CHARTWELL SENIORS HOUSING REIT

THIRD QUARTER REPORT – SEPTEMBER 30, 2006

CHARTWELL
SENIORS HOUSING REIT

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

For the three and nine months ended September 30, 2006

CONTENTS

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

For the three and nine months ended September 30, 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 and nine months ended September 30, 2006. This discussion and analysis should be read in conjunction with the REIT's unaudited consolidated financial statements for the three and nine months ended September 30, 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 November 6, 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. These statements generally can be identified by use of forward looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or similar variations. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond the REIT's control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: business risks; real property ownership and lack of diversity; geographic concentration; continued growth; acquisition and development; competition; debt financing; mezzanine financing; environmental liabilities; liability and insurance; personnel costs; labour relations; conflicts of interest; management contracts; U.S./Canadian exchange rate fluctuations; government regulations; operations in the United States; joint venture interests; availability of cash flows; the redemption right of Unitholders; accounting guidelines; dilution; nature of Units; Unitholder liability; market for Units and Unit price; credit risk and prior ranking indebtedness; absence of covenant protection; 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.

ANNOUNCEMENT OF TAX PROPOSAL

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes to the taxation of income trusts for Canadian federal income tax purposes. In connection with the announcement, the Ministry of Finance published a Backgrounder with additional detail (the ''Backgrounder'') and on November 3, 2006 released a Notice of Ways and Means Motion. The proposed changes (the ‘‘Proposals’’) are discussed below. However, the Backgrounder is not legislation and therefore provides only a general description of the Proposals. There can be no assurance that the Proposals will be enacted in the form proposed.

Under the Proposals certain income trusts would pay tax on certain distributions to unitholders (not including ‘‘returns of capital’’) at a rate equal to the current federal corporate tax rate, plus an additional 13% which is intended to account for the provincial tax which would be payable on corporate income. The Proposals provide that certain distributions will be taxed in the hands of unitholders as though they were dividends from a taxable Canadian corporation.

Income trusts, the units of which were publicly traded prior to November 1, 2006 (‘‘Existing Income Trusts’’), will be provided a transition period under the Proposals until 2011. During the transition period, Existing Income Trusts will generally not be subject to the taxes that are proposed.

Expected Effect of Proposals on Chartwell

The Proposals would create the concept of ‘‘specified investment flow-through’’ entities, or ‘‘SIFTs’’, which would generally be subject to the new tax on distributions. The definition of a SIFT includes a trust resident in Canada with publicly-traded units that holds one or more ‘‘non-portfolio properties’’. The definition of non-portfolio properties includes certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections to Canada. Chartwell would be considered to hold non-portfolio properties within the meaning of the definition and, accordingly, subject to its ability to qualify as a real estate investment trust (‘‘REIT’’) described below, Chartwell would be a SIFT.

The Backgrounder states that certain REITs, which would otherwise be SIFTs, will be excluded from the definition of SIFT. Chartwell has reviewed the requirements to qualify as a REIT as set out in the Proposals. As noted above, the Proposals set out in the Backgrounder are not legislation and do not define key terms and specific criteria which will ultimately determine whether Chartwell’s various categories of income, as currently earned, have the required characteristics to be within the proposed REIT status rules. Moreover, the Notice of Ways and Means Motion does not provide any additional specifics on the Proposals. However, based on the REIT qualification rules as set out in the Backgrounder, Chartwell is of the view that, as it is currently structured and based on its present location of assets and sources of income, it may not qualify as a REIT and, therefore, it may be taxable as a SIFT under the Proposals as described in the Backgrounder.

As indicated above, there is a four-year transition period before the Proposals apply to Existing Income Trusts. During this transition period, specific legislation will be tabled from which Chartwell will be in a better position to determine its status as a REIT. To the extent that Chartwell does not then qualify for the REIT exemption under the specific legislation as finally enacted, Chartwell would consider alternative measures, provided that they are in the best interests of Unitholders, in order to qualify as a REIT under such enacted legislation. Given the early stage of the Proposals, there can be no certainty as to their ultimate impact upon Chartwell, or as to whether Chartwell will have the ability to restructure or reorganize itself in a way which would not materially and adversely affect its investments and the amount of income available to distribute to its Unitholders and the net after tax cash position of Unitholders.

The Backgrounder indicates that it is not the Government's intention to change the manner in which distributions that are characterized as returns of capital are taxed. Such distributions are not currently taxable to unitholders but serve to reduce the adjusted cost base of a unitholder's units. Since inception, approximately 85% of Chartwell's distributions have been characterized as return of capital and management believes it is likely that a high return of capital component would continue in the reasonably foreseeable future as Chartwell continues to support the development of over 50 new seniors housing facilities in Canada through its strategic alliances with Spectrum and Melior and intends to continue its normal growth through acquisitions. Consequently, Chartwell believes that any impact of the Proposals on Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

For example, in the event that no measures are taken by Chartwell in order to qualify as a REIT and the Proposals were currently applicable to Chartwell's current annual distribution of $1.065 per unit, Chartwell is of the view that (i) a taxable investor, who is a resident of Canada, is estimated to have no effective reduction in his net annual after-tax cash position from his current position (assuming the trust tax is effective only when full implementation of the new corporate/trust tax rates and dividend credits has been reached in 2011 and the investor is taxed personally at the top marginal tax rate), and (ii) a non-taxable or a non-resident investor is estimated to have an approximate $0.04 per unit reduction in his net after tax cash position from Chartwell (again assuming the tax rates contemplated for 2011 as well as continuation of the return of capital component of distributions at 85%).

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.

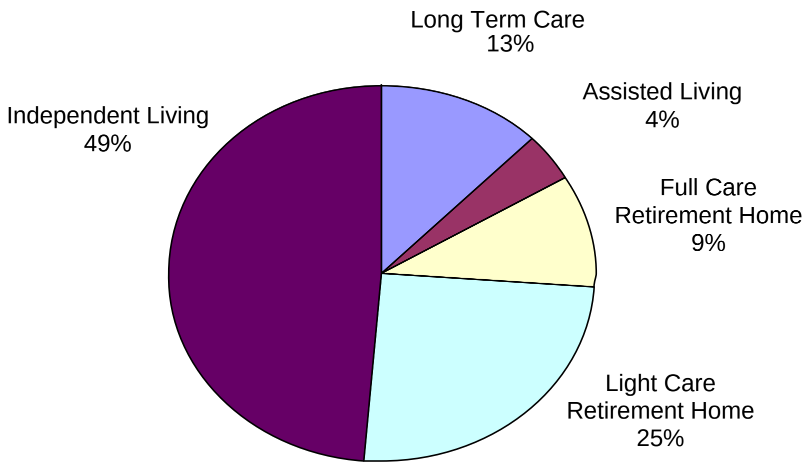
Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly owns and manages a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities ("IL Facilities"), through retirement homes ("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 facilities 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 September 30, 2006 Chartwell's portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in 23,874 suites in 190 facilities which are operating, under construction or in various stages of development. The REIT's owned portfolio consists of 14,561 suites in 122 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 seniors housing facilities in its four operating segments at September 30, 2006:

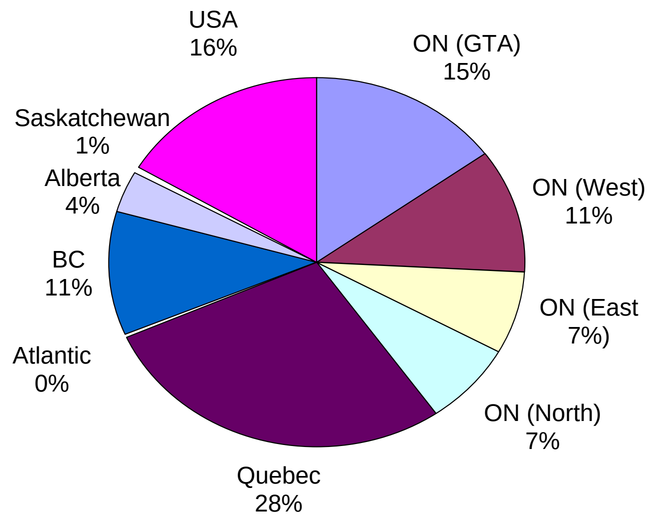
	Retirement Operations	Long-Term Care Operations	United States Operations	Management Operations	Total
Facilities	84[(1)(2)(3)(5)]	17[(1)]	21[(4)]	68[(2)]	190
Suites/Beds	8,753	1,923	3,885	9,313	23,874

(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 8 facilities (1,369 suites) where Chartwell owns a 50% interest and 1 facility (55 suites) where Chartwell owns a 39% interest. Chartwell accounts for this property using the equity method of accounting.
(4) Chartwell owns a 50% interest in these facilities.
(5) Includes 345 suites under development at 5 existing facilities.

