



**MANAGEMENT DISCUSSION AND ANALYSIS**

**FIRST QUARTER REPORT – MARCH 31, 2007**

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**MANAGEMENT DISCUSSION AND ANALYSIS OF  
RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS**

For the Three Months Ended March 31, 2007

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Chartwell Seniors Housing Real Estate Investment Trust (“Chartwell” or the “Trust”) has prepared the following discussion and analysis (the “MD&A”) to provide information to assist its Unitholders’ understanding of the financial results for the three months ended March 31, 2007. This MD&A should be read in conjunction with Chartwell’s unaudited consolidated financial statements for the three months ended March 31, 2007, and the notes thereto. This material is available on Chartwell’s website at [www.chartwellreit.ca](http://www.chartwellreit.ca). Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of May 9, 2007.

### **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 Chartwell 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 Chartwell’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; matters affecting trading prices of convertible debentures; credit risk and prior ranking indebtedness; absence of covenant protection; and tax, including changes to tax laws. There can be no assurance that the expectations of management of Chartwell will prove to be correct. See “Risk Factors”. Subject to applicable law, Chartwell does not undertake any obligation to publicly update or revise any forward-looking statements.

### **BUSINESS OVERVIEW**

Chartwell commenced operations on November 14, 2003 following the completion of its initial public offering. Chartwell 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. Chartwell indirectly owns and manages a portfolio of seniors housing communities across the complete spectrum of care from independent living communities (“IL Communities”), through retirement homes (“Retirement Homes”) to long-term care communities (“LTC Communities”), which are located in Canada and the United States. All references to

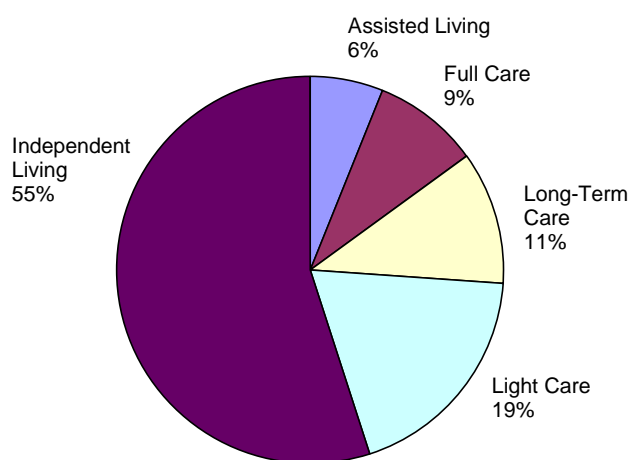
“Chartwell” or “Trust”, unless the context indicates otherwise, refer to the Trust and its subsidiaries. For ease of reference “Chartwell” and “the Trust” are used in reference to ownership of seniors housing communities and the operation of the seniors housing communities and the development management business. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust. As of March 31, 2007, Chartwell’s portfolio of seniors housing communities owned or managed on behalf of others consisted of interests in 32,855 suites in 232 communities which are operating, under construction or in various stages of development. Chartwell’s portfolio of owned and leased communities consisted of interests in 23,621 suites in 167 communities. 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 Chartwell’s owned and managed portfolio of seniors housing communities in its four operating segments at March 31, 2007:

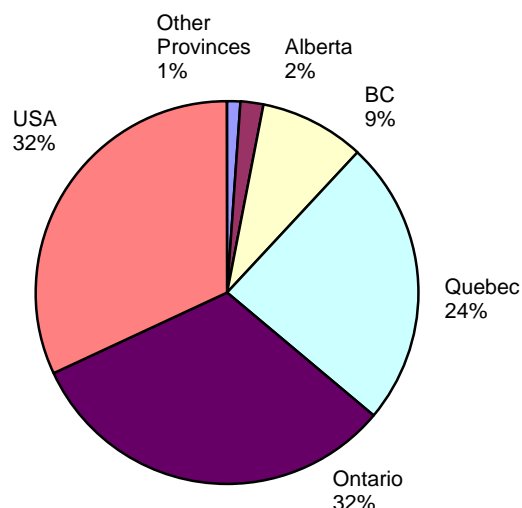
	Retirement Operations	Long-Term Care Operations	United States Operations	Management Operations	Total
Communities	97 <sup>(1)(2)(3)(5)</sup>	18 <sup>(1)</sup>	52 <sup>(4)(6)</sup>	65 <sup>(2)</sup>	232
Suites/Beds	10,975	2,120	10,526	9,234	32,855

- (1) Where a community 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 communities under development.
- (3) Includes 9 communities (1,475 suites) where Chartwell owns a 50% interest and 1 community (53 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 26 communities (4,639 suites), a 100% interest in 1 community (256 suites), and a 49% leased interest in 25 communities (5,631 suites).
- (5) Includes 271 suites under development at 5 existing communities.
- (6) Includes 98 suites under development at one existing community 50% owned by Chartwell.

**Composition of Portfolio of Owned, Leased and Managed Suites by Level of Care at March 31, 2007**



**Composition of Portfolio of Owned, Leased and Managed Suites by Geographical Location at March 31, 2007**



Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development program carried out by Spectrum Seniors Housing Development LP (“Spectrum”), a development entity in which certain of the Trust’s Senior Executives own a controlling interest. Chartwell provides mezzanine financing to Spectrum and to certain of Spectrum’s joint venture partners for the development of seniors housing communities. In return, Chartwell has the ability to purchase Spectrum’s interest in such communities, when stabilized at a discount to the appraised value. Stabilization occurs when a community has had an average resident occupancy rate of 90% or greater for the three preceding 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 communities 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 communities. Chartwell has a right to purchase these communities 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 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 strategic financial partner in acquisitions of seniors housing communities in the United States of America. At March 31, 2007, Chartwell and ING each held a 50% interest in CSH-INGRE LLC, which owned 26 seniors housing communities (4,639 suites) in the United States.

In the first quarter of 2007, Chartwell acquired a 49% interest in WHSLH LLC, which, through its subsidiaries, owns leased interests in 25 seniors housing communities (5,631 suites). The company changed its name to Horizon Bay Realty LLC (“HB Realty”) in January 2007. In addition, one of its subsidiaries – Horizon Bay Management LLC (“HBM”) - owns long-term management contracts for these 25 communities and a 50% interest in Horizon Bay Chartwell LLC (“HBC”), a manager for Chartwell properties in the United States. The remaining 50% interest in HBC is owned directly by Chartwell.

