 2005

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

On August 11, 2005, the REIT completed a public 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 approximately $7.7 million, were used to repay the amounts outstanding under the REIT's credit facilities, to finance certain acquisitions, to advance certain mezzanine loans and for general corporate purposes.

Increase in Distributions in 2005

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.

KEY PERFORMANCE MEASURES

Chartwell REIT uses a number of key performance indicators for monitoring and analyzing its financial results. These key performance measures are not defined by GAAP and may not be comparable to similar measures presented by other companies. Key financial performance measures are described below.

Funds from Operations

Funds from Operations ("FFO") is not a recognized measure under GAAP and is defined as net income computed in accordance with GAAP, excluding gains or losses from sales of depreciable real estate and extraordinary items, and adds back the following; depreciation and amortization, future income taxes, and adjustments for equity accounted for entities and non-controlling interests. 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").

In the opinion of management, the use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial to the users of our financial information, improving their understanding of the operating results of the REIT and making comparisons of the REIT's operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing the REIT's 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 the REIT's real estate portfolio between financial reporting periods or for comparison to other real estate investment trusts.

<u>Distributable Income</u>

Distributable Income ("DI") 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.

DI 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 its Unitholders. DI is not a measure recognized under GAAP and should not be construed as an alternative to net earnings or cash flow from operating activities as determined in accordance with GAAP. DI 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.

The following specific adjustments are made to consolidated net earnings in the calculation of DI:

* 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.

The tables presented under the Results of Operations section of this MD&A provide a reconciliation of DI to net income and cash flow from operating activities, as reported on the REIT's consolidated financial statements.

<u>Distribution Payout Ratio</u>

The distribution payout ratio is calculated as the distributions declared for the period divided by DI or FFO for the same period. The REIT's management believes that this calculation provides an indication of the sustainability of the Trust's distributions to its Unitholders.

Net Operating Income

Net Operating Income is calculated as revenue less direct operating expenses and is reported for each operating segment of the REIT.

Same Property Performance

The Trust evaluates its financial performance by analyzing a same property portfolio. In this MD&A, same property statistics refer to 59 retirement homes and 7 long-term care facilities that the REIT owned from January 1, 2005 to March 31, 2006.

Operating Margins

Operating margins are calculated as revenue less direct operating expenses divided by revenue. This measure is used as an indicator of segment performance as management monitors its ability to translate changes in revenue into net operating income.

Occupancy Percentage

Occupancy percentages are calculated as the number of days a suite is occupied divided by the maximum number of days available in the period.

General and Administrative Expenses as a Percentage of Revenue

The REIT monitors general, administrative and trust expenses on a consolidated basis as a percentage of revenue.

RESULTS OF OPERATIONS

The selected information presented below is based on the unaudited consolidated financial results of the REIT for the three month periods ended March 31, 2006 and 2005.

Summary

The following table presents a summary of selected operating performance measures for the three months ended March 31, 2006 as compared to the same period of last year.

	For the three months ended		
($000's, except per unit amounts)	**March 31, 2006**	**March 31, 2005 (restated)**	**Change**
Property Revenue	65,688	39,186	26,502
Total Revenues	73,169	43,347	29,822
Net Loss	(1,643)	(3,337)	1,694
Weighted Average Number of Units (diluted)	56,138,635	37,405,050	18,733,585
Distributions Declared	14,783	10,250	4,533
Distributions Declared per Unit (diluted)	0.26	0.27	(0.01)
Funds from Operations	14,512	7,791	6,721
Funds from Operations per Unit (diluted)	0.26	0.21	0.05
Payout Ratio – FFO	102%	132%	(30%)
Distributable Income	13,889	9,693	4,196
Distributable Income per Unit (diluted)	0.25	0.26	(0.01)
Payout Ratio – Distributable Income	106%	106%	-

Revenues

	For the three months ended		
($000's)	**March 31, 2006**	**March 31, 2005 (restated)**	**Change**
Property Revenue	65,688	39,186	26,502
Mezzanine Loan Interest	2,308	1,791	517
Fees	3,974	1,648	2,326
Other Income	1,199	722	477
Total Revenues	73,169	43,347	29,822

Total Revenues, in the first quarter of 2006, increased by 69% as compared to the same period of last year as the REIT continued to execute its growth strategy through acquisitions, internal growth, mezzanine lending, and development and operations management activities.

Property Revenue

	For the three months ended March 31		
($000's)	**2006**	**2005 (restated)**	**Change**
Same Property	42,885	39,955	2,930
Acquisitions	25,349	1,484	23,865
Change in Accounting for VIEs	(2,546)	(2,253)	(293)
Total Property Revenue	65,688	39,186	26,502

- Same property revenue increased by 7% in the first quarter of 2006 as compared to the same period of last year due to the following:
  - Completion of building additions at four of the REIT's facilities in 2005 and in 2006 (204 suites) of which 86 suites were leased as of March 31, 2006.
  - Repositioning of two properties completed in 2005, which returned to stabilized occupancy in the fourth quarter of 2005.

- Regular annual rent increases and addition of new services for residents at some of the REIT's facilities.
- Weighted average occupancy of the same property portfolio increased from 91.6% to 92.4%.

• 30 seniors housing facilities acquired subsequent to January 1, 2005 contributed $23.9 of the revenue increase in the first quarter of 2006 as compared to the same period of last year.