Composition of portfolio of owned and managed suites by level of care at September 30, 2006



Composition of portfolio of owned and managed suites by geographical location at September 30, 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 certain of the REIT's Senior Executives 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 with 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 due diligence project management and asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited ("ING"). ING is Chartwell's exclusive strategic financial partner in acquisitions of seniors housing facilities in the United States of America. At September 30, 2006, Chartwell and ING each held a 50% interest in CSH-INGRE LLC, which owned 21 seniors housing facilities (3,885 suites) in the United States.

Chartwell's properties in the United States are managed by Horizon Bay Chartwell LLC ("HBC"). Chartwell owns 50% interest in HBC.

Owned Property Portfolio

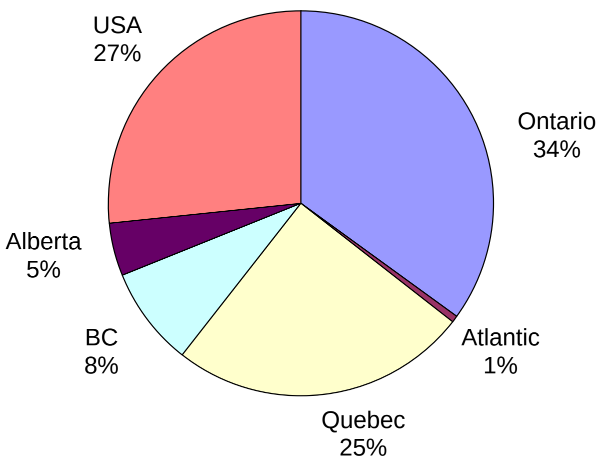
The following table summarizes the composition of Chartwell's real estate portfolio of owned facilities as at September 30, 2006 and September 30, 2005:

As at	**September 30, 2006**(1)	**September 30, 2005**(2)
Number of suites	14,561	9,503
Number of properties	122	90

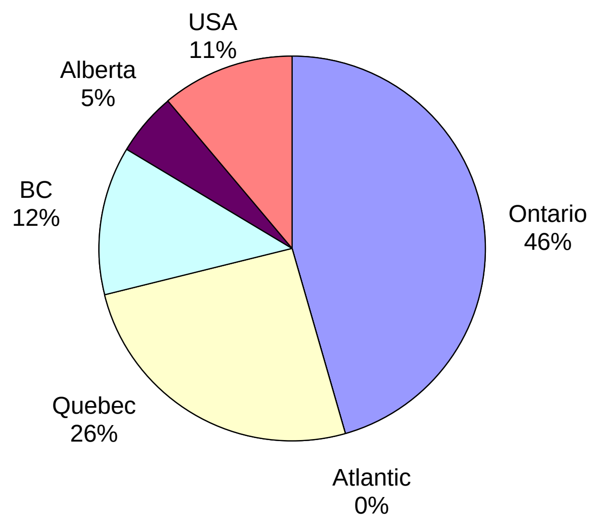
(1) Includes 29 facilities (5,254 suites) in which Chartwell holds a 50% interest, and 1 facility (55 suites) in which Chartwell holds a 39% interest.

(2) Includes 16 facilities (2,400 suites) in which Chartwell holds a 50% interest and 1 facility (56 suites) in which Chartwell owns a 39% interest.

Composition of portfolio of owned suites by geographical location at September 30, 2006



Composition of portfolio of owned suites by geographical location at September 30, 2005



SIGNIFICANT EVENTS

The following have had a significant effect on the financial results of Chartwell REIT for the three and nine months ended September 30, 2006, relative to the same periods of 2005.

Acquisitions

The following table summarizes acquisitions completed in the first nine months of 2006:

($000's)	Q3, 2006	Q2, 2006	Q1, 2006	Total Nine Months ended September 30, 2006
# Properties	10(2)	16(1)	2	28
# Suites	911(2)	2,627(1)	228	3,766
Purchase price (including closing costs)	116,416	230,974	19,610	367,000
Financed as follows:				
Assumption of Mortgages Payable	37,041	4,830	11,711	53,582
Discharge of mezzanine loan receivable	-	-	2,758	2,758
Issuance of Class B Units of Chartwell Master Care LP	-	2,624	-	2,624
Deferred consideration on acquisitions of properties	1,180	520	-	1,700
New mortgage financing	23,683	154,265	-	177,948
Cash	54,512	68,735	5,141	128,388
	116,416	230,974	19,610	367,000

(1) Includes 12 properties (2,183 suites) in the United States acquired by CSH-INGRE LLC. Chartwell's 50% of the purchase price amounted to approximately $175.2 million (US $157.4 million) and was financed with $123.9 million (US $111.1 million) of new mortgage debt and cash.

(2) Includes acquisition of the 50% interest in one property from Chartwell's joint venture partner and one property in the United States (170 suites) acquired by CSH-INGRE LLC.

Acquisitions completed in 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
3.	Castel Royale	Montreal, QC	Retirement	April 28, 2006	255
4.	Mayfield	Prescott, ON	Retirement	May 1, 2006	62
5.	Wiser Hall	Prescott, ON	Retirement	May 1, 2006	8
6.	Town Village Audubon Park(1)	Memphis, Tennessee	Retirement	May 11, 2006	176
7.	Town Village Sterling Heights(1)	Sterling Heights, Michigan	Retirement	May 11, 2006	222
8.	Town Village Veslavia Hills(1)	Birmingham, Alabama	Retirement	May 11, 2006	198
9.	Town Village Tulsa(1)	Tulsa, Oklahoma	Retirement	May 11, 2006	222
10.	Bella Vila(1)	Venice, Florida	Retirement	May 15, 2006	115
11.	Gayton Terrance(1)	Richmond, Virginia	Retirement	May 15, 2006	100
12.	Village at Lowry(1)	Denver, Colorado	Retirement	May 15, 2006	169
13.	Waterford(1)	Dayton, Ohio	Retirement	May 15, 2006	110
14.	Willowwood(1)	Ft. Lauderdale, Florida	Retirement	May 15, 2006	278
15.	Woodside Village(1)	Bedford, Ohio	Retirement	May 15, 2006	220
16.	Wyndham Lakes(1)	Jacksonville, Florida	Retirement	May 15, 2006	248
17.	Amberpark(1)	Cincinnati, Ohio	Retirement	May 15, 2006	125
18.	Residence Le Riverain	Granby, QC	Retirement	June 1, 2006	119
19.	Langley Gardens and Langley Gardens at Village Square(2)	Langley, BC	Retirement	July 10, 2006	-
20.	Elizabeth Towers	St. John, NF	Retirement	August 1, 2006	104
21.	Chateau Gardens Parkhill	Parkhill, ON	Long-term care	August 1, 2006	59
22.	Chateau Gardens London	London, ON	Long-term care	August 1, 2006	95
23.	Chateau Gardens Niagara	Niagara-On-the-Lake, ON	Long-term care	August 1, 2006	124
24.	Chateau Gardens Aylmer	Aylmer, ON	Long-term care	August 1, 2006	60
25.	Chateau Gardens Elmira	Elmira, ON	Long-term care	August 1, 2006	48
26.	Chateau Gardens, Lancaster	Lancaster, ON	Long-term care	August 1, 2006	60
27.	Lake Worth Gardens(1)	Lakeworth, FL	Retirement	August 15, 2006	170
28.	Manoir Kirkland	Kirkland, QC	Retirement	September 15, 2006	191
					3,766

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

(2) Chartwell previously owned 50% interest in these properties and now acquired the remaining 50% interest from its joint venture partner.

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.

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.

<u>Internal Growth Initiatives</u>

At September 30, 2006, Chartwell had five internal growth projects (345 suites) in various stages of development (refer to the Outlook section of this MD&A).

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 now underway.