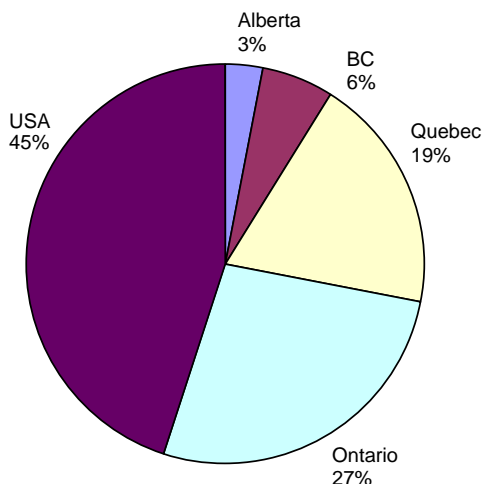
**Owned and Leased Property Portfolio**

The following table summarizes the composition of Chartwell’s real estate portfolio of owned and leased communities as at March 31, 2007 and March 31, 2006:

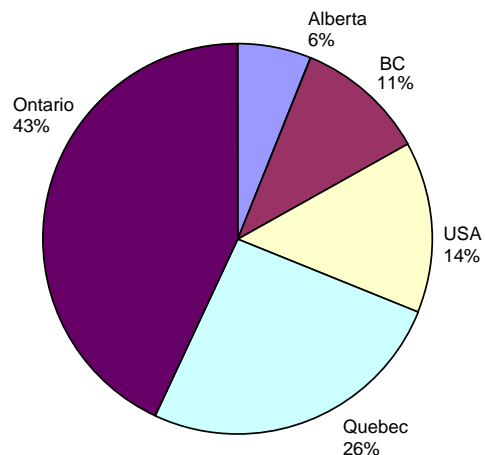
	March 31, 2007 <sup>(1)(3)</sup>	March 31, 2006 <sup>(2)</sup>
Number of suites	23,621	10,681
Number of communities	167	97

- (1) Includes 35 communities (6,114 suites) in which Chartwell holds a 50% interest, and 1 community (53 suites) in which Chartwell holds a 39% interest, and 25 communities (5,631 suites) in which Chartwell holds a 49% leased interest.
- (2) Includes 18 communities (3,053 suites) in which Chartwell holds a 50% interest and 1 community (55 suites) in which Chartwell owns a 39% interest.
- (3) Includes 369 suites under development at 6 existing communities.

**Composition of Portfolio of Owned and Leased Suites by Geographical Location at March 31, 2007**



**Composition of Portfolio of Owned and Leased Suites by Geographical Location at March 31, 2006**



## **SIGNIFICANT EVENTS**

The following events have had a significant effect on the financial results of Chartwell for the three months ended March 31, 2007.

### **Acquisitions**

The following table summarizes acquisitions completed in the first quarter of 2007:

(\$000's)	Q1, 2007
# Communities	36 <sup>(1)</sup>
# Suites	6,935
Purchase price (including closing costs)	304,080
Financed as follows:	
Assumption of mortgages payable	52,552
Other assumed liabilities, net	3,553
Discharge of mezzanine loan receivable	1,688
Issuance of Class B Units of Chartwell Master Care LP	10,145
Issuance of Class B Common Units of a subsidiary of CSH-INGRE LLC	663
Deferred consideration on acquisitions of properties	39,886
New mortgage financing	101,101
Cash	94,492
<b>Total</b>	<b>304,080</b>

(1) Includes 50% interest in five communities (640 suites) in the United States and a 49% leased interest in 25 other communities (5,631 suites). Also includes one community (85 suites) acquired from Spectrum.

## Acquisitions Completed in the First Quarter of 2007

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1-25	HB Realty <sup>(1)</sup>	US (various locations)	Retirement	January 1, 2007	5,631
26.	Bankside Terrace	Kitchener, ON	Retirement	February 1, 2007	91
27.	Queens Square Terrace	Cambridge, ON	Retirement	February 1, 2007	83
28.	Terrace on the Square	Waterloo, ON	Retirement	February 1, 2007	92
29.	Wellington Park Terrace	Guelph, ON	Retirement	February 1, 2007	116
30.	The Bristol at East Meadow <sup>(2)</sup>	East Meadow, NY	Retirement	February 21, 2007	121
31.	The Bristol at Westbury <sup>(2)</sup>	Westberg, NY	Retirement	February 21, 2007	140
32.	The Bristol at North Hill <sup>(2)</sup>	North Hills, NY	Retirement	February 21, 2007	141
33.	The Bristol at North Woodmere <sup>(2)</sup>	North Woodmere, NY	Retirement	February 21, 2007	118
34.	The Bristol at Massapequa <sup>(2)</sup>	Massapequa, NY	Retirement	February 21, 2007	120
35.	Trilogy LTC Residence	Scarborough, ON	Long-term care	February 23, 2007	197
36.	Conservatory Pond Retirement Residence <sup>(3)</sup>	Kingston, ON	Retirement	March 29, 2007	85
					<b>6,935</b>

(1) Chartwell acquired a 49% leased interest and related management contracts for these communities.

(2) Chartwell acquired a 50% interest in these communities.

(3) This community was acquired from Spectrum.

## 2006 Acquisitions

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1	Chateau Cornwall <sup>(3)</sup>	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 <sup>(1)</sup>	Memphis, TN	Retirement	May 11, 2006	176
7.	Town Village Sterling Heights <sup>(1)</sup>	Sterling Heights, MI	Retirement	May 11, 2006	222
8.	Town Village Vestavia Hills <sup>(1)</sup>	Birmingham, AL	Retirement	May 11, 2006	198
9.	Town Village Tulsa <sup>(1)</sup>	Tulsa, OK	Retirement	May 11, 2006	222
10.	Bella Vila <sup>(1)</sup>	Venice, FL	Retirement	May 15, 2006	115
11.	Gayton Terrance <sup>(1)</sup>	Richmond, VA	Retirement	May 15, 2006	100
12.	Village at Lowry <sup>(1)</sup>	Denver, CO	Retirement	May 15, 2006	169
13.	Waterford <sup>(1)</sup>	Dayton, OH	Retirement	May 15, 2006	110
14.	Willowwood <sup>(1)</sup>	Ft. Lauderdale, FL	Retirement	May 15, 2006	278
15.	Woodside Village <sup>(1)</sup>	Bedford, OH	Retirement	May 15, 2006	220
16.	Wyndham Lakes <sup>(1)</sup>	Jacksonville, FL	Retirement	May 15, 2006	248
17.	Amberpark <sup>(1)</sup>	Cincinnati, OH	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 <sup>(2)</sup>	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 <sup>(1)</sup>	Lakewood, FL	Retirement	August 15, 2006	170
28.	Manoir Kirkland	Kirkland, QC	Retirement	September 15, 2006	191
29.	Heritage Glen	Mississauga, ON	Retirement	November 1, 2006	323
30.	Domaine Bellerive	Montreal, QB	Retirement	November 9, 2006	810
31.	Van Horne Manor	Smith Falls, ON	Retirement	November 16, 2006	58
32.	Southwind <sup>(3)</sup>	Sudbury, ON	Retirement	November 22, 2006	79

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
33.	Empress	Kanata, ON	Retirement	November 29, 2006	90
34.	Hampton House	Chilliwack, BC	Retirement	December 14, 2006	98
35.	Oak Park <sup>(3)</sup>	LaSalle, ON	Retirement	December 14, 2006	113
36.	Peninsula <sup>(1)(3)</sup>	White Rock, BC	Retirement	December 28, 2006	127
37.	Treemont	Dallas, TX	Retirement	December 27, 2006	256
					<b>5,720</b>

- (1) Chartwell acquired a 50% interest in these communities.  
(2) Chartwell previously owned 50% interest in these communities and now acquired the remaining 50% interest from its joint venture partner.  
(3) These communities were acquired from Spectrum and, where applicable, its joint venture partners.