• In 2005, the REIT completed its evaluation of the impact of the new accounting standards for Variable Interest Entities ("VIE's"). Management determined that seven operating companies co-owned with Melior in the Province of Quebec, which are structured to lease the respective facilities from the co-owners, are VIE's. Chartwell is not considered to be the primary beneficiary of these entities and is therefore required to account for them by using the equity method of accounting. Previously, Chartwell accounted for its 50% interest in these entities by using the proportionate consolidation method of accounting. This change in accounting policy was adopted effective January 1, 2005 ("Change in Accounting for VIEs") and therefore results for the three month period ended March 31, 2005 were restated. Change in Accounting for VIE's resulted in a reduction of Property Revenues by $2,546 and $2,253 for the three month periods ended March 31, 2006 and March 31, 2005, respectively.

Mezzanine Loan Interest

	For the three months ended March 31		
($000's)	**2006**	**2005**	**Change**
Mezzanine Loan Balances Outstanding (end of the period)	83,347	51,730	31,617
Mezzanine Loan Interest	2,308	1,791	517

Mezzanine Loan Interest increased in the three month period ended March 31, 2006 as compared to the same period of 2005 due to the higher loan balances outstanding in the current period.

Fees

	For the three months ended March 31		
($000's)	**2006**	**2005**	**Change**
Spectrum	2,769	1,008	1,761
Melior	563	153	410
Other	642	487	155
	3,974	1,648	2,326

• Fees from Spectrum were higher in the first quarter of 2006 as compared to the same period of last year primarily due to an additional development fee of $1.0 million related to 14 existing Spectrum development projects. The additional fee was the result of the increase in the projected costs of the underlying projects and adjustments to the development fee charged in order to conform with the requirements of the Development Agreement with Spectrum. In addition, fees of $0.5 million were charged to Spectrum in the first quarter of 2006 for assistance with a $17.5 million equity raise completed by Spectrum in 2005. Chartwell's Board of Trustees approved these fees in February 2006.

- Fees from Melior were higher in the first quarter of 2006 as compared to the same period of last year due to the increase in the number of development projects conducted by Melior.

- Other fees also increased primarily due to asset management fees of $0.1 million earned from ING from managing ING's 50% interest in eight seniors housing facilities in the United States.

Other Income

	For the three months ended March 31		
($000's)	**2006**	**2005 (restated)**	**Change**
Interest and Other Income	545	100	445
Change in Accounting for VIEs	654	622	32
Other Income	1,199	722	477

- Increase in Other Income is primarily due to the higher interest income earned on the REIT's cash balances and the higher miscellaneous income resulting from the increased size of the REIT.

Direct Operating Expenses

	For the three months ended March 31		
($000's)	**2006**	**2005 (restated)**	**Change**
Same Property	30,275	28,108	2,167
Acquisitions	16,718	324	16,394
Change in Accounting for VIE's	(1,892)	(1,631)	(261)
Direct Operating Expenses – Properties	45,101	26,801	18,300
Direct Operating Expenses – Management Operations	999	1,062	(63)
Total Direct Operating Expenses	46,100	27,863	18,237

- Same property operating expenses increased by 8% in the first quarter of 2006 as compared to the same period of last year due to the following:

  - Completion of building additions at four of the REIT's properties (204 suites) in 2005 and 2006, of which 86 suites were leased as of March 31, 2006.
  - Inflationary increases in expenses and costs of new services provided to residents at certain of the REIT's facilities.

- 30 seniors housing facilities acquired subsequent to January 1, 2005 contributed $16,394 of the increase in direct operating expenses.

- The above increases were offset by a $261 reduction in direct operating expenses due to Change in Accounting for VIE's.

- Operating expenses of management operations remained stable.

General and Administrative Expenses

($000's)	For the three months ended March 31 2006	2005	Change
General and Administrative Expenses	3,357	1,999	1,358
As % of total revenue	4.6%	4.6%	-

- General and Administrative Expenses increased 68% in the first quarter of 2006 as compared to the same period of last year due to the following:

  - Additions of new support and management staff throughout 2005 and in the first quarter of 2006 in order to support current and future growth of the REIT.
  - Expansion of the head office space in Mississauga and integration of Chartwell's regional office in Vancouver and the CPAC head office into one larger office.
  - Higher compliance costs and professional fees due to the increased size of the REIT and the new regulatory requirements.
  - In the first quarter of 2006, the REIT expensed $0.3 million of costs related to potential acquisitions that the REIT decided not to further pursue.

- General and Administrative Expenses as a percentage of revenue in the first quarter of 2006 was unchanged from the same period of last year.

- Management anticipates that General and Administrative Expenses will continue to increase in 2006 due to the increased size of the REIT, increasing cost of regulatory compliance and professional fees. However, Management anticipates that general and administrative expenses, as percentage of total revenue, will remain stable for the remainder of 2006.

Interest Expense

($000's)	For the three months ended March 31 2006	2005	Change
Interest Expense	9,198	5,684	3,514

- Increase in interest expense is consistent with the growth in the REIT's portfolio as mortgages payable increased from $381.7 million at March 31, 2005 to $632.0 million at March 31, 2006.