In 2005, the REIT completed 5 internal growth projects adding 188 new suites to its portfolio, reconfiguring existing suites and adding resident amenities at its properties. The total construction cost of these projects amounted to approximately $18.7 million (at REIT's share) and were financed by construction debt and cash.

<u>Mezzanine Loans</u>

In the third quarter of 2006, the REIT advanced mezzanine loans totaling $2.6 million to Spectrum, Melior and Spectrum's joint venture partners. In the first nine months of 2006, mezzanine advances to Spectrum, Melior and Spectrum's joint venture partners amounted to $22.5 million. In addition, 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 $19.5 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.

<u>Public Offerings of Trust Units</u>

On May 9, 2006, the REIT completed a public offering of Trust Units by issuing 13.31 million Units at $13.90 per Unit. The net proceeds of approximately $176.1 million, after the payment of issue related costs of approximately $8.9 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.

In 2005, the REIT completed two public offerings of Trust Units by issuing a total of 16.45 million Units. The net proceeds of approximately $232.5 million, after the payment of issue related costs of approximately $12.8 million were used to repay the amounts outstanding under the REIT's credit facilities, to finance certain acquisitions, mezzanine loans and for general corporate purposes.

<u>Increase in Distributions in 2005</u>

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.

<u>KEY PERFORMANCE MEASURES</u>

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 the 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 to compare the operating performance of the REIT's real estate portfolio between financial reporting periods or for comparison to other real estate investment trusts.

Distributable Income

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.

Distribution Payout Ratio

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 continuously owned from January 1, 2005 to September 30, 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 and nine month periods ended September 30, 2006 and 2005.

Summary

The following table presents a summary of selected operating performance measures for the three and nine month periods ended September 30, 2006 as compared to the same period of last year.

	For the three months ended			For the nine months ended		
($000's, except per unit amounts)	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**
Property Revenue	86,716	55,212	31,504	226,958	138,210	88,748
Total Revenues	94,728	60,254	34,474	249,785	152,916	96,869
Net Loss	(2,904)	(2,299)	(605)	(7,792)	(5,702)	(2,090)
Weighted Average Number of Units (diluted)	70,265,023	50,100,673	20,164,350	63,479,887	44,056,236	19,423,651
Distributions Declared	18,499	13,660	4,839	50,495	35,682	14,813
Distributions Declared per Unit (diluted)	0.26	0.27	(0.01)	0.80	0.81	(0.01)
Funds from Operations	17,735	10,302	7,433	46,675	28,918	17,757
Funds from Operations per Unit (diluted)	0.25	0.21	0.04	0.74	0.66	0.08
Payout Ratio – FFO	104%	133%	(29%)	108%	123%	(15%)
Distributable Income	17,136	14,118	3,018	47,296	34,889	12,407
Distributable Income per Unit (diluted)	0.24	0.28	(0.04)	0.75	0.79	(0.04)
Payout Ratio – Distributable Income	108%	97%	11%	107%	102%	5%

Revenues

	For the three months ended			For the nine months ended		
($000's)	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**
Property Revenue	86,716	55,212	31,504	226,958	138,210	88,748
Mezzanine Loan Interest	2,776	2,030	746	7,563	5,785	1,778
Fees	3,252	1,638	1,614	10,654	5,641	5,013
Other Income	1,984	1,374	610	4,610	3,280	1,330
Total Revenues	94,728	60,254	34,474	249,785	152,916	96,869

Total Revenues, in the three and nine month periods ended September 30, 2006 increased by 57%, and 63% respectively, as compared to the same periods 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

($000's)	For the three months ended September 30, 2006	September 30, 2005 (restated)	Change	For the nine months ended September 30, 2006	September 30, 2005 (restated)	Change
Same Property	44,550	41,840	2,710	131,129	122,908	8,221
Acquisitions	44,910	15,793	29,117	103,757	22,352	81,405
Change in Accounting for VIEs	(2,744)	(2,421)	(323)	(7,928)	(7,050)	(878)
Total Property Revenue	86,716	55,212	31,504	226,958	138,210	88,748
Weighted average occupancy same property portfolio	93.9%	91.8%	2.1%	93.3%	91.5%	1.8%

- Same property revenue increased by 6.5% and 6.7% in the three and nine month periods ended September 30, 2006, respectively as compared to the same periods of last year due to the following:

  - Regular annual rent increases and addition of new services for residents at some of the REIT's facilities.
  - Increase in weighted average resident occupancy in the same property portfolio.
  - Implementation of yield management program in the retirement home portfolio to establish increased market rates on suite turnover.
  - Repositioning of two properties completed in 2005, which returned to stabilized occupancy in the fourth quarter of 2005.
  - Completion of building additions at four of the REIT's facilities in 2005 and in 2006 (204 suites) of which 99 suites were leased as of September 30, 2006.

- Acquisitions completed subsequent to January 1, 2005 contributed $44.9 million and $103.8 million of new revenue in the three and nine months ended September 30, 2006, respectively.

- 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 and nine month periods ended September 30, 2005 were restated.

Mezzanine Loan Interest

($000's)	For the three months ended September 30, 2006	September 30, 2005	Change	For the nine months ended September 30, 2006	September 30, 2005	Change
Mezzanine Loan Balances Outstanding (end of the period)	97,204	70,453	26,751	97,204	70,453	26,751
Mezzanine Loan Interest	2,776	2,030	746	7,563	5,785	1,778

Mezzanine Loan Interest increased in the three and nine month periods ended September 30, 2006 as compared to the same periods of 2005 due to the higher loan balances outstanding.

Fees

($000's)	For the three months ended September 30, 2006	September 30, 2005	Change	For the nine months ended September 30, 2006	September 30, 2005	Change
Spectrum	1,812	979	833	5,965	3,290	2,675
Melior	644	149	495	1,744	863	881
ING	238	67	171	1,375	67	1,308
Other	558	443	115	1,570	1,421	149
	3,252	1,638	1,614	10,654	5,641	5,013

- In the third quarter of 2006, fee income was higher than in the third quarter of 2005 due to additional Spectrum and Melior fees from increased development activity and from increased asset management fees from ING. See Segment Reporting - Management Operations for more details.

  For the nine month period ended September 30, 2006, fees were higher by approximately $5.0 million the same period of last year primarily due to increased development activity of Spectrum and Melior, additional fees from Spectrum for assistance with its equity raise and additional fees on the existing Spectrum projects in the first quarter of 2006, and higher fees from ING. See Segment Reporting - Management Operations for more details.

Other Income

($000's)	For the three months ended September 30, 2006	September 30, 2005 (restated)	Change	For the nine months ended September 30, 2006	September 30, 2005 (restated)	Change
Interest and Other Income	1,015	532	483	2,072	992	1,080
Change in Accounting for VIEs	969	842	127	2,538	2,288	250
Other Income	1,984	1,374	610	4,610	3,280	1,330

- 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

($000's)	For the three months ended			For the nine months ended		
	September 30, 2006	September 30, 2005 (restated)	Change	September 30, 2006	September 30, 2005 (restated)	Change
Same Property	30,080	28,754	1,326	90,072	84,792	5,280
Acquisitions	31,091	10,555	20,536	70,331	13,667	56,664
Change in Accounting for VIE's	(1,775)	(1,579)	(196)	(5,390)	(4,762)	(628)
Direct Operating Expenses – Properties	59,396	37,730	21,666	155,013	93,697	61,316
Direct Operating Expenses – Management Operations	961	875	86	2,959	3,009	(50)
Total Direct Operating Expenses	60,357	38,605	21,752	157,972	96,706	61,266

- Same property operating expenses increased by 4.6% and by 6.2% in the three and nine month periods ended September 30, 2006, respectively as compared to the same periods of last year due to the following:

  - Costs of new services provided to residents at certain of the REIT's facilities, which were more than offset by new revenues generated by these services.
  - Completion of building additions at four of the REIT's properties (204 suites) in 2005 and 2006, of which 99 suites were leased as of September 30, 2006.
  - Inflationary increases in expenses.

- Acquisitions completed subsequent to January 1, 2005 resulted in $20.5 million and $56.7 million of additional direct operating expenses in the three and nine month periods ended September 30, 2006, as compared to the same period last year.

- The above increases were offset by reduction in direct operating expenses due to Change in Accounting for VIE's, as discussed previously in this MD&A.