### **Internal Growth Initiatives**

At March 31, 2007, Chartwell had six internal growth projects representing 369 suites in various stages of development (refer to the Outlook section of this MD&A).

Chartwell completed the following internal growth projects over the last two years:

Project	Location	Suites	Total Cost (\$million)	Debt (\$million)	Construction Completion	Leased Units March 31, 2007
<b>2006 Projects</b>						
New Edinburgh Square	Ottawa, ON	16	\$ 3.6	\$ 1.0	Q1, 2006	16
L'Oasis	St. Jean, QC	86	14.5	10.4	Q4, 2006	51
Marquis de Tracy II, Ph II <sup>(1)</sup>	Sorel, QC	72	10.0	7.7	Q4, 2006	14
Total		174	\$ 28.1	\$ 19.1		81
<b>2005 Projects</b>						
Le Monastre Aylmer Ph IV <sup>(1)</sup>	Aylmer, QC	86	\$ 15.0	\$ 11.8	Q4, 2005	43
Residence Principale <sup>(1)</sup>	Cowansville, QC	59	7.9	6.1	Q4, 2005	21
Notre Dame de Hull <sup>(1)</sup>	Hull, QC	40	4.3	3.6	Q2, 2005	40
Gibson LTC	Toronto, ON	N/A <sup>(2)</sup>	3.0	2.4	Q3, 2005	N/A <sup>(2)</sup>
Devonsire Residence	Windsor, ON	N/A <sup>(2)</sup>	2.5	1.1	Q2, 2005	N/A <sup>(2)</sup>
Total		185	\$ 32.7	\$ 25.0		104

- (1) Chartwell owns a 50 % interest in these properties  
(2) Repositioning – no new units added

### **Mezzanine Loans**

At March 31, 2007 Chartwell had \$103.5 million of mezzanine loans outstanding. In the first quarter of 2007, Chartwell advanced mezzanine loans totaling approximately \$3.9 million to Spectrum, Melior and their joint venture partners. One mezzanine loan in amount of approximately \$1.7 million was repaid on the acquisition of Conservatory Pond Retirement Residence from Spectrum in the first quarter of 2007.

At December 31, 2006, Chartwell had \$101.3 million of mezzanine loans advanced to Spectrum, Melior and their joint venture partners. The total advances completed in 2006 amounted to \$30.1 million with \$6.3 million of mezzanine loans being discharged on acquisition by Chartwell of interests in four communities.



## **Offerings of Trust Units and Convertible Debentures in 2006**

On November 28, 2006 Chartwell completed a public offering of Trust Units and convertible debentures placement (“November Offering”). Chartwell issued 4.2 million units at \$13.60 per unit and \$125.0 million of convertible subordinated unsecured debentures, bearing a 6% coupon, \$15.60 conversion price and maturing on December 1, 2011. Simultaneously with the public offering, the Trust also completed a \$100.0 million private placement of its units at \$13.60 per unit. The net proceeds from the November Offering and the private placement of approximately \$273.0 million after the payment of issue related costs of approximately \$9.5 million were used to repay the amounts outstanding under the Trust’s credit facilities, to finance certain acquisitions, to advance certain mezzanine loans and for general business purposes.

On May 9, 2006, Chartwell 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 Trust’s credit facilities, to finance certain acquisitions, to advance certain mezzanine loans and for general business purposes.

## **KEY PERFORMANCE MEASURES**

Chartwell 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 income trusts or 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, Chartwell 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 Chartwell and making comparisons of the Trust’s operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing Chartwell’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 Trust’s real estate portfolio between financial reporting periods or for comparison to other real estate investment trusts.

In addition to presenting FFO in accordance with the definition adopted by REALPAC, Chartwell also discloses FFO excluding the effect of recording operating lease expense on a straight line basis to allow for better comparability to prior periods.

The tables presented under the Summary Results of Operations section of this MD&A provide a reconciliation of FFO to net income, as reported on Chartwell's consolidated financial statements.

### **Adjusted Funds from Operations**

Adjusted Funds from Operations ("AFFO") is a non-GAAP measure, which management believes is useful in the assessment of the sustainable operating performance of Chartwell. This measure is also useful for valuation purposes. The following table summarizes the adjustments that we make in our calculation of AFFO:

<b>FFO</b>	<b>As Defined by REALPAC</b>
Add/Deduct	
Straight line adjustment to lease expense	GAAP requires that operating lease expenses be recognized over the term of related leases using the straight line method. Generally, lease payments increase over time to account for inflation. As the corresponding inflationary revenue increases will only be realized in the future, we adjust for this non-cash expense in AFFO calculations.
Amortization of below market leases	This non-cash item increases GAAP revenue and is commonly adjusted in AFFO calculations.
Principal portion of capital subsidy receivable	This item represents a portion of the long-term (maximum 20-year) cash flow stream provided by Ontario Ministry of Health to communities which meet certain design criteria. We include this item in AFFO calculations.
Amounts received under net operating income guarantees	This item represents cash flow received from vendors of acquired communities. It is generally applicable to facilities in lease-up.
Amortization of debt mark to market adjustments and amortization of financing costs	Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.
Financing cost reserve	In order to account for financing costs routinely incurred on re-financing of existing debt, we included this reserve in the calculation of AFFO. We calculate this reserve based on our estimate of normalized costs of re-financing (60 basis points) applied to the debt balances outstanding at the end of the reporting period taking into account weighted average term to maturity of our portfolio.
Unrealized foreign exchange gains and losses and losses on derivative financial instruments	These non-cash items are commonly adjusted for in AFFO calculations
Equals AFFO before capital maintenance reserve	
Less capital maintenance reserve	Estimated at 2% of resident revenue
<b>Equals AFFO</b>	

AFFO is not a GAAP measure and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by GAAP. AFFO as presented may not be comparable to similar measures presented by other companies.

The tables presented under the Summary Results of Operations section of this MD&A provide details of AFFO calculations.

### **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

Chartwell'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 one of the relevant measures of the ability of Chartwell 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 Chartwell 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 to the extent not already included in computing net income;
- Up to 100% of the principal portion of the capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for long-term care communities;
- Amounts received 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 the issuance of Trust Units under the 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 impact of recording operating lease expense on a straight line basis.

Effective January 1, 2007 the Board of Trustees amended the definition of DI to exclude the impact of straight lining of lease expense. The tables presented under the Summary Results of Operations section of this MD&A provide the calculation of DI.

The tables presented under the Summary Results of Operations – Distributable Income section of this MD&A provide the reconciliation of DI to net loss and cash flows from operating activities.

### **Distribution Payout Ratio**

The distribution payout ratio is calculated as the distributions declared for the period divided by FFO, DI or AFFO for the same period. Chartwell'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.