Depreciation and Amortization

($000's)	For the three months ended March 31 2006	2005	Change
Depreciation and Amortization	15,926	10,769	5,157

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

Write-down of the Carrying Value of Assets

	For the three months ended March 31		
($000's)	**2006**	**2005**	**Change**
Write down of management contracts and customer relationships	440	-	440
Write down of properties	-	817	(817)
	440	817	377

- In the first quarter of 2006, the REIT recorded a write down of the carrying values of three management contracts and related customer relationships in the amount of $440. The owners of these properties decided to internalize management of these facilities and to not renew their contracts with Chartwell upon their expiry. The annualized management fees from these contracts amounted to approximately $0.26 million. Management believes that additional fees from Spectrum, Melior and their development partners will more than offset the lost revenue from these three contracts.

- In the first quarter of 2005, the REIT recorded a write down of the carrying value of one property.

Non-Controlling Interest

	For the three months ended March 31		
($000's)	**2006**	**2005**	**Change**
Non-controlling Interest	157	448	(291)

Non-controlling interest represents the amount of net loss allocated to the holders of the Class B Units of Chartwell Master Care LP ("Master LP"), a subsidiary of the REIT.

Net Loss

	For the three months ended March 31		
($000's)	**2006**	**2005 (restated)**	**Change**
Net Loss for the period	(1,643)	(3,337)	1,694

Net loss for the three months ended March 31, 2006 decreased in comparison with the same period of 2005 due to increased property revenues, interest revenue and fee income, offset by higher general and administrative and depreciation and amortization expenses.

Funds from Operations

The following table provides a reconciliation of Funds from Operations to Net Loss for the three months ended March 31, 2006 and March 31, 2005.

	For the three months ended March 31		
($000's except per unit amounts)	**2006**	**2005 (restated)**	**Change**
Net loss per financial statements	(1,643)	(3,337)	1,694
Add (subtract):			
Depreciation of real estate assets	6,961	4,289	2,672
Amortization of management contracts, resident contracts and customer relationships	8,965	6,480	2,485
Depreciation of leasehold improvements included in depreciation of real estate assets	(54)	(10)	(44)
Write down of carrying value of assets	440	817	(377)
Non-controlling interest	(157)	(448)	291
Funds from Operations	14,512	7,791	6,721
Funds from Operations per Unit (diluted)	0.26	0.21	0.05
Payout Ratio – FFO	102%	132%	(30%)

- FFO increased 86% in the first quarter of 2006 as compared to the same period of last year due to significant growth in the REIT's property portfolio and higher interest and fee income, offset by higher general and administrative expenses.

- FFO per Unit increased by $0.05 (24%) as the REIT was able to effectively use the proceeds from two public offerings of its Units completed in 2005 for accretive property acquisitions and mezzanine financings. Per Unit amounts were also positively affected by the higher fee income in the first quarter of 2006 as compared to the first quarter of 2005.

Distributable Income

The following table provides a reconciliation of Distributable Income to Net Loss for the three months ended March 31, 2006 and March 31, 2005.

	For the three months ended March 31		
($000's except per unit amounts)	**2006**	**2005 (restated)**	**Change**
Net Income Loss	(1,643)	(3,337)	1,694
Add back (subtract):			
Depreciation and amortization	15,926	10,769	5,157
Amortization of deferred financing expenses	546	344	202
Amortization of below market leases	(405)	(415)	10
Amortization of debt premiums, net [1]	(438)	(389)	(49)
Write down of carrying value of assets	440	817	(377)
Principal portion of capital funding receivable	68	20	48
Amounts received under Net Operating Income Guarantees	247	307	(60)
Contractually receivable management fees, not included in net income under GAAP	-	2,025	(2,025)
Management fees recorded in Net Income under GAAP in the period that were previously recorded in Distributable Income	(521)	-	(521)
Foreign exchange loss and losses on derivative financial instruments	(206)	-	(206)
Non-cash compensation expense related to the issuance of Trust Units under the Long-Term Incentive Program	32	-	32
Non-controlling interest	(157)	(448)	291
Distributable income	13,889	9,693	4,196
Distributable income per unit – basic	0.25	0.27	(0.02)
Distributable income per unit – diluted	0.25	0.26	(0.01)
Payout Ratio	106%	106%	-

(1) Includes amortization of debt discounts of $73 and $48 for the three month periods ended March 31, 2006 and March 31, 2005, respectively.

- Distributable Income increased by $4.2 million (43%) in the first quarter of 2006 as compared to the same period of last year. The increase in DI is due to the REIT's expanded property operation and an increase in interest and fee income. This increase was offset by contractually receivable management fees recorded in DI in prior periods. In the first quarter of 2006, $0.5 million of these fees were recorded as revenue in the REIT's financial statements and deducted in the calculation of DI. In the first quarter of 2005, $2.0 million of contractually receivable fees were included in DI.

- DI per Unit (diluted) decreased by $0.01 (4%) primarily due to contractually receivable fees included in DI in the first quarter of 2005. There were no such fees included in DI in the first quarter of 2006.

Reconciliation of Distributable Income to Cash Flow from Operating Activities

The following table provides a reconciliation of Distributable Income to Cash Flow from operating activities for the three months ended March 31, 2006 and March 31, 2005.