- Operating expenses of management operations in the three and nine month periods ended September 30, 2006 remained consistent with the same periods of 2005.

General and Administrative Expenses

($000's)	For the three months ended			For the nine months ended		
	September 30, 2006	September 30, 2005 (restated)	Change	September 30, 2006	September 30, 2005 (restated)	Change
General and Administrative Expenses	4,629	2,525	2,104	12,228	6,975	5,253
As % of total revenue	4.9%	4.2%	0.7%	4.9%	4.6%	0.3%

- General and Administrative Expenses increased 83% and 75% in the three and nine month periods ended September 30, 2006 as compared to the same periods of last year due to the following:

  - Additions of new support and management staff throughout 2005 and in the first half 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, including Bill 198 compliance costs of approximately $0.6 million and $0.8 million in the three and nine month ended September 30, 2006, respectively.
- Non-cash LTIP compensation costs amounted to $0.2 million and $0.3 million in the three and nine month periods ended September 31, 2006, respectively. There were no such costs incurred in the same periods of last year.
- In the nine month period ended September 30, 2006, the REIT expensed $0.4 million of costs related to potential acquisitions that are no longer under consideration. There were no such expenses incurred in 2005.

• In the three and nine month periods ended September 30, 2006, General and Administrative Expenses as a percentage of revenue increased from the same period of last year due to the items discussed above.

• Management anticipates that General and Administrative Expenses will continue to increase in 2006 and in 2007 due to the increased size of the REIT, increasing cost of regulatory compliance and professional fees. Management is also implementing various cost control initiatives aimed at reduction of corporate overhead costs. Management anticipates that general and administrative expenses, as a percentage of total revenue, will not exceed 5% in 2006.

Interest Expense

	For the three months ended			For the nine months ended		
($000's)	**September 30, 2006**	**September 30, 2005**	**Change**	**September 30, 2006**	**September 30, 2005**	**Change**
Interest Expense	(12,105)	(7,368)	(4,737)	(31,982)	(18,833)	(13,149)

• Increase in interest expense is consistent with the growth in the REIT's portfolio as mortgages payable increased from $578.5 million at September 30, 2005 to $841.0 million at September 30, 2006.

Foreign Exchange Gains and Losses and Gains and Losses on Derivative Financial Instruments

	For the three months ended			For the nine months ended		
($000's)	**September 30, 2006**	**September 30, 2005**	**Change**	**September 30, 2006**	**September 30, 2005**	**Change**
Gains (Losses)	157	(1,434)	1,591	(741)	(1,434)	693

• In the third quarter of 2006, foreign exchange gains and losses and gains and losses on derivative financial instruments amounted to a gain of $0.2 million. This compares to a loss of $1.4 million in the same period of last year. The loss in the third quarter of 2005 related to foreign exchange contracts entered into by the REIT in order to hedge the acquisition price of a portfolio of seniors housing facilities acquired in the quarter. This contract did not qualify as hedge under GAAP and loss was recorded on settlement of this contract.

- In the second quarter of 2006, Chartwell entered into a forward foreign currency contract to acquire $26.0 million US dollars to eliminate the risk of foreign currency fluctuation on its acquisition of a portfolio of seniors housing facilities in the United States. This transaction did not qualify for hedge accounting under GAAP and, consequently, the REIT recognized a foreign exchange loss of approximately $0.6 million for the nine months ended September 30, 2006.
- In addition, above amounts include unrealized gains and losses on the related party cross-border debt used to finance Chartwell's acquisitions in the United States, and unrealized gains/losses on fluctuations in the redemption value of Series A Interests of Chartwell's US subsidiary and realized gains/losses on Chartwell's holdings of US cash.

Depreciation and Amortization

	For the three months ended			For the nine months ended		
($000's)	**September 30, 2006**	**September 30, 2005**	**Change**	**September 30, 2006**	**September 30, 2005**	**Change**
Depreciation and Amortization	(20,967)	(12,892)	(8,075)	(55,031)	(34,664)	(20,367)

- 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			For the nine months ended		
($000's)	**September 30, 2006**	**September 30, 2005**	**Change**	**September 30, 2006**	**September 30, 2005**	**Change**
Write down of management contracts and customer relationships	(259)	-	(259)	(699)	-	(699)
Write down of properties					(817)	817
	(259)	-	(259)	(699)	(817)	118

- In the third quarter of 2006, the REIT recorded a write down of the carrying values of two management contacts and related customer relationships in the amount of $0.3 million.

- In the nine month period ended September 30, 2006, the REIT recorded a write down of the carrying values of five management contracts and related customer relationships in the amount of $0.7 million. 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 five contracts amount to approximately $0.4 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 second quarter of 2005, the REIT recorded a write down of the carrying value of one property.

Gain on Sale of Assets

($000's)	For the three months ended September 30, 2006	September 30, 2005	Change	For the nine months ended September 30, 2006	September 30, 2005	Change
Gain on sale of assets	296	-	296	396	103	293

As part of the acquisition of the remaining 50% interest in Langley Gardens and Village Square seniors housing facility from its joint venture partner completed in the third quarter of 2006, Chartwell disposed of its 50% interest in the commercial section located on the first floor of this facility. As a result of this transaction, Chartwell now owns 100% interest in the seniors housing facility and its former joint venture partner now owns 100% interest in the commercial property.

The proceeds on sale of the commercial property amounted to approximately $1.3 million and Chartwell recognized a $0.3 million gain on sale.

In the second quarter of 2006, Chartwell sold a parcel of land to Spectrum and Melior for the development of a seniors housing facility. The proceeds on sale amounted to approximately $0.6 million and Chartwell recognized $0.1 million gain on this sale.

Non-Controlling Interest

($000's)	For the three months ended September 30, 2006	September 30, 2005	Change	For the nine months ended September 30, 2006	September 30, 2005	Change
Non-controlling Interest	232	271	(39)	680	708	(28)

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

($000's)	For the three months ended September 30, 2006	September 30, 2005 (restated)	Change	For the nine months ended September 30, 2006	September 30, 2005 (restated)	Change
Net Loss for the period	(2,904)	(2,299)	(605)	(7,792)	(5,702)	(2,090)

Net loss for the three and six months ended September 30, 2006 increased in comparison to the same periods of 2005 primarily due to higher depreciation and amortization expenses, general and administrative expenses, interest expenses, offset by positive contribution from property and management income.

Funds from Operations

The following table provides a reconciliation of Funds from Operations to Net Loss for the three and nine months ended September 30, 2006 and September 30, 2005.

	For the three months ended			For the nine months ended		
($000's except per unit amounts)	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**
Net loss per financial statements	(2,904)	(2,299)	(605)	(7,792)	(5,702)	(2,090)
Add (subtract):						
Depreciation of real estate assets	9,007	5,579	3,428	23,544	14,488	9,056
Amortization of management contracts, resident contracts and customer relationships	11,960	7,313	4,647	31,487	20,176	11,311
Depreciation of leasehold improvements and computer software included in depreciation of real estate assets	(59)	(20)	(39)	(187)	(50)	(137)
Write down of carrying value of assets	259	-	259	699	817	(118)
Gain on sale of assets	(296)	-	(296)	(396)	(103)	(293)
Non-controlling interest	(232)	(271)	39	(680)	(708)	28
Funds from Operations	17,735	10,302	7,433	46,675	28,918	17,757
Funds from Operations per Unit (diluted)	0.25	0.21	0.04	0.74	0.66	0.08
Payout Ratio – FFO	104%	133%	(29%)	108%	123%	(15%)

- FFO increased 72% in the third quarter and 61% in the first nine months of 2006 as compared to the same period of last year due to the 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 $0.04 (19%) in the third quarter as compared to the third quarter of last year due to the growing per Unit contribution from the property portfolio, interest and fee income. FFO in the third quarter of 2005 was negatively impacted by foreign exchange losses (approximately $0.03 per Unit).

- FFO per Unit in the nine month period ended September 30, 2006 increased by $0.08 (12%) due to the items discussed above.

Distributable Income

The following table provides a reconciliation of Distributable Income to Net Loss for the three and nine months ended September 30, 2006 and September 30, 2005.