### **Same Property Performance**

The Trust evaluates its financial performance by analyzing a same property portfolio. In this MD&A, same property statistics refer to 75 retirement, 10 long-term care, and 8 US retirement communities that Chartwell continuously owned since January 1, 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**

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

## **SUMMARY RESULTS OF OPERATIONS**

The following table presents a summary of selected operating performance measures for the three months ended March 31, 2007 as compared to the same period of the prior year:

(\$000's, except per unit amounts)	For the three months ended March 31		
	2007	2006	Change
Property revenue	128,868	65,688	63,180
Total revenues	138,342	73,169	65,173
Net loss	(9,130)	(1,643)	(7,487)
Distributions declared	21,995	14,783	7,212
Distributions declared per unit	0.27	0.27	-
FFO (Note 1)	13,914	14,512	(598)
FFO per unit:			-
Basic	0.17	0.27	(0.10)
Diluted (Note 1)	0.17	0.26	(0.09)
AFFO	15,005	12,847	2,158
AFFO per unit			
Basic	0.19	0.24	(0.05)
Diluted	0.18	0.23	(0.05)
Payout ratio - FFO (Note 1)	158%	102%	56%
Payout ratio - AFFO	147%	115%	32%
Weighted average number of units including Class B Units of Chartwell Master Care LP:			
Basic	80,908,159	54,663,635	26,244,524
Diluted - LTIP	83,353,488	56,138,635	27,214,853
Diluted - LTIP and convertible debentures	91,364,076	56,138,635	35,225,441
<b>Note 1</b>			
FFO, excluding effects of recording operating lease expense on a straight line basis	16,265	14,512	1,753
FFO per unit (diluted), excluding effects of recording operating lease expense on a straight line basis	0.20	0.26	(0.06)

Please refer to the Funds from Operations section of this MD&A for the reconciliation of FFO to net income.

Please refer to the Adjusted Funds from Operations section of this MD&A for the reconciliation of AFFO to cash flow from operating activities.

## **Revenues**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Property revenue	128,868	65,688	63,180
Mezzanine loan interest	3,357	2,308	1,049
Fees	3,866	3,974	(108)
Other income	2,251	1,199	1,052
Total revenues	138,342	73,169	65,173

Total revenues, in the first quarter of 2007, increased by 89% as compared to the same period of last year as Chartwell 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 March 31		
	2007	2006	Change
Same property <sup>(1)</sup>	69,307	66,401	2,906
Acquisitions <sup>(1)</sup>	55,742	826	54,916
Foreign exchange on US dollar revenue	6,696	1,007	5,689
Equity accounted VIEs	(2,877)	(2,546)	(331)
Total property revenue	128,868	65,688	63,180
Weighted average occupancy same property portfolio	92.8%	93.1%	(0.3%)
Weighted average occupancy same property portfolio excluding internal growth suites	94.3%	93.1%	1.2%

(1) Excluding effect of foreign exchange on US dollar revenue

Total property revenue increased by 96% in the first quarter of 2007, as compared to the same period of the prior year due to contributions from acquisitions completed subsequent to January 1, 2006, and same property revenue growth. Same property revenue increased by approximately \$2.9 million (4.4%) in the first quarter of 2007, as compared to the same period of prior year due to the following:

- Implementation of yield management programs in the Canadian retirement home portfolio to establish increased market rates on suite turnover.
- Regular annual rent increases and the addition of new services for residents at some of Chartwell's communities.
- Contributions from the additions of 359 suites at six of Chartwell's communities of which 185 suites were leased at March 31, 2007.

Seven operating companies co-owned with Melior in the Province of Quebec, which are structured to lease the respective communities from the co-owners, are VIEs. 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. Operating results of these communities are included in the same property portfolio for presentation purposes.

Weighted average occupancy in the same property portfolio declined from 93.1% in the first quarter of 2006 to 92.8% in the first quarter of 2007 primarily due to the addition of 359 suites at six of Chartwell's existing properties, which did not achieve stabilized occupancy in 2007. Excluding these suites weighted average occupancy has increased by approximately 1%.

## Mezzanine Loan Interest

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Gross mezzanine loan balances outstanding (end of the period)	103,546	83,347	20,199
Fees and costs recorded as a reduction against mezzanine loan balances <sup>(1)</sup>	(4,736)	-	(4,736)
Net mezzanine loan receivable	98,810	83,347	15,463
Mezzanine loan interest based on gross loan balances	2,850	2,308	542
Effective yield adjustments for fees and costs integral to lending activities <sup>(1)</sup>	507	-	507
	3,357	2,308	1,049

- (1) Effective January 1, 2007, in accordance with the adoption of Section 3855, Financial Instruments – Recognition and Measurement, certain fees earned under the terms of various agreements with Melior and others, which are considered integral to Chartwell's lending activities have been recorded as a reduction against mezzanine loan receivable and the balance is being accreted to the principal amount using the effective interest rate method. Previously these fees had been recorded separately as deferred revenue and recognized as fee revenue over the estimated term of the mezzanine loan using the effective interest method. In addition, costs associated with the origination of these mezzanine loans have been recorded as an increase against the applicable mezzanine loan receivable and are amortized in accordance with the effective interest rate method, whereby the amount recognized varies over the life of the loan based on principal outstanding. In prior years, costs associated with origination of these mezzanine loans were deferred and recorded in other assets and were amortized to general, administrative and trust expenses on a straight line basis over the estimated terms of the related mezzanine loans.

Mezzanine loan interest increased in the three month period ended March 31, 2007 as compared to the same period of 2006 due to the higher loan balances outstanding.

## Fees

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Spectrum	1,578	2,769	(1,191)
Melior	552	563	(11)
ING	1,968	100	1,868
Other	457	542	(85)
	4,555	3,974	581
Fees related to lending activities recorded as yield adjustments to mezzanine loan interest income	(689)	-	(689)
	3,866	3,974	(108)

In the first quarter of 2007, fee revenue before adjustments increased by \$0.6 million (15%) due to higher due diligence project management fees earned from ING on the acquisition of the Bristol portfolio and higher asset management fees from ING due to the increased size of the CSH-INGRE LLC portfolio. These higher fees were offset by lower fees from Spectrum primarily due to the fact that the 2006 results included \$1.0 million of fees related to 14 existing Spectrum projects as a result of cumulative increases in project costs and adjustments to fees charged in order to conform with the requirements of the Development Agreement with Spectrum. Prior period results also included \$0.5 million of fees related to a \$17.5 million equity raise completed by Spectrum in 2005.

## **Bank Interest and Other**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Bank interest and other income	1,370	545	825
Equity accounted VIEs	881	654	227
	<u>2,251</u>	<u>1,199</u>	<u>1,052</u>

Increase in other income is primarily due to the higher interest income earned on Chartwell's cash balances, and the higher miscellaneous income resulting from the increased size of the Trust.