	For the three months ended March 31		
($000's)	**2006**	**2005 (restated)**	**Change**
Cash flow from operating activities	9,462	8,112	1,350
Add (Subtract):			
Change in non-cash operating items	5,096	1,668	3,428
Amortization of debt discounts	(73)	(48)	(25)
Amortization of debt premiums, net	(438)	(389)	(49)
Option benefit granted under the Long-Term Incentive Plan			
Principal portion of capital funding receivable	68	20	48
Amounts received under Net Operating Income Guarantees	247	307	(60)
Contractually receivable management fees, net	(521)	-	(521)
Income/(Loss) from long-term investment net of distributions	57	23	34
Foreign exchange loss	(9)	-	(9)
Distributable Income	13,889	9,693	4,196

SEGMENTED INFORMATION

The following discussion and analysis provides information on the financial results for each operating segment of the REIT for the three month period ended March 31, 2006 compared to the three month period ended March 31, 2005.

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.

Effective January 1, 2005, Chartwell changed its segmented reporting to account for seven VIE's co-owned with Melior. These entities were previously proportionately consolidated in the REIT's financial statements, and now are required to be accounted for using the equity method of accounting.

As a result, revenues and expenses of the retirement operations segment for the three months ended March 31, 2005, were reduced by $2,253 and $1,631, respectively.

In 2005, the REIT acquired a 50% interest in management operations and in eight seniors housing facilities in the United States. The REIT monitors and operates these facilities separately and consequently reports the results of operations and financial position of its 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 three month periods ended March 31, 2006 and 2005, respectively.

	For the three months ended		
$000's	**March 31, 2006**	**March 31, 2005 (restated)**	**Change**
Revenues			
Same Property	31,924	29,724	2,200
Acquisitions	11,382	1,484	9,898
Change in Accounting for VIEs	(2,546)	(2,253)	(293)
Total Revenues	40,760	28,955	11,805
Expenses			
Same Property	20,444	18,842	1,602
Acquisitions	7,247	324	6,923
Change in Accounting for VIEs	(1,892)	(1,631)	(261)
Total Expenses	25,799	17,535	8,264
Net Operating Income			
Same Property	11,480	10,882	598
Acquisitions	4,135	1,160	2,975
Change in accounting for VIEs	(654)	(622)	(32)
Total Net Operating Income	14,961	11,420	3,541
Overall Operating Margins	36.7%	39.4%	(2.7%)
Same Property Statistics:			
Operating Margins	36.0%	36.6%	(0.6%)
Weighted Average Occupancy Rate	92.0%	91.7%	0.3%

Same property Net Operating Income increased by $0.6 million (5.5%) in the first quarter of 2006 as compared to the same period of last year due to the following:

- Additional services introduced to residents at certain facilities in 2005 produced higher net operating income contribution.
- Regular annual rent increases between 2-3% also contributed to higher net operating income in 2006.
- Management implemented certain cost savings measures at 5 of its properties where the occupancies were lower than budgeted.
- Positive net operating income contribution from the repositioning of one retirement facility completed in 2005, which achieved stabilized occupancy in the first quarter of 2006.

Acquisitions contributed an additional $3.0 million of net operating income increases in the first quarter of 2006 as compared to the same period of last year.

Operating margins declined slightly in the first quarter of 2006 as compared to the same period of last year due to the introduction of new services to residents which, although they produced positive net operating income contribution, operate at lower margins than accommodation.

Long-Term Care Operations

The following table represents results of operations and financial position of the long-term care operating segment for the three months ended March 31, 2006 and 2005, respectively.

	For the three months ended		
$000's	**March 31, 2006**	**March 31, 2005 (restated)**	**Change**
Revenues			
Same Property	10,961	10,231	730
Acquisitions	6,471	-	6,471
Total Revenues	17,432	10,231	7,201
Expenses			
Same Property	9,831	9,266	565
Acquisitions	5,160	-	5,160
Total Expenses	14,991	9,266	5,725
Net Operating Income			
Same Property	1,130	965	165
Acquisitions	1,311	-	1,311
Total Net Operating Income	2,441	965	1,476
Overall Operating Margins	14.0%	9.4%	4.6%
Same Property Statistics:			
Operating Margins	10.3%	9.4%	0.9%
Weighted Average Occupancy Rate	95.0%	91.1%	3.9%

Same property net operating income increased by $0.2 million (17%) in the first quarter of 2006 as compared to the same period of last year due to the following:

- Completion of the repositioning of Gibson LTC in 2005. The weighted average occupancy in this facility increased from 77% in 2005 to 99% in 2006.
- Improved occupancies in the remainder of the long-term care portfolio.

Acquisitions of 3 long-term care facilities subsequent to January 1, 2005 resulted in $1.3 million of additional net operating income.

Operating margins in the same property portfolio have also increased from 9.4% in the first quarter of 2005 to 10.3% in the first quarter of 2006 primarily due to improved revenues from Gibson LTC and improved occupancies in the portfolio.

U.S. Operations

The following table represents the results of operations and the financial position of the U.S. operating segment for the three months ended March 31, 2006 and 2005, respectively.

$000's	For the three months ended March 31, 2006	For the three months ended March 31, 2005 (restated)
Revenues	7,496	-
Direct Operating Expenses	4,311	-
Net Operating Income	3,185	-
Operating Margins	42.5%	-
Weighted Average Occupancy Rate[(1)]	96%	-

(1) Excludes one facility in Michigan, which is currently in lease-up (73% occupied). This facility is subject to an NOI guarantee.