	For the three months ended			For the nine months ended		
($000's except per unit amounts)	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**
Net Income Loss	(2,904)	(2,299)	(605)	(7,792)	(5,702)	(2,090)
Add back (subtract):						
Depreciation and amortization	20,967	12,892	8,075	55,031	34,664	20,367
Amortization of deferred financing expenses	626	383	243	1,823	1,098	725
Amortization of below market leases	(614)	(412)	(202)	(1,529)	(1,263)	(266)
Amortization of debt premiums, net (1)	(464)	(331)	(133)	(1,307)	(1,031)	(276)
Write down of carrying value of assets	259	-	259	699	817	(118)
Gain on sale of assets	(296)	-	(296)	(396)	(103)	(293)
Principal portion of capital funding receivable	95	67	28	233	152	81
Amounts received under Net Operating Income Guarantees	244	263	(19)	641	1,033	(392)
Contractually receivable management fees, not Included in net income under GAAP	-	2,526	(2,526)	1,288	4,982	(3,694)
Management fees recorded in Net Income under GAAP in the period that were previously recorded in Distributable Income	(635)	(134)	(501)	(1,621)	(484)	(1,137)
Foreign exchange losses(gains) and unrealized losses(gains) on derivative financial instruments	(152)	1,434	(1,586)	600	1,434	(834)
Non-cash compensation expense related to the issuance of Trust Units under the Long-Term Incentive Program	242	-	242	306	-	306
Non-controlling interest	(232)	(271)	39	(680)	(708)	28
Distributable income	17,136	14,118	3,018	47,296	34,889	12,407
Distributable income per unit – basic	0.25	0.29	(0.04)	0.77	0.81	(0.04)
Distributable income per unit – diluted	0.24	0.28	(0.04)	0.75	0.79	(0.04)
Payout Ratio	108%	97%	11%	107%	102%	5%

(1) Includes amortization of debt discounts of $22 and $171 for the three month and nine month periods ended September 30, 2006 and $47 and $150 for the three and nine month periods ended September 30, 2005, respectively.

- Distributable Income increased by $3.0 million (21%) in the third quarter of 2006 and by $12.4 million (36%) in the first nine months of 2006 as compared to the same periods of last year. The increase in DI is due to the REIT's expanded property operations 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 third quarter of 2006, $0.6 million ($1.6 million in the nine month period ended September 30, 2006) of these fees were recorded as revenue in the REIT's financial statements and deducted in the calculation of DI. In the first nine months of 2005, $5.0 million of contractually receivable fees were included in DI, as compared to only $1.3 million of new contractually receivable fees included in DI in the first nine months of 2006.

- DI per Unit in the three and nine months ended September 30, 2006 was lower than the DI per Unit in the same periods of 2005, due to lower fee income contributions and higher general and administrative and interest costs.

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 six months ended September 30, 2006 and September 30, 2005.

	For the three months ended			For the nine months ended		
($000's)	September 30, 2006	September 30, 2005 (restated)	Change	September 30, 2006	September 30, 2005 (restated)	Change
Cash flow from operating activities	18,624	20,513	(1,889)	44,017	42,265	1,752
Add (Subtract):						
Change in non-cash operating items	(963)	(10,170)	9,207	3,566	(13,360)	16,926
Amortization of debt discounts	(22)	(47)	25	(171)	(150)	(21)
Amortization of debt premiums, net	(464)	(331)	(133)	(1,307)	(1,031)	(276)
Principal portion of capital funding receivable	95	67	28	233	152	81
Amounts received under Net Operating Income Guarantees	244	263	(19)	641	1,033	(392)
Contractually receivable management fees, net	(635)	2,392	(3,027)	(333)	4,498	(4,831)
Income/(Loss) from long-term investment net of distributions	256	(3)	259	38	48	(10)
Foreign exchange loss	1	1,434	(1,433)	612	1,434	(822)
Distributable Income	17,136	14,118	3,018	47,296	34,889	12,407

SEGMENTED INFORMATION

The following discussion and analysis provides information on the financial results for each operating segment of the REIT for the three and nine month periods ended September 30, 2006 compared to the three and nine month periods ended September 30, 2005.

Effective September 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 to 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 of the retirement operations segment for the three and nine months ended September 30, 2005, were reduced by $2,421 and $7,050, respectively, and expenses were reduced by $1,579, and $4,762, respectively.

In 2005, the REIT acquired a 50% interest in management operations and in eight seniors housing facilities in the United States. In 2006, the REIT acquired 50% interest in additional 13 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 and nine month periods ended September 30, 2006 and 2005, respectively.

	For the three months ended			For the nine months ended		
$000's	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**	**September 30, 2006**	**September 30, 2005 (restated)**	**Change**
Revenues						
Same Property	33,003	31,241	1,762	97,393	91,731	5,662
Acquisitions	16,591	7,485	9,106	41,203	12,105	29,098
Change in Accounting for VIEs	(2,744)	(2,421)	(323)	(7,928)	(7,050)	(878)
Total Revenues	46,850	36,305	10,545	130,668	96,786	33,882
Expenses						
Same Property	19,838	19,138	700	60,070	56,952	3,118
Acquisitions	10,785	4,422	6,363	26,479	5,993	20,486
Change in Accounting for VIEs	(1,775)	(1,579)	(196)	(5,390)	(4,762)	(628)
Total Expenses	28,848	21,981	6,867	81,159	58,183	22,976
Net Operating Income						
Same Property	13,165	12,103	1,062	37,323	34,779	2,544
Acquisitions	5,806	3,063	2,743	14,724	6,112	8,612
Change in accounting for VIEs	(969)	(842)	(127)	(2,538)	(2,288)	(250)
Total Net Operating Income	18,002	14,324	3,676	49,509	38,603	10,906
Overall Operating Margins	38.4%	39.5%	(1.1%)	37.9%	39.9%	(2.0%)
Same Property Statistics:						
Operating Margins	39.9%	38.7%	1.2%	38.3%	37.9%	0.4%
Weighted Average Occupancy Rate	93.5%	91.9%	1.6%	92.8%	91.8%	1.0%

Same property Net Operating Income increased by approximately $1.1 million (8.8%) and by approximately $2.5 million (7.3%) in the three and nine months ended September 30, 2006 as compared to the same periods of last year, respectively, due to the following:

- Increased occupancies in the same property portfolio.
- 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.
- Implementation of yield management program in the retirement home portfolio to established increased market rates on suite turnover.
- Implementation of cost savings measures at several 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.

- Positive net operating income contributions from additional suites added at 4 of the REIT's properties (204 suites), of which 106 suites were leased at September 30, 2006.

Same property operating margins improved in the three and nine month periods ended September 30, 2006 as compared to the operating margins in the same periods of prior year due to the reasons discussed above.

Acquisitions contributed an additional $2.7 million and $8.6 million of net operating income in the three and nine month periods ended September 30, 2006 from the same periods of last year.

Overall operating margins decreased by 1.1% and 2.0% in the three and nine month periods ended September 30, 2006 as compared to the same periods of the prior year as certain of the acquired properties offer enhanced resident care and service programs. These acquisitions, which generate positive net operating income contribution and accretive yields, generally operate at lower operating margins.

Long-Term Care Operations

The following table represents results of operations and financial position of the long-term care operating segment for the three and nine months ended September 30, 2006 and 2005, respectively.

	For the three months ended			For the nine months ended		
$000's	**September 30, 2006**	**September 30, 2005**	**Change**	**September 30, 2006**	**September 30, 2005**	**Change**
Revenues						
Same Property	11,547	10,599	948	33,736	31,177	2,559
Acquisitions	11,631	5,546	6,085	26,258	7,485	18,773
Total Revenues	23,178	16,145	7,033	59,994	38,662	21,332
Expenses						
Same Property	10,242	9,616	626	30,002	27,840	2,162
Acquisitions	9,893	4,550	5,343	21,969	6,091	15,878
Total Expenses	20,135	14,166	5,969	51,971	33,931	18,040
Net Operating Income						
Same Property	1,305	983	322	3,734	3,337	397
Acquisitions	1,738	996	742	4,289	1,394	2,895
Total Net Operating Income	3,043	1,979	1,064	8,023	4,731	3,292
Overall Operating Margins	13.1%	12.3%	0.8%	13.4%	12.2%	1.2%
Same Property Statistics:						
Operating Margins	11.3%	9.3%	2.0%	11.1%	10.7%	0.4%
Weighted Average Occupancy Rate	96.6%	91.4%	5.2%	96.4%	89.8%	6.6%

Same property net operating income increased by $0.3 million (32.8%) in the third 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.
- Higher preferred accommodation revenue.