## **Direct Operating Expenses**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Same property <sup>(1)</sup>	48,247	45,868	2,379
Acquisitions <sup>(1)</sup>	37,685	652	37,033
Foreign exchange on US dollar expenses	4,272	473	3,799
Equity accounted VIEs	(1,996)	(1,892)	(104)
Total direct operating expenses – properties <sup>(1)</sup>	<u>88,208</u>	<u>45,101</u>	<u>43,107</u>
Direct operating expenses – management operations	1,058	999	59
Total direct operating expenses	<u>89,266</u>	<u>46,100</u>	<u>43,166</u>

(1) Excluding effect of foreign exchange on US same property portfolio

Total direct operating expenses increased by 94% in the first quarter of 2007 as compared to the same period of the prior year primarily due to contributions from acquisitions completed subsequent to January 1, 2006.

Same property operating expenses increased by approximately \$2.4 million (5.2%) in the first quarter of 2007, as compared to the same period of the prior year due to the following:

- Costs of new services provided to residents at certain of Chartwell's communities which were more than offset by new revenues generated by these services.
- Completion of building additions at six of Chartwell's communities (359 suites) in 2005 and 2006, of which 185 suites were leased as of March 31, 2007.
- Inflationary increases in expenses, and higher utility costs.

## **Lease Expense**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Contractual lease expense for the period	10,036	-	10,036
Adjustment to record lease expense on a straight line basis over the lease term	2,351	-	2,351
Total lease expense	<u>12,387</u>	<u>-</u>	<u>12,387</u>

On January 1, 2007, as part of its acquisition of HB Realty, Chartwell acquired a 49% leased interest in 25 seniors housing communities in the United States. In 2007, annual lease



payments will amount to approximately US \$70.8 million, subject to adjustments pursuant to the lease agreement, and are expected to grow at approximately 3.35% per annum over the remaining 12-year term of the lease.

Chartwell accounts for this lease expense on a straight line basis averaging the total lease expense over the remaining term of the lease.

### **General, Administrative and Trust Expenses**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
General, administrative and trust expenses	5,116	3,357	1,759
Less: legal cost related to mezzanine lending activities recorded as adjustments to mezzanine loan interest income	(182)	-	(182)
General, administrative and trust expenses as reported	4,934	3,357	1,577
As % of total revenue	3.7%	4.6%	0.9%

General, administrative and trust expenses increased by approximately 52% in the first quarter of 2007 as compared to the same period of the prior year as Chartwell continued creating sufficient head office infrastructure throughout 2006 and in the first quarter of 2007 in order to support its current and future growth.

General, administrative and trust expenses in the first quarter of 2007 included the following costs that are not expected to be recurring:

- Costs of approximately \$0.2 million related to potential acquisitions which Chartwell decided not to pursue further
- Costs of approximately \$0.5 million related to the work of the Board special committees and their advisors

As a percentage of total revenue, general, administrative and trust expenses decreased from 4.6% in the first quarter of 2006 to 3.7% in the first quarter of 2007 primarily due to significant growth in total revenues.

Management anticipates that general, administrative and trust expenses will continue to increase incrementally in 2007 in order to support future growth of the company. However, we anticipate that general, administrative and trust expenses as percentage of revenue will remain at the current levels.

## **Interest Expense**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Interest expense on mortgages and loans payable	14,341	9,090	(5,251)
Interest expense on convertible debentures	1,863	-	(1,863)
Interest expense on operating credit facility	19	0	(19)
	16,223	9,090	(7,133)
Accretion adjustment to convertible debenture liability	284	-	(284)
Amortization of debt mark to market adjustments	(441)	(438)	3
Amortization of financing costs	1,076	546	(530)
	17,142	9,198	(7,944)

The increase in interest expense is consistent with the growth in Chartwell's debt portfolio as mortgages payable increased from approximately \$632.0 million at March 31, 2006 to approximately \$1,130 million at March 31, 2007.

In addition, Chartwell had approximately \$125 million of 6% subordinated convertible debentures outstanding throughout the first quarter of 2007.

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

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Gains (Losses)	(626)	52	678

Foreign exchange gains and losses primarily relate to holdings of US dollar denominated cash and cross-border debt instruments used to finance acquisitions of properties in the United States. In addition, from time to time Chartwell enters into forward foreign exchange contracts in order to hedge acquisition prices for US properties. When these contracts do not qualify for hedge accounting, gains and losses on these contracts are recorded in income.

## **Depreciation and Amortization**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Depreciation and amortization	23,847	15,926	(7,921)

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

## **Write-down of the Carrying Value of Assets**

(\$000's)	For the three months ended March 31		
	2007	2006	Change
Write down of management contracts and customer relationships	-	(440)	440

In the first quarter of 2006, Chartwell recorded a write down in the carrying values of seven management contracts and related customer relationships in the amount of \$0.4 million, due to internalization of management or sale of the properties by the owners.

### **Non-Controlling Interest**

(\$000's)	For the three months ended March 31		Change
	2007	2006	
Non-controlling interest	730	157	(573)

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 Chartwell.

### **Net Loss**

(\$000's)	For the three months ended March 31		Change
	2007	2006	
Net loss for the period	(9,130)	(1,643)	(7,487)

Net loss for the three months ended March 31, 2007 increased in comparison to the same period of 2006 primarily due to higher depreciation and amortization expenses; general, administrative and trust expenses; interest and lease 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 months ended March 31, 2007 and March 31, 2006:

(\$000's except per unit amounts)	For the three months ended March 31		Change
	2007	2006	
Net loss per financial statements	(9,130)	(1,643)	(7,487)
Add (Subtract):			
Depreciation of real estate assets	11,840	6,961	4,879
Amortization of management contracts, resident contracts and customer relationships	12,007	8,965	3,042
Depreciation of leasehold improvements included in depreciation of real estate assets	(73)	(54)	(19)
Gain on sale of assets	-	-	-
Write down of carrying value of assets	-	440	(440)
Non-controlling interest	(730)	(157)	(573)
Funds from operations (Note 1)	13,914	14,512	(598)
Funds from operations per unit			
Basic	0.17	0.27	(0.10)
Diluted	0.17	0.26	(0.09)
Payout ratio - FFO	158%	102%	56%
<b>Note 1</b>			
FFO, excluding effects of recording operating lease expense on a straight line basis	16,265	14,512	1,753
FFO per unit (diluted), excluding effects of recording operating lease expense on a straight line basis	0.20	0.26	(0.06)

In the first quarter of 2007, funds from operations were negatively impacted by the following:

- Loss for FFO purposes of approximately \$3.5 million from our 49% interest in the 25 seniors housing communities leased by HB Realty. This loss is primarily a result of a straight line adjustment of the facility lease expense of \$2.4 million and a deferral of community fee revenue received from residents in the amount of approximately \$1.2 million. In addition, HB Realty results were impacted by lower than expected contribution from its management operations, primarily due to higher operating expenses incurred in order to provide appropriate infrastructure to support growth in our US portfolio.
- Delays in completion of the acquisition of the Bristol portfolio, and the resulting dilution from the Trust Units issued pursuant to the November Offering. This acquisition closed on February 21, 2007.
- Certain of the communities acquired in the fourth quarter of 2006 and the first quarter of 2007 remain in lease-up and therefore, are not yet producing anticipated returns. The lease-up and the repositioning programs are progressing well and we expect that contribution from these communities will increase over the remainder of the year.
- Unrealized foreign exchange loss of approximately \$0.6 million.
- Write-off of approximately \$0.2 million of costs related to potential acquisitions that Chartwell decided not to pursue further and \$0.5 million of costs related to the work of the Board's special committees and their advisors.