As at March 31, 2006, the U.S. Operations segment includes Chartwell's 50% interest in five facilities located in Colorado, one facility located in Texas, one facility located in Rhode Island and one facility located in Michigan (1,513 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 eight facilities. The U.S. portfolio consists of primarily independent living facilities. The portfolio has operated at approximately 96% weighted average occupancy rate since acquisition with the exception of one facility in Michigan which is currently in lease-up.

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

Management Operations

$000's	For the three months ended March 31, 2006	For the three months ended March 31, 2005 (restated)	Change
Revenues	3,974	1,648	2,326
Direct Operating Expenses	999	1,062	(63)
Net Operating Income	2,975	586	2,389
Operating Margins	74.9%	35.6%	39.4%

Revenues

	For the three months ended March 31		
$000's	2006	2005 (restated)	Change
Spectrum:			
Development Management	1,918	745	1,173
Operations Management	129	142	(13)
Financing	171	121	50
Other	551	-	551
Total Spectrum	2,769	1,008	1,761
Melior	563	153	410
Other	642	487	155
Total Fee Revenue	3,974	1,648	2,326

Management operations revenues were higher in the first quarter of 2006 as compared to the same period of last year due to the following:

- Development management fees from Spectrum included $1.0 million of additional fees related to 14 existing projects. The additional fees resulted from an increase in the projected costs of the underlying projects and the subsequent change to the development fee charged to conform with the requirements of the Development Agreement between Spectrum and Chartwell.

- Other fees from Spectrum included $0.5 million fees for assistance in a $17.5 million equity raise completed by Spectrum in 2005, as well as loan guarantee fee related to Spectrum's obligations guaranteed by the REIT. The REIT is entitled to an annual fee equal to 1% of the outstanding loan balances.

- Fees from Melior were higher due to the increased number of projects managed by Melior.

- Other fees increased primarily due to $0.1 million of asset management fees charged to ING for managing ING's portion of the co-owned assets in the United States.

We anticipate that management operations will continue to generate significant revenues for the REIT in 2006 and beyond as Spectrum, Melior and their joint venture partners continue to execute their development strategy.

Direct Operating Expenses

Direct operating expenses principally represent compensation costs of individuals involved in management operations. These expenses are anticipated to remain relatively consistent quarter over quarter.

Operating Margins

Operating margins increased in the first quarter of 2006 as compared to the same period of last year due to significantly higher fee revenue.

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 $1,631 respectively.

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 accounting policy applicable to the 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 its unitholders' equity. As a result of this change, the net loss for the three month periods ended September 30, 2004 and June 30, 2004 were reduced by $3 and $266, respectively.

($000's, except per unit amounts)	Three Months Ended March 31, 2006 (unaudited)	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 31, 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)
Revenues	73,169	71,712	60,254	49,315	43,347	45,406	38,691	29,590
Direct Operating Expenses	(46,100)	(46,515)	(38,605)	(30,238)	(27,863)	(27,161)	(23,366)	(19,479)
General, Administrative and Trust Expenses	(3,357)	(3,206)	(2,525)	(2,451)	(1,999)	(2,024)	(1,513)	(1,830)
Income before interest, depreciation and amortization	23,712	21,991	19,124	16,626	13,485	16,221	13,812	8,281
Interest Expense	(9,198)	(8,613)	(7,368)	(5,781)	(5,684)	(6,521)	(4,686)	(3,045)
Foreign Exchange Gains (Losses)	52	(325)	(1,434)	-	-	-	-	-
Depreciation and Amortization	(15,926)	(16,268)	(12,892)	(11,003)	(10,769)	(10,671)	(9,270)	(7,581)
Write down of carrying value of assets	(440)	(3,436)	-	-	(817)	(1,159)	-	(501)
Gain on sale of assets	-	-	-	103	-	-	-	-
Non-controlling interest	157	683	271	(11)	448	196	3	266
Net Loss for the period	(1,643)	(5,968)	(2,299)	(66)	(3,337)	(1,934)	(141)	(2,580)
FFO	14,512	13,038	10,302	10,928	7,791	9,696	9,126	5,236
FFO per Unit, diluted	0.26	0.23	0.21	0.25	0.21	0.26	0.28	0.18
Distributable Income	13,889	15,302	14,118	11,078	9,693	11,145	9,398	5,729
Distributable Income Per Unit, diluted	0.25	0.27	0.28	0.25	0.26	0.30	0.29	0.20

Chartwell's results for the past eight quarters have been affected by the acquisition of new seniors housing facilities and the corresponding revenue increases from development, management and lending activities.

General, Administrative and Trust Expenses have increased in the last four quarters in order to provide the additional infrastructure required to support the REIT's growth.

Per Unit amounts on a quarterly basis were affected by the timing of the issuance of Trust Units by the REIT, as well as by the timing of fee income from development and other activities.

FINANCIAL POSITION

($000's)	March 31, 2006	Dec. 31, 2005	Change
Properties	969,803	957,244	12,559
Mezzanine Loans	83,347	77,436	5,911
Total Assets	**1,194,642**	**1,191,644**	**2,998**
Mortgages Payable	631,966	613,654	18,312
Loans Payable	37,227	32,024	5,203
Total Liabilities	**712,855**	**693,911**	**18,944**
Non-controlling Interest	48,780	52,448	(3,668)
Unitholders' Equity	433,007	445,285	(12,278)
Total Liabilities and Equity	**1,194,642**	**1,191,644**	**2,998**

The increase in total assets in the first quarter of 2006 is principally due to the acquisition of two seniors housing facilities and additional mezzanine loan advances, offset by depreciation and amortization charges and the write down of management contracts and customer relationships.