Acquisitions completed subsequent to January 1, 2005 resulted in $0.7 million of additional net operating income in the third quarter of 2006, as compared to the same period of last year.

Operating margins in the same property portfolio have increased from 9.3% in the third quarter of 2005 to 11.3% in the third quarter of 2006 primarily due to higher occupancies in 2006 as compared to 2005. This increase in operating margins was partially offset by higher flow-through Health Authorities funding, which although increases revenues, does not contribute incremental net operating income.

In the nine month period ended September 30, 2006, same property net operating income increased by $0.4 million (11.9%) due to the improved occupancies and higher preferred accommodation revenue as discussed above.

U.S. Operations

The following table represents the results of operations and the financial position of the U.S. operating segment for the three and nine months ended September 30, 2006 and 2005, respectively.

	For the three months ended		For the nine months ended	
$000's	**September 30, 2006**	**September 30, 2005**	**September 30, 2006**	**September 30, 2005**
Revenues	16,688	2,762	36,296	2,762
Direct Operating Expenses	10,413	1,583	21,883	1,583
Net Operating Income	6,275	1,179	14,413	1,179
Operating Margins	37.6%	42.7%	39.7%	42.7%
Weighted Average Occupancy Rate(1)	93.4%	94.8%	93.4%	94.8%

(1) Excludes one facility in Michigan, which is currently in lease-up (75% occupied). This facility is subject to an NOI guarantee.

As at September 30, 2006, the U.S. Operations segment includes Chartwell's 50% interest in 21 seniors housing facilities located in Colorado (6 facilities), Florida (4 facilities), Ohio (3 facilities), Michigan (2 facilities), Texas, Rhode Island, Tennessee, Alabama, Oklahoma and Virginia (1 facility in each state), a total of 3,885 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.

US Operations operating margins declined from 42.5% in the first quarter of 2006 to 37.6% in the third quarters of 2006 due to the fact that the properties acquired in the second and third quarter of 2006 include higher service component, which results in lower overall operating margins.

Management Operations

$000's	For the three months ended September 30, 2006	September 30, 2005	Change	For the nine months ended September 30, 2006	September 30, 2005	Change
Revenues	3,252	1,638	1,614	10,654	5,641	5,013
Direct Operating Expenses	961	875	86	2,959	3,009	(50)
Net Operating Income	2,291	763	1,528	7,695	2,632	5,063
Operating Margins	70.4%	46.6%	23.8%	72.2%	46.7%	25.5%

Revenue

$000's	For the three months ended September 30, 2006	September 30, 2005	Change	For the nine months ended September 30, 2006	September 30, 2005	Change
Spectrum:						
Development Management	1,248	809	439	4,152	2,544	1,608
Operations Management	280	93	187	558	348	210
Financing	240	77	163	627	398	229
Other	44	-	44	628	-	628
Total Spectrum	1,812	979	833	5,965	3,290	2,675
Melior	644	149	495	1,744	863	881
ING	238	67	171	1,375	67	1,308
Other	558	443	115	1,570	1,421	149
Total Fee Revenue	3,252	1,638	1,614	10,654	5,641	5,013

Fee revenue increased by $1.6 million (98%) in the third quarter of 2006 as compared to the same period of last year due to the following:

- Higher fee income from Spectrum due to higher level of development activities and larger number of properties in lease-up.
- Higher fee income from Melior due to increased number of development projects in progress.
- Higher due diligence project management and asset management fees from ING due to the increased size of the Chartwell-ING co-owned portfolio.

In the nine month period ended September 30, 2006, fees were higher than in 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 fees 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 being developed by Melior and its joint venture partners.

- Fees from ING include due diligence project management fees on acquisition of thirteen seniors housing facilities in 2006 and asset management fees for Chartwell-ING co-owned portfolio.

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, and Chartwell continues acquiring properties in partnership with ING.

Direct Operating Expenses

Direct operating expenses principally represent allocation of 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 three and nine month periods ended September 30, 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.

($000's, except per unit amounts)	Three Months Ended September 30, 2006 (unaudited)	Three Months Ended June 30, 2006 (unaudited)	Three Months Ended March 31, 2006 (unaudited)	Three Months Ended Dec. 31, 2005 (unaudited)	Three Months Ended September 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)
Revenues	94,728	81,888	73,169	71,712	60,254	49,315	43,347	45,406
Direct Operating Expenses	(60,357)	(51,515)	(46,100)	(46,515)	(38,605)	(30,238)	(27,863)	(27,161)
General, Administrative and Trust Expenses	(4,629)	(4,242)	(3,357)	(3,206)	(2,525)	(2,451)	(1,999)	(2,024)
Income before interest, depreciation and amortization	29,742	26,131	23,712	21,991	19,124	16,626	13,485	16,221
Interest Expense	(12,105)	(10,679)	(9,198)	(8,613)	(7,368)	(5,781)	(5,684)	(6,521)
Foreign Exchange Gains (Losses)	157	(950)	52	(325)	(1,434)	-	-	-
Depreciation and Amortization	(20,967)	(18,138)	(15,926)	(16,268)	(12,892)	(11,003)	(10,769)	(10,671)
Write down of carrying value of assets	(259)	-	(440)	(3,436)	-	-	(817)	(1,159)
Gain on sale of assets	296	100	-	-	-	103	-	-
Non-controlling interest	232	292	157	683	271	(11)	448	196
Net Loss for the period	(2,904)	(3,244)	(1,643)	(5,968)	(2,299)	(66)	(3,337)	(1,934)
FFO	17,735	14,428	14,512	13,038	10,302	10,928	7,791	9,696
FFO per Unit, diluted	0.25	0.23	0.26	0.23	0.21	0.25	0.21	0.26
Distributable Income	17,136	16,271	13,889	15,302	14,118	11,078	9,693	11,145
Distributable Income Per Unit, diluted	0.24	0.25	0.25	0.27	0.28	0.25	0.26	0.30

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 six quarters in order to provide the additional infrastructure required to support the REIT's growth, and increasing professional fees related to regulatory compliance including requirements of Bill 198.

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)	September 30, 2006	December 31, 2005	Change
Properties	1,271,635	957,244	314,391
Mezzanine Loans	97,204	77,436	19,768
Total Assets	**1,557,804**	**1,191,644**	**366,160**
Mortgages Payable	840,999	613,654	227,345
Loans Payable	30,226	32,024	(1,798)
Total Liabilities	939,106	693,911	245,195
Non-controlling Interest	47,864	52,448	(4,584)
Unitholders' Equity	570,834	445,285	125,549
Total Liabilities and Equity	**1,557,804**	**1,191,644**	**366,160**

The increase in total assets in the first nine months of 2006 is principally due to the acquisitions of interests in 28 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 nine months of 2006 due to the financing required to complete acquisitions and due to upward refinancings completed in the period.

Non-controlling interest decreased due to the distributions declared for the Class B Units of the Master LP as well as due to the net loss allocated to the Class B Unitholders.

The increase in Unitholder's Equity in the first nine months of 2006 is due to the completion of public offering of Trust Units in May of 2006. This increase was offset by distributions and allocation of net loss to the REIT Unitholders.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units in the nine month period ended September 30, 2006:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2005	49,218,102	1,475,000	5,429,235	56,122,337
Units issued pursuant to public offering	13,310,000	-	-	13,310,000
Units issued pursuant to dividend reinvestment program	123,441	-	-	123,441
Trust Units issued under the Long-Term Incentive Program	-	657,875	-	657,875
Disposition of Long-term Incentive Program Units under subscription	30,000	(30,000)	-	-
Class B Units of Master LP issued on acquisition of Property	-	-	177,404	177,404
Exchange of Class B Units of Master LP	209,361	-	(209,361)	-
Balance September 30, 2006	**62,890,904**	**2,102,875**	**5,397,278**	**70,391,057**

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at September 30, 2006:

($000's) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2006 remainder	4,645	41,579	46,224	5.94	6.64%
2007	18,594	29,818	48,412	4.26	5.04%
2008	17,828	54,046	71,874	7.72	5.04%
2009	15,503	117,202	132,705	16.74	4.69%
2010	14,167	44,939	59,106	6.42	5.80%
2011	13,337	21,480	34,817	3.07	4.85%
2012	12,885	56,140	69,025	8.02	5.20%
2013	11,038	42,905	53,943	6.13	5.30%
2014	8,869	21,273	30,142	3.04	5.29%
2015	8,218	87,511	95,729	12.50	5.30%
Thereafter	15,810	183,212	199,022	26.16	6.01%
Total	**140,894**	**700,105**	**840,999**	**100.00**	

At September 30, 2006, the average term to maturity for the total mortgage portfolio is approximately 6.4 years (December 31, 2005 – 5.8 years), and the weighted average interest rate is 5.44% (December 31, 2005 – 5.21%). In the first nine months of 2006, Management continued its strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt. To finance acquisitions completed in the third quarter of 2006, the REIT arranged new mortgages totaling approximately $23.7 million with interest rates ranging from 4.72% to 6.68%.