## Adjusted Funds from Operations

The following table provides the calculation of AFFO for the three months ended March 31, 2007 and March 31, 2006:

(\$000's except per unit amounts)	For the three months ended March 31		
	2007	2006	Change
<b>FFO</b>	13,914	14,512	(598)
Adjustment to record lease expense on a straight line basis over the lease term	2,351	-	2,351
Amortization of below market leases	(413)	(405)	(8)
Principal portion of capital subsidy receivable from Health Authorities	147	68	79
Amounts received under net operating income guarantees	244	247	(3)
Amortization of deferred financing fees	1,077	546	531
Amortization of debt mark-to-market adjustments	(157)	(438)	281
Deferred financing fee reserve (Note 1)	(207)	(163)	(44)
Unrealized foreign exchange and derivative (gains)/losses	626	(206)	832
AFFO before Capex reserve	17,582	14,161	3,421
Maintenance Capex reserve - 2% of property revenue	(2,577)	(1,314)	(1,263)
<b>AFFO<sup>(1)</sup></b>	<b>15,005</b>	<b>12,847</b>	<b>2,158</b>
AFFO per unit			
Basic	0.19	0.24	(0.05)
Diluted	0.18	0.23	(0.04)
AFFO payout ratio	147%	115%	33%
<b>Note 1</b>			
Mortgages payable at the end of the period	(1,143,720)	(631,966)	
Weighted average term to maturity	8.3	5.8	
Reserve applied	0.60%	0.60%	
Quarterly deferred financing fee reserve	207	163	

(1) Refer to Key Performance Indicators – Adjusted Funds from Operations section of this MD&A for discussion of the nature of various adjustments made in AFFO calculations.

In the first quarter of 2007, AFFO was negatively impacted by lower than expected results of HB Realty, delays in completion of certain acquisitions, lower contribution from certain lease-up and repositioning properties acquired over the last six months, the write-off of certain costs related to acquisition activities, and costs related to activities of the Board's special committees, as described under the Funds from Operations section of this MD&A.

## Distributable Income

In the first quarter of 2007, Chartwell's DI increased by 29% as compared to the same period of the prior year. On a per unit basis, however, DI decreased from \$0.25 in the first quarter of 2006 to \$0.21 in the first quarter of 2007.

Chartwell's distributions in the first quarter of 2007 exceeded its distributable income by approximately \$4.1 million. These excess distributions were financed from Chartwell's credit facilities. Although distributions exceeded distributable income in 2005, 2006 and in the first quarter of 2007, Chartwell chose to maintain a consistent level of distributions, as it believes that, by continuing execution of its acquisition, development and internal growth strategies, Chartwell will generate sufficient cash flow from its activities to maintain its current level of distributions in the future.

The following table provides a reconciliation of DI to net loss for the three months ended March 31, 2007 and March 31, 2006.

(\$000's except per unit amounts)	For the three months ended March 31		
	2007	2006	Change
Net income loss	(9,130)	(1,643)	(7,487)
Add back (subtract):			
Depreciation and amortization	23,847	15,926	7,921
Amortization of deferred financing expenses	1,077	546	531
Amortization of below market leases	(413)	(405)	(8)
Amortization of debt premiums, net <sup>(1)</sup>	(157)	(438)	281
Write down of carrying value of assets	-	440	(440)
Principal portion of capital funding receivable	147	68	79
Amounts received under net operating income guarantees	244	247	(3)
Contractually receivable management fees, not included in net income under GAAP	479	-	479
Management fees recorded in net income under GAAP in the period that were previously recorded in distributable income	(677)	(521)	(156)
Foreign exchange loss and losses on derivative financial instruments	626	(206)	832
Non-cash compensation expense related to the issuance of Trust Units under the Long-Term Incentive Program	253	32	221
Adjustment to record lease expense on a straight line basis over the lease term	2,351	-	2,351
Non-controlling interest	(730)	(157)	(573)
Distributable income	<u>17,917</u>	<u>13,889</u>	<u>4,028</u>
Distributable income per unit – basic	0.22	0.25	(0.03)
Distributable income per unit – diluted	0.21	0.25	(0.04)
DI payout ratio	123%	106%	(17%)

The following table provides a reconciliation of DI to cash flow from operating activities:

(\$000's except per unit amounts)	For the three months ended March 31		
	2007	2006	Change
Cash flow from operating activities	(12,169)	9,462	(21,631)
Add (Subtract):			
Change in non-cash operating items	27,590	5,096	22,494
Adjustment to record lease expense on a straight line basis over the lease term	2,351	-	2,351
Amortization of debt discounts	40	(73)	113
Amortization of debt premiums, net	(157)	(438)	281
Principal portion of capital funding receivable	242	68	174
Amounts received under net operating income guarantees	244	247	(3)
Contractually receivable management fees, net	(198)	(521)	323
Other	(26)	48	(74)
Distributable income	17,917	13,889	4,028

### **Retirement Operations**

The following table presents the results of operations and financial position of the retirement operations segment of Chartwell for the three month period ended March 31, 2007 and 2006, respectively.

\$000's	For the three months ended March 31		
	2007	2006	Change
Revenues			
Same property	45,221	42,963	2,258
Acquisitions	14,841	343	14,498
Equity accounted VIEs	(2,877)	(2,546)	(331)
Total revenues	57,185	40,760	16,425
Expenses			
Same property	28,803	27,418	1,385
Acquisitions	9,079	273	8,806
Equity accounted VIEs	(1,996)	(1,892)	(104)
Total expenses	35,886	25,799	10,087
Net operating income			
Same property	16,418	15,545	873
Acquisitions	5,792	70	5,692
Equity accounted VIEs	(881)	(654)	(227)
Total net operating income	21,299	14,961	6,338
Overall operating margins	37.2%	36.7%	0.5%
Same property statistics:			
Operating margins	36.3%	36.2%	0.1%
Weighted average occupancy rate	92.3%	93.0%	-0.7%
Weighted average occupancy rate excluding internal growth suites	94.2%	93.0%	1.2%

Same property net operating income increased by approximately \$0.9 million (5.6%) in the first quarter of 2007 as compared to the first quarter of the prior year due to the following:

- Regular annual rent increases between 2-3%.
- Implementation of yield management programs in the retirement home portfolio to establish 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 of approximately \$0.3 million from additional suites added at six of Chartwell's communities representing 359 suites, of which 185 suites were leased at March 31, 2007.

Same property operating margins increased in the first quarter of 2007 as compared to the operating margins in the prior year primarily due to the items discussed above.

Weighted average occupancy rates in the same property portfolio declined slightly from 93.0% in the first quarter of the prior year to 92.3% in the first quarter of 2007 primarily due to internal growth projects that are still in lease-up. Excluding these lease-up suites, weighted average occupancy has increased by approximately 1%.