Mortgages payable increased in the first quarter of 2006 due to the financing required to complete acquisitions and due to upward refinancings completed during the quarter. Loans payable increased in the quarter as the REIT accessed its secured line of credit to finance acquisitions and mezzanine financings completed in the quarter.

Non-controlling interest and Unitholders' equity decreased due to the distributions declared for the Class B Units of the Master LP and for the Trust Units as well as due to the net loss allocated to the holders of both classes of Units.

Outstanding Units Data

The following table summarizes the information with respect to the units outstanding as of March 31, 2006 and 2005.

	March 31, 2006	Dec. 31, 2005	Change
Trust Units	49,460,677	49,218,102	242,575
LTIP Units under subscription	1,475,000	1,475,000	-
	50,935,677	50,693,102	242,575
Class B Units of Master LP	5,219,896	5,429,235	(209,339)
	56,155,573	56,122,337	33,236

In the first quarter of 2006, holders of 209,339 Class B Units of Master LP converted their units into Trust Units. In addition, the REIT issued 33,236 Trust Units under its Distribution Reinvestment Program.

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at March 31, 2006:

($000's) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Mortgages Payable	Weighted Average Interest Rate of Maturing Debt
2006	11,602	55,988	67,590	11%	5.69%
2007	15,401	30,420	45,821	7%	4.83%
2008	14,464	49,087	63,551	10%	5.12%
2009	10,996	115,296	126,292	20%	4.64%
2010	9,098	44,938	54,036	9%	5.80%
2011	8,110	13,424	21,534	3%	4.74%
2012	7,829	64,680	72,509	11%	5.30%
2013	6,937	12,403	19,340	3%	5.52%
2014	5,656	17,215	22,871	4%	5.76%
2015	4,795	87,637	92,432	15%	5.38%
Thereafter	9,915	36,075	45,990	7%	5.75%
Total	**104,803**	**527,163**	**631,966**	**100%**	**5.24%**

At March 31, 2006, the average term to maturity for the total mortgage portfolio is approximately 5.8 years (December 31, 2005 – 5.8 years), and the weighted average interest rate is 5.24% (December 31, 2005 – 5.21%). Management is pursuing a strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt.

At March 31, 2006, the REIT had $27.1 million of variable rate mortgage debt. This debt primarily relates to internal growth projects and facilities in lease-up. The REIT anticipates it will 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 March 31, 2006, Chartwell's debt leverage ratio was 51.8%. 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 $106.0 million. This would allow the REIT to acquire approximately $267.0 million of new assets. Management does not expect that the REIT's 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. In order to provide for its operating and capital requirements, the REIT has arranged for a secured revolving operating facility of up to $70.0 million. As of March 31, 2006, $30.0 million was outstanding under this facility, leaving an unused capacity of $25.1 million based on available security. Management is working with the lenders to arrange for additional security to enable Chartwell to borrow the entire $70.0 million. 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 REIT has now obtained an extension of the credit facility until June 27, 2007. The term may be extended with the consent of the lenders for an additional 364 day period.

From time to time, in order to finance certain acquisitions, the REIT arranges for bridge financing. As of March 31, 2006, Chartwell had $5.1 million outstanding on one bridge loan secured by second charges over two seniors housing facilities. Subsequent to March 31, 2006, a portion of this loan related to one facility in the amount of $3.7 million was repaid.

The REIT's distributions for the three months ended March 31, 2006 exceeded its distributable income by $0.9 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 its current level of distributions.

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

Contractual Obligations

The REIT's major contractual obligations as at March 31, 2006 were as follows:

($000's)	Total	2006	2007	2008	2009	2010	Thereafter
Mortgages Payable	631,966	67,590	45,821	63,551	126,292	54,036	274,676
Loans Payable	37,227	7,227	30,000				
Operating Leases	8,769	536	931	957	957	1,004	4,384
Land Rent	7,025	95	126	126	126	126	6,426
Mezzanine Loan Funding Obligations	22,675	22,675					
Purchase Obligations	260,182	257,530	2,652				
Total Contractual Obligations	967,844	355,653	79,530	64,634	127,375	55,166	285,486

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 12 retirement residences in Quebec, Ontario and British Columbia.

Purchase Obligations relate to the following:

- Acquisitions of 21 seniors housing facilities for approximately $225.4 million.

- Five 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 $1.0 million installment of the original $5.0 million deferred purchase consideration was paid in 2005.

  - $0.68 million in respect of two properties upon the 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), payable as to 50% by Chartwell and 50% by the Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on investment equity, measured quarterly. Any payments made by Chartwell 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 March 31, 2006, Chartwell's 50% share of the remaining obligation amounted to $2.6 million (U.S. $2.3 million).

  - $0.9 million consideration on the acquisition of the Chateau Cornwall property from Spectrum which is contingent upon the property achieving pre-determined income targets over the three-year period subsequent to acquisition.

- Deferred purchase consideration of $2.0 million related to the acquisition of a retirement home in Ontario, due on the earlier of:

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

- Commitments of approximately $19.8 million with respect to various construction contracts that are related to the REIT's internal growth projects.

- Commitments with respect of fixed contracts of $0.5 million for the purchase of natural gas.