At September 30, 2006, the REIT had $26.2 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 maximum debt leverage permitted by Chartwell's Declaration of Trust is 60% (65% including convertible debentures).

The following table presents the calculation of the debt leverage ratio as at September 30, 2006, including the indebtedness of third parties guaranteed by Chartwell:

($000's)	
Mortgages payable	840,999
Loans payable	30,226
Deferred consideration on acquisition of properties	4,208
	875,433
Guarantees	69,112
Indebtedness	944,545
Total Assets	1,557,804
Accumulated depreciation and amortization	135,563
Gross Book Value of Assets	1,693,367
Debt/GBV	55.8%

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 $71 million. This would allow the REIT to acquire approximately $179 million of new assets.

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 $90.0 million. As of September 30, 2006, the REIT had a borrowing capacity of approximately $69.3 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 June 27, 2007. The term may be extended with the consent of the lenders for an additional 364 day period.

The REIT's distributions for the nine months ended September 30, 2006 exceeded its distributable income by approximately $3.2 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 September 30, 2006 were as follows:

($000's)	Total	2006	2007	2008	2009	2010	Thereafter
Mortgages Payable	840,999	46,225	48,412	71,874	132,705	59,106	482,677
Loans Payable	30,226	30,226					
Operating Leases	8,907	274	931	957	957	1,003	4,785
Land Rent	6,962	32	126	126	126	126	6,426
Mezzanine Loan Funding Obligations	26,026	26,026					
Purchase Obligations	571,662	524,906	13,941	11,096	12,061	2,762	6,896
Total Contractual Obligations	1,484,782	627,689	63,410	84,053	145,849	62,997	500,784

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:

- The REIT has agreed to acquire varying interests in 20 seniors housing facilities and a 49% leased interest in 26 other facilities for approximately $538.8 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. Based on the current property performance, Chartwell estimated that approximately $2.5 million of this contingent consideration was payable at September 30, 2006 and is included in Accounts Payable and other Liabilities in its financial statements.

    - $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. At September 30, 2006, Chartwell's 50% share of the remaining obligation amounted to $2.2 million (U.S. $1.9 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.

- 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.

• Deferred purchase consideration of $1.2 million related to the acquisition of a retirement home in Newfoundland, due each anniversary date starting on July 31, 2007 upon conversion of certain apartment units into seniors housing units.

• Deferred purchase price of $0.52 million in respect of suite conversions at the facility acquired in the second quarter of 2006, payable between the third and seventh anniversary date of closing.

• Commitments of approximately $18.2 million with respect to various construction contracts that are related to the REIT's internal growth projects.

• Commitments with respect to fixed contracts of $1.0 million for the purchase of natural gas.

<u>Guarantees</u>

At September 30, 2006, Chartwell remains as a guarantor on the debt of two properties to a maximum of $22.9 million. As at September 30, 2006, $20.0 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 September 30, 2006, Chartwell remains as a guarantor of the debt of one managed property to a maximum of $3.1 million, with an outstanding balance of $3.1 million. The borrower has indemnified Chartwell with respect to this guarantee.

In addition, Chartwell and its joint venture partners, provided joint and several guarantees of the debt of 8 co-owned properties. These properties are proportionately consolidated in Chartwell's financial statements and, therefore, Chartwell's 50% share of the properties' debt is reflected in the financial statements. The maximum amount of guarantees at 50% share amounts to $50.0 million with $46.0 million outstanding at September 30, 2006. Chartwell's joint venture partners indemnify Chartwell with respect to these guarantees.

In the opinion of management, at September 30, 2006 the value of each of these properties exceeds the respective total amount of debt outstanding.

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

   (c) For as long as Chartwell 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 September 30, 2006 Chartwell was committed to issue an additional 512,125 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 September 30, 2006:

($000's)	Three months ended September 30, 2006
Building improvements and additions	6,576
Acquisitions related capital expenditures	-
Long-Term Replacement Items	299
Furniture, Fixtures and Equipment	933
Other	672
	8,480

Cash Flows

The following table summarizes Chartwell's cash flows for the three and nine months ended September 30, 2006 and 2005:

	Three months ended		Nine months ended	
($000's)	September 30, 2006	September 30, 2005 (restated)	September 30, 2006	September 30, 2005 (restated)
Cash provided by (used in):				
Operating Activities	18,625	20,513	44,018	42,265
Financing Activities	33,272	231,972	298,352	287,551
Investing Activities	(88,318)	(219,221)	(348,816)	(289,336)
Foreign exchange gain(loss) on U.S. dollar denominated cash	678	(7)	4,361	(7)
Increase (decrease) in cash and cash equivalents	(35,743)	33,257	(2,085)	40,473

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the REIT enters into transactions with various related parties. The following is a summary of significant related party transactions for the three and nine months ended September 30, 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 September 30, 2006, mezzanine loans receivable from Spectrum amounted to approximately $47.1 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 36 seniors' housing development properties.

During the three and nine month periods ended September 30, 2006, Chartwell REIT earned mezzanine loan interest of approximately $1.4 million and $3.8 million, respectively from Spectrum. During the three and nine month periods ended September 30, 2006, Chartwell REIT earned development management, operations management, financing and other fees of approximately $1.8 million and $6.0 million, respectively from Spectrum.

Other assets as of September 30, 2006 include approximately $4.0 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to September 30, 2006, approximately $0.9 million of this balance was paid.

Included in distributions payable at September 30, 2006 is $0.2 million due to Spectrum.

In the nine month period ended September 30, 2006, Chartwell sold to Spectrum and Melior a parcel of land for the development of a senior's housing facility for approximately $0.6 million.

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. 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.

Melior and Other Spectrum Partners

As of September 30, 2006, the REIT had mezzanine loans receivable of approximately $50.1 million from six of Spectrum's joint venture partners (including approximately $38.0 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 21 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 and nine month periods ended September 30, 2006, the REIT earned interest income of approximately $1.1 million and $3.0 million, respectively, and fees of approximately $0.6 million and $1.7 million, respectively from Melior.

In the three and nine month periods ended September 30, 2006, Chartwell paid to Melior referral fees of approximately $0.4 million and $2.1 million, respectively, related to acquisitions of properties in the Province of Quebec.

During the three month period ended September 30, 2006, Chartwell paid to Melior fees of approximately $0.2 million related to the expansion of L'Oasis St. Jean Retirement Home in St. Jean – Sur Richelieu, Quebec.

Accounts receivable and other assets at September 30, 2006 included approximately $1.1 million due from Melior and deferred revenue includes $3.8 million from Melior. Subsequent to September 30, 2006, approximately $0.8 million of outstanding amounts due from Melior were collected.

Other

Included in mortgages payable at September 30, 2006 is a vendor-take-back mortgage of approximately $2.7 million due to an officer of Chartwell REIT.

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

Subsequent to September 30, 2006 Chartwell REIT completed the acquisition of one seniors housing facility for a purchase price of $52.4 million (including a finder's fee payable to an unrelated party of $1.0 million) from a third party.

Subsequent to September 30, 2006, Chartwell REIT advanced mezzanine loans of $1.0 million to Spectrum and its joint venture partners for development of one seniors housing facility.