Acquisitions contributed an additional \$5.8 million of net operating income in the first quarter of 2007.

### **Long-Term Care Operations**

The following table represents results of operations and financial position of the long-term care operating segment for the three months ended March 31, 2007 and 2006, respectively.

<b>\$000's</b>	<b>For the three months ended March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Revenues			
Same property	17,421	16,949	472
Acquisitions	8,408	483	7,925
Total revenues	25,829	17,432	8,397
Expenses			
Same property	15,447	14,612	835
Acquisitions	7,621	379	7,242
Total expenses	23,068	14,991	8,077
Net operating income			
Same property	1,974	2,337	(363)
Acquisitions	787	104	683
Total net operating income	2,761	2,441	320
Overall operating margins	10.7%	14.0%	-3.3%
Same property statistics:			
Operating margins	11.3%	13.8%	-2.5%
Weighted average occupancy rate	97.3%	95.7%	1.6%



Same property net operating income decreased by \$0.4 million (15.5%) primarily due to the following:

- Higher utility cost.
- Higher food costs due to the prior period inventory adjustments of approximately \$0.1 million.
- Overspending of approximately \$0.1 million in the nursing envelopes due to the timing of revenue increases. These expenses are expected to be fully funded by the end of the second quarter due to announced increases in the government funding effective April 1, 2007.

Acquisitions completed subsequent to January 1, 2006 added in \$0.8 million of additional net operating income in the first quarter of 2007.

Operating margins in the same property portfolio have decreased from 13.8% in the first quarter of 2006 to 11.3% in the first quarter of 2007 due to higher operating expenses 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 months ended March 31, 2007 and 2006, respectively.

<b>\$000's</b>	<b>For the three months ended March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
<b>Revenues</b>			
Same property	6,665	6,489	176
Acquisitions	32,493	-	32,493
Total in US\$	39,158	6,489	32,669
Foreign exchange	6,696	1,007	5,689
Total revenues	45,854	7,496	38,358
<b>Expenses</b>			
Same property	3,997	3,838	159
Acquisitions	20,985	-	20,985
Total in US\$	24,982	3,838	21,144
Foreign exchange	4,272	473	3,799
Total expenses	29,254	4,311	24,943
<b>Net operating income before lease expenses</b>			
Same property	2,668	2,651	17
Acquisitions	11,508	-	11,508
Total in US\$	14,176	2,651	11,525
Foreign exchange	2,424	534	1,890
Total net operating income before lease expenses	16,600	3,185	13,415
Overall operating margins	36.2%	42.5%	(6.3%)
<b>Same property statistics:</b>			
Operating margins	40.0%	40.9%	-0.9%
Weighted average occupancy rate	92.4%	91.8%	0.6%

As at March 31, 2007, the U.S. Operations segment includes Chartwell's 50% interest in 26 seniors housing communities, 100% in one community, a 49% leased interest in 25

communities and a 49% interest in related management contracts. In addition, the results of U.S. Operations include Chartwell's effective 74.5% interest in Horizon Bay Chartwell LLC ("HBC"), a property manager for the 50%-owned (26) and 100%-owned (1) communities.

Same property portfolio consists of Chartwell's 50% interest in six communities acquired in August of 2005 ("Meridian portfolio") and two communities acquired in October of 2005 ("Pocasset and Trowbridge").

Same property revenue increased by approximately 2.7% in the first quarter of 2007 as compared to the same period of the prior year. The increase is primarily attributable to the increase in occupancies from 91.8% to 92.4%, and annual regular rent increases. These increases were partially offset by the lower community fees and ancillary services revenue.

Same property net operating income in the first quarter of 2007 was in line with the net operating income in the first quarter of the prior year as the above growth in revenue was offset by a 4.1% increase in operating expenses.

Acquisitions completed subsequent to January 1, 2006 added US \$11.5 million of additional net operating income in the first quarter of 2007.

Overall operating margins decreased from 42.5% in the first quarter of 2006 to 36.2% in the first quarter of 2007, as properties acquired subsequent to January 1, 2006 provide higher levels of care and services to its residents and therefore operate at lower overall margins.

### **Management Operations**

<b>\$000's</b>	<b>For the three months ended March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Revenues	3,866	3,974	(108)
Direct operating expenses	1,058	999	59
Net operating income	2,808	2,975	(167)
Operating margins	72.6%	74.9%	(2.3%)

### **Revenues**

<b>\$000's</b>	<b>For the three months ended March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Spectrum:			
Development management	1,104	1,918	(814)
Operations management	338	129	209
Financing	-	171	(171)
Other	136	551	(415)
Total Spectrum	1,578	2,769	(1,191)
Melior	552	563	(11)
ING	1,968	100	1,868
Other	457	542	(85)
Fees related to the lending activities recorded as yield adjustments to Mezzanine Loan Interest Income	(689)	-	(689)
Total fee revenue	3,866	3,974	(108)

Fee revenue from Spectrum decreased in the first quarter of 2006 as compared to the same period of the prior year primarily due to the inclusion in 2006 results of approximately \$1.0 million of development fees related to increased project costs on existing projects and \$0.5 million of fees for assistance provided to Spectrum in completion of a \$17.5 million equity raise. Excluding these fees, income from Spectrum increased in the first quarter of 2007 as compared to the same period of the prior year by approximately \$0.3 million primarily due to the higher operations management fees.

Fees from ING were also higher in the first quarter of 2007 as compared to the same period of the prior year due to the following:

- Chartwell earned approximately \$1.7 million of due diligence project management fees in the quarter on the acquisition of the Bristol portfolio.
- Asset management fees from ING were also higher due to the increased size of the co-owned property portfolio.

### **Direct Operating Expenses**

Direct operating expenses principally represent the 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 remained relatively stable in the three month period ended March 31, 2007 as compared to the same period of the prior year as total fee revenue remained stable.

## QUARTERLY FINANCIAL INFORMATION

The following table summarizes Chartwell's quarterly financial information:

(\$000's, except per unit amounts)	Three Months Ended March 31, 2007 (unaudited)	Three Months Ended December 31, 2006 (unaudited)	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 (unaudited)	Three Months Ended June 30, 2005 (unaudited)
Revenues	138,342	100,790	94,728	81,888	73,169	71,712	60,254	49,315
Direct operating expenses	(89,266)	(68,094)	(60,357)	(51,515)	(46,100)	(46,515)	(38,605)	(30,238)
Facility lease expenses	(12,387)	-	-	-	-	-	-	-
General, administrative and trust expenses	(4,934)	(4,590)	(4,629)	(4,242)	(3,357)	(3,206)	(2,525)	(2,451)
Income before interest, depreciation and amortization	31,755	28,106	29,742	26,131	23,712	21,991	19,124	16,626
Interest expense	(17,142)	(15,061)	(12,105)	(10,679)	(9,198)	(8,613)	(7,368)	(5,781)
Foreign exchange gains (losses)	(626)	615	157	(950)	52	(325)	(1,434)	-
Depreciation and amortization	(23,847)	(20,979)	(20,967)	(18,138)	(15,926)	(16,268)	(12,892)	(11,003)
Write down of carrying value of assets	-	(159)	(259)	-	(440)	(3,436)	-	-
Gain on sale of assets	-	-	296	100	-	-	-	103
Non-controlling interest	730	572	232	292	157	683	271	(11)
Net loss for the period	(9,130)	(6,906)	(2,904)	(3,244)	(1,643)	(5,968)	(2,299)	(66)
FFO	13,194	13,574	17,735	14,428	14,512	13,038	10,302	10,928
FFO per unit, diluted	0.17	0.18	0.25	0.23	0.26	0.23	0.21	0.25

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

General, administrative and trust expenses have increased in the past seven quarters in order to provide the additional infrastructure required to support Chartwell's growth, and increased professional fees related to regulatory compliance including the requirements of Bill 198.