<u>Guarantees</u>

At March 31, 2006, Chartwell remains as a guarantor on the debt of two properties to a maximum of $21.8 million. As at March 31, 2005, $13.3 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 with respect to these guarantees.

At March 31, 2006, Chartwell remains as a guarantor of the debt of one managed property with a balance of $5.4 million. The borrower has indemnified Chartwell with respect to this guarantee. In the opinion of management, these properties have a value in excess of these guarantees.

Other Contracts

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

(ii) Chartwell's properties in the United States are managed by Horizon Bay Chartwell LLC. The property 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 owns a 50% interest in Horizon Bay Chartwell LLC.

(iii) In accordance with contracts between Chartwell and Melior, Chartwell 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 in the Province of Quebec whether or not such acquisitions are introduced, presented or referred by Melior. In addition, 2.0% of the purchase price of all acquisitions by Chartwell of properties in Canada, excluding the Province of Quebec, which are introduced, presented or referred by Melior.

    (b) All legal fees over and above the maximum amount specified (three percent (3%) of total budgeted development costs for the project to a maximum of $50,000) will be paid for and/or reimbursed by Chartwell.

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

At March 31, 2006 Chartwell was committed to issue an additional 948,750 units under its LTIP program.

Capital Expenditures

Chartwell classifies its capital expenditures under the following categories:

- Building improvements and additions include capital expenditures that improve the revenue generating potential of the REIT's properties and include additions of new suites, conversion of suites and capital expenditures incurred in order to introduce new services to residents.

- Acquisition related capital expenditures – capital expenditures which were identified during the acquisition due diligence process for newly acquired assets.

- 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 following table summarizes additions to properties for the three months ended March 31, 2006:

($000's)	Three months ended March 31, 2006
Building improvements and additions	942
Acquisitions related capital expenditures	308
Long-Term Replacement Items	-
Furniture, Fixtures and Equipment	1,090
Other	16
	2,356

Cash Flows

The following table summarizes Chartwell's cash flows for the years ended March 31, 2006 and 2005:

	Year ended	
($000's)	**Mar. 31, 2006**	**Mar. 31, 2005 (restated)**
Cash provided by (used in):		
Operating Activities	9,462	8,112
Financing Activities	(2,908)	48,630
Investing Activities	(17,223)	(12,244)
Foreign exchange loss on U.S. dollar denominated cash	(138)	-
Increase (decrease) in cash and cash equivalents	(10,807)	44,498

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the REIT enters into transactions with various related parties. The following is a summary of significant related party transactions for the three months ended March 31, 2006:

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 March 31, 2006, mezzanine loans receivable from Spectrum amounted to $39.7 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 31 seniors' housing development properties.

During the three month period ended March 31, 2006, Chartwell REIT earned mezzanine loan interest of $1.2 million from Spectrum. During the three month period ended March 31, 2006, Chartwell REIT earned development and operations management, financing and other fees of $2.8 million from Spectrum.

Other assets as of March 31, 2006 include $3.3 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to March 31, 2006, $2.8 million of this balance was repaid.

Included in distributions payable at March 31, 2006 is $0.2 million due to Spectrum.

In the first quarter of 2006, the REIT acquired one seniors housing facility from Spectrum for a total purchase price of $7.0 million, inclusive of closing costs. The purchase price was settled by a discharge of a mezzanine loan receivable of $2.8 million, an assumption of $4.0 million of mortgages payable and the remaining balance in cash.

Melior and Other Spectrum Partners

As of March 31, 2006, the REIT had mezzanine loans receivable of $43.6 million from six of Spectrum's joint venture partners (including $35.2 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 eight 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 three month period ended March 31, 2006, the REIT earned interest income of $0.9 million and fees of $0.6 million from Melior.

Accounts receivable and other assets at March 31, 2006 included $0.8 million due from Melior and deferred revenue includes $4.8 million from Melior.

Also in the first quarter of 2006, Chartwell paid referral fees of $0.3 million to Melior related to the acquisition of one property in the Province of Quebec.

Other

Included in mortgages payable at March 31, 2006 is a vendor-take-back mortgage of $3.1 million due to an officer of Chartwell REIT. In the first quarter of 2006, the REIT incurred interest expense of $0.1 million with respect to this mortgage.

Included in accounts receivable is $0.1 million due from an entity controlled by an officer of the REIT related to the previous sale of a facility to the REIT.

SUBSEQUENT EVENTS

Including commitments for acquisitions of properties described in the Contractual Obligations section of this MD&A, Chartwell REIT has agreed to acquire, in two separate transactions, a 50% interest in 12 seniors housing facilities in the United States for an aggregate purchase price of approximately 176.5 million (U.S. $154.1 million). These acquisitions are anticipated to close in May 2006. In five separate transactions, Chartwell REIT has also agreed to acquire an interest in 13 seniors housing facilities in Canada for an aggregate purchase price of approximately $117,600. The acquisition of one of these properties with a purchase price of $40,000 closed on April 28, 2006.

Subsequent to the quarter end, the REIT agreed to issue, on a bought deal basis, 13,310,000 Trust Units at $13.90 per Unit to a syndicate of underwriters.

Subsequent to the quarter end, the REIT advanced a mezzanine loan of $0.6 million to Spectrum.

OUTLOOK

Chartwell's goal is to deliver value to our Unitholders by generating consistent, sustainable and increasing distributions.