In order to fund the equity requirements of committed acquisitions, internal growth projects, committed mezzanine loan advances and other corporate cash requirements subsequent to September 30, 2006, the REIT issued a Prospectus in which it agreed to issue 10,750,000 Trust Units at $14.00 per unit and $125,000 of 5.75% unsecured convertible debentures maturing on December 1, 2011 to a syndicate of underwriters on a bought-deal basis (the "Offering")

On October 31, 2006, after Chartwell REIT filed the Prospectus, the Minister of Finance (Canada) announced proposed changes to the taxation of income trusts for Canadian federal income tax purposes (the "Proposals"). Under the Proposals certain income trusts would pay tax on certain distributions to unitholders (not including "returns of capital") at a rate equal to the current federal corporate tax rate, plus an additional 13%. The Proposals provide that certain distributions will be taxed in the hands of unitholders as though they were dividends from a taxable Canadian corporation. Income Trusts whose units were publicly traded prior to November 1, 2006 will be provided a transition period under the Proposals until 2011, subject to meeting certain conditions. During the transition period, existing Income Trusts will generally not be subject to the taxes that are proposed.

Chartwell has reviewed the Proposals and determined that as it is currently structured and based on its present location of assets and sources of income, it may be subject to the new tax on distributions.

As a result of the announcement by the Minister of Finance (Canada), the REIT amended its Offering effective November 6, 2006 resulting in a delay in the expected closing of the Offering.

Should there be further delays in the closing of the Offering, or should the Offering not proceed, management will pursue alternative sources of financing in order for Chartwell REIT to meet its funding commitments as outlined in the Contractual Obligations section.

The Government of Ontario, on October 3, 2006, introduced new legislation which if passed, will consolidate the three pieces of existing legislation currently governing the LTC Facilities (the "Proposed Act"). The Government has indicated that it intends for the Proposed Act to become law by the end of 2006 or early 2007. Aspects of the Proposed Act which could affect the REIT's LTC Facilities include the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications and the granting of temporary licenses to be based on a home's structural classification that will be issued for a maximum of 15 years. In addition, there will be a notice given three years before the end of the term of a license as to whether a new license will be issued.

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. In the nine month period ended September 30, 2006, Chartwell completed acquisitions of interests in 28 properties for an aggregate purchase price of approximately $367.0 million. Including acquisitions completed subsequent to September 30, 2006 and announced acquisitions expected to be completed in the fourth quarter of 2006, the REIT will exceed its 2006 acquisitions targets.

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 this MD&A, in 2005 and 2006, Chartwell completed six internal growth projects adding 204 new suites to its portfolio. Four of these projects, two repositioned properties, one 42 suite addition and one 17 suite addition achieved stabilized occupancies by September 30, 2006. We anticipate that the remaining new suites will achieve stabilized occupancy in 2006/2007.

There are five new internal growth projects presently in various stages of development:

- 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 $13.8 million, of which $10.4 million is expected to be financed by construction debt. The construction is expected to be completed in the fourth quarter.

- 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 $10.0 million of which $7.7 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.

- A 23 suite addition to Hartford Retirement Centre in Morrisburg, Ontario. The estimated construction costs are $5.9 million of which $5.5 million is expected to be financed with a construction loan. The construction is expected to be completed in the second quarter of 2007.

- A 30 suite addition to Collegiate Heights Retirement Residence in Sault Ste Marie in Ontario. The estimated construction costs are $6.0 million, of which $4.8 million is expected to be financed by a construction loan. The construction is expected to be completed early in 2008.

- 131 suite addition to Residence Ste-Marthe in St. Hyacinthe, Quebec. The estimated construction costs are $14.5 million of which $10.6 million is expected to be financed by a construction loan. Construction is expected to be completed early in 2008.

Development

Chartwell's strong relationships with seniors housing developers are providing an expanding pipeline of opportunities to acquire new and fully stabilized properties, 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 2006, we acquired seven properties in Ontario from Spectrum. At September 30, 2006, Spectrum, Melior and their joint venture partners had over 5,000 suites under development or in lease-up across Canada. 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 September 30, 2006, Chartwell's portfolio of managed suites included over 9,300 suites in over 68 facilities owned by Spectrum, Melior and other third parties. Chartwell also provides asset management and due diligence project 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 six month period ended September 30, 2005 resulting from this change.

Correction of an Error

At September 30, 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 $60,516 and accumulated amortization of $3,227 as at September 30, 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 September 30, 2006, total assets were reduced by $879 (December 31, 2005 - $1,047), with the corresponding reduction in liabilities. Revenue and expenses for the three and nine month periods ended September 30, 2006 were reduced by $1,774 and $5,390, respectively.

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. The CICA also released section 1530, other Comprehensive Income which defines “comprehensive income“ as the overall change in the net assets of an entity for a period, other than changes attributable to transactions with owners. The CICA also released an amendment to section 3865, Hedges to allow an entity to use a different method to assess effectiveness and calculate ineffectiveness of a Hedge. Management is in the process of assessing the impact of these new and amended standards on the REIT’s consolidated financial statements.

In addition, management is currently considering the future accounting impact of the proposed changes to the way that income trusts will be taxed, as disclosed in the Announcement of Tax Proposal section.

Management is also currently considering the future accounting impact of the Proposed Act governing long term care facilities in Ontario, which, among other things, contemplates the granting of licenses for fixed terms up to 25 years.

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 six months ended September 30, 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) As noted above, the Minister of Finance (Canada) announced proposed changes to the taxation of income trusts, including certain REITs. Until such rules are released in legislative form and passed into law it is uncertain what the final impact of such rules will be to Chartwell and its Unitholders. For example, the Proposals may impact the future level of cash distributions made by Chartwell and, among other things, there can be no assurance that Chartwell will be able to maintain the current level of distributions and the current portion of distributions that is treated as a non-taxable return of capital.

The Proposals indicate that they will apply to income trusts, the units of which were publicly-traded before November, 2006, beginning with the 2011 taxation year of the trust. However, the Proposals also provide that the application date of 2011 is subject to the possible need to foreclose inappropriate new avoidance techniques. The Proposals provide, as an example, that, while there is now no intention to prevent existing income trusts from normal growth prior to 2011, any undue expansion of an existing income trust (such as might be attempted through the insertion of a disproportionately large amount of capital) could cause this to be revisited. There can be no assurance that offerings of Units or other securities by Chartwell would not be considered to be an undue expansion of Chartwell within the meaning contemplated in the Proposals.

The ability of Chartwell to continue to acquire new seniors facilities without attracting an earlier application of the Proposals may be uncertain; the expected effect of such taxation on Chartwell's existing distributions may be uncertain. Further, the effect of the Proposals on the market for Chartwell's Units and other securities, and income trust units generally, and the ability of Chartwell to finance future acquisitions through the issue of Units or other securities is uncertain.

(c) **Geographic Concentration**: A substantial portion of the business and operations of the REIT is conducted in Ontario and Quebec, which represents 40% and 26% of the total number of suites, respectively. 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.

(d) **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.

(e) **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 19,500 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.

(f) **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.

Currently, the LTC Facilities are operated pursuant to the Nursing Homes Act, the Charitable Institutions Act or Homes for the Aged and Rest Homes Act. The Government of Ontario on October 3, 2006 introduced the Proposed Act which if passed, will consolidate the three pieces of legislation currently governing the LTC Facilities. The Government has indicated that it intends for the Proposed Act to become law by the end of 2006 or early 2007. Aspects of the Proposed Act which could affect the REIT's LTC Facilities include: new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of temporary licenses to be based on a home's structural classification that will be issued for a maximum of 15 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in facilities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of facility staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes. In addition, there will be a notice given three years before the end of the term of a license as to whether a new license will be issued.

(g) **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.

(h) **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.

(i) **U.S./Canadian Exchange Rate Fluctuations**: The REIT has interests in, and may acquire further interests in, seniors housing facilities located in the United States. The REIT will therefore be subject to foreign currency fluctuations which may, from time to time, have an impact upon its financial position and results. The REIT intends to enter into hedging arrangements to mitigate a portion of this risk, however, there can be no assurance that hedging agreements, if any, entered into by the REIT to mitigate the potential impact of exchange rate fluctuations on Canadian dollar distributions will be sufficient to protect against currency rate losses.

(j) **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.

(k) **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.

(l) **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.

(m) **Labour Relations**: Chartwell REIT, directly and indirectly, employs or supervises approximately over 7,100 persons, of whom approximately 50% 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.