In order to achieve this goal, Chartwell will continue to focus on its four primary growth drivers – acquisitions, internal growth, development and third party management.

Acquisitions

Our target is to acquire approximately $625 million of accretive assets in 2006, including approximately $260 million of newly developed properties from Spectrum, Melior and their joint venture partners. In the first quarter of 2006, Chartwell completed acquisitions of two properties for an aggregate purchase price of approximately $19.6 million. Subsequent to the quarter end, Chartwell has agreed, subject to the REIT's due diligence as applicable, to acquire interests in 25 additional seniors housing facilities for an aggregate purchase price of approximately $294.1 million. One of these acquisitions, with a purchase price of approximately $40.0 million, has now been completed.

Also subsequent to the year end, Chartwell agreed to issue 13,310,000 of Trust Units at $13.90 per Unit for gross proceeds of $185.0 million to finance its acquisitions, internal growth and mezzanine lending activities.

Chartwell's acquisition pipeline remains full and we are on track to achieve our targeted level of acquisitions in 2006.

Internal Growth

Chartwell is continuously seeking ways to improve its properties, and add new resident services and amenities. Under our internal growth program, we evaluate various strategies of revenue and expense optimization, including additions of new suites to existing facilities.

As previously discussed in the MD&A, in 2005 and 2006, Chartwell completed six internal growth projects thereby adding 204 new suites to its portfolio. Three of these projects, two repositioned properties and one 42 suite addition, achieved stabilized occupancies by March 31, 2006. We anticipate that the remaining new suites will achieve stabilized occupancy in 2006/2007.

There are two new internal growth projects presently under construction:

- An 86 suite addition to the L'Oasis St. Jean Retirement Home in St. Jean – Sur Richelieu, Quebec. Total project costs are estimated to amount to $14.5 million, of which $11.1 million is expected to be financed by construction debt. The construction is expected to be completed in September 2006.
- A 75 suite addition to 50% owned Marquis de Tracy II Phase II in Sorel, Quebec. The total project costs are expected to amount to $11.3 million of which $9.0 million is expected to be financed by construction debt. Chartwell extended mezzanine financing to Melior for this project in the amount of $1.1 million. The construction is expected to be completed in the fourth quarter of 2006.

There are an additional three internal growth projects scheduled to commence in 2006:

- A 22 suite addition to Hartford Retirement Centre in Morrisburg, Ontario. The estimated construction costs are $5.1 million of which $4.5 million is expected to be financed with a construction loan.
- A 30 suite addition to Collegiate Heights Retirement Residence in Sault Ste Marie in Quebec. The estimated construction costs are $4.6 million, of which $3.7 million are expected to be financed by a construction loan.
- A 131 suite addition to Residence Ste-Marthe in St. Hyacinthe, Quebec. The estimated construction costs are $15.8 million of which $9.4 million are expected to be financed by a construction loan.

Development

Chartwell's strong relationships with independent seniors housing developers are providing an expanding pipeline of opportunities to acquire new and fully stabilized properties, the majority of which are designed to our exacting specifications.

Our strategy allows us to mitigate the risk to our Unitholders through the development and lease-up phase of a new property and to simultaneously generate a growing revenue stream from interest and fees through our mezzanine financing program.

In 2005, and in the first quarter of 2006, we acquired seven fully stabilized properties in Ontario from Spectrum. At March 31, 2006, Spectrum, Melior and their joint venture partners had over 6,000 suites under development or in lease-up across Canada. In 2006, we expect to purchase approximately 1,500 of these suites with an estimated aggregate acquisition cost of approximately $263 million. The majority of these acquisitions will be made at a discount to appraised value, further increasing the value of the portfolio.

Third Party Management

At March 31, 2006, Chartwell's portfolio of managed suites included over 9,000 suites in over 67 facilities owned by Spectrum, Melior and other third parties. Chartwell also provides asset management services to ING. In addition to generating high margin fees, our third party management business also provides us with valuable insight into specific geographic markets and creates a pipeline of potential future acquisitions. We anticipate that our third party management business will continue to grow in 2006 primarily through increases in development management and other services provided to Spectrum, Melior and their joint venture partners, and asset management services provided to ING.

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.

Change in Accounting Policy

Effective December 31, 2005, Chartwell REIT changed its accounting policy for recognition of fee revenue from development services. Fee revenue is recognized on a project-specific basis using the percentage of completion method based upon the level of effort expected to achieve predetermined project milestones. Under the new policy, no fee revenue is recognized prior to completion of submissions to the Municipality for a building permit. Previously, Chartwell 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. There was no material effect on the net loss for the three month period ended March 31, 2005 resulting from this change.

Correction of an Error

At March 31, 2006, Chartwell REIT, through a holding company, holds variable interests in seven VIEs. These entities are structured to lease the respective facilities from Chartwell REIT and an entity controlled by Melior. These facilities are proportionately consolidated with a cost of $51,027 and accumulated amortization of $2,350 as at March 31, 2006. 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.

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

As a result, of this correction, at March 31, 2006, total assets were reduced by $1,198 (December 31, 2005 - $1,047), with the corresponding reduction in liabilities. Revenue and expenses for the three month period ended March 31, 2006 were reduced by $1,892 (March 31, 2005 - $1,631).

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 three months ended March 31, 2006, and have concluded that such disclosure controls and procedures are operating effectively.

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 44% 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 Laobur 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.