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

## FINANCIAL POSITION

(\$000's)	March 31, 2007	December 31, 2006	Change
Properties	1,740,821	1,510,209	230,612
Mezzanine loans	98,810	101,290	(2,480)
<b>Total assets</b>	<b>2,145,901</b>	<b>1,977,750</b>	<b>168,151</b>
Mortgages payable	1,129,534	987,046	142,488
Debt component of convertible debentures	116,048	120,115	(4,067)
Loans payable	2,901	2,303	598
<b>Total liabilities</b>	<b>1,404,728</b>	<b>1,215,794</b>	<b>188,934</b>
Non-controlling interest	60,445	54,453	5,992
Unitholders' equity	680,729	707,503	(26,774)
<b>Total liabilities and equity</b>	<b>2,145,901</b>	<b>1,977,750</b>	<b>168,151</b>

The increase in total assets in the first three months of 2007 is principally due to the acquisitions of new seniors housing communities, offset by depreciation and amortization charges.

Mortgages payable increased in the first quarter of 2007 due to the financings required to complete acquisitions.

The decrease in Unitholder's equity in 2007 is due to distributions and allocation of the net loss for the period to the Trust's Unitholders.

## Outstanding Units Data

The following table summarizes changes in the number of outstanding units in the first quarter of 2007:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2006	74,576,539	2,070,375	6,001,659	82,648,573
Trust Units issued pursuant to dividend reinvestment program	59,928	-	-	59,928
Conversion of convertible debentures	4,807	-	-	4,807
Trust Units issued under the Long-Term Incentive Program	-	557,875	-	557,875
Disposition of Long-term Incentive Program units under subscription	20,000	(20,000)	-	-
Class B Units of Master LP issued on acquisition of property	-	-	696,758	696,758
Exchange of Class B Units of Master LP	180,404	-	(180,404)	-
<b>Balance March 31, 2007</b>	<b>74,841,678</b>	<b>2,608,250</b>	<b>6,518,013</b>	<b>83,967,941</b>

## **Mortgage Debt**

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at March 31, 2007:

<b>((\$000's))</b>	<b>Regular Principal Payments</b>	<b>Principal Due at Maturity</b>	<b>Total</b>	<b>% of Total Maturing Debt</b>	<b>Weighted Average Interest Rate of Maturing Debt</b>
<b>Year</b>					
<b>2007</b>	17,565	37,602	55,167	4.2%	5.68%
<b>2008</b>	23,249	50,571	73,820	5.7%	4.97%
<b>2009</b>	21,232	103,176	124,408	11.6%	4.77%
<b>2010</b>	20,601	57,413	78,014	6.4%	5.45%
<b>2011</b>	20,760	26,808	47,568	3.0%	4.83%
<b>2012</b>	20,237	69,044	89,281	7.7%	4.99%
<b>2013</b>	18,590	58,388	76,978	6.5%	5.11%
<b>2014</b>	15,963	35,152	51,115	3.9%	5.82%
<b>2015</b>	15,357	89,893	105,250	10.1%	5.35%
<b>2016</b>	11,976	177,356	189,332	19.9%	6.05%
<b>2017-2021</b>	37,951	147,502	185,453	16.5%	5.86%
<b>Thereafter</b>	27,986	39,348	67,334	4.4%	4.68%
<b>Total</b>	<b>251,467</b>	<b>892,253</b>	<b>1,143,720</b>	<b>100%</b>	
Less: financing costs			(14,186)		
<b>Total</b>			<b>1,129,534</b>		

At March 31, 2007, the average term to maturity for the total mortgage portfolio was approximately 8.3 years (December 31, 2006 – 7.0 years), and the weighted average interest rate was 5.4% (December 31, 2006 – 5.4%). In the first quarter of 2007, Management continued its strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt, and was able to achieve a significant increase in the average term to maturity without an increase in weighted average interest rates.

At March 31, 2007, Chartwell had approximately \$25.2 million of variable rate mortgage debt. This debt primarily relates to internal growth projects and communities in lease-up. Chartwell anticipates it will convert these loans into permanent fixed rate debt upon completion of the internal growth projects and the stabilization of the communities in lease-up.

## **Convertible Debentures**

At March 31, 2007 Chartwell had \$124.9 million of convertible unsecured subordinated debentures (“convertible debentures”) outstanding. The convertible debentures bear interest at an annual rate of 6.0% payable semiannually in arrears. The convertible debentures are convertible into Trust Units at a conversion price of \$15.60 per unit. The convertible debentures mature on December 1, 2011.

## **Debt Leverage**

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 March 31, 2007, including the indebtedness of third parties guaranteed by Chartwell:

(\$000's)	March 31, 2007
Mortgages payable	1,129,534
Loans payable	2,901
Guarantees	66,696
Deferred consideration on acquisition of properties	67,160
<b>Total indebtedness before convertible debentures</b>	<b>1,266,291</b>
Convertible debentures (face value)	124,925
<b>Indebtedness</b>	<b>1,391,216</b>
Total assets	2,145,901
Accumulated depreciation and amortization	173,528
<b>Gross book value of assets</b>	<b>2,319,429</b>
Debt/GBV before convertible debentures	54.6%
<b>Debt/GBV including convertible debentures</b>	<b>60.0%</b>

If all deferred consideration on acquisition of properties were excluded from the indebtedness and the gross book value of assets, the debt leverage ratio as of March 31, 2007 would have been 53.2% (58.8% including convertible debentures). Chartwell will seek permission from Unitholders to adjust the definition of indebtedness and the gross book value of assets at the upcoming Annual General Meeting to exclude deferred consideration related to the acquisition of properties. If Chartwell excludes these amounts from its debt ratio calculation, it would not have to “pre-fund” these amounts, which would alleviate the dilutive effect of having excess cash on Chartwell’s balance sheet.

If Chartwell were to increase its borrowing to the maximum 60% (or 65% including convertible debentures) allowed under its existing Declaration of Trust, it would increase its available cash by approximately \$125 million. This would allow Chartwell to acquire approximately \$313 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, Chartwell has arranged for a secured revolving operating facility of up to \$90.0 million. As of March 31, 2007, Chartwell had a borrowing capacity of approximately \$63.9 million based on available security. Amounts outstanding under the secured revolving operating facility bear interest at the bank’s prime rate plus 0.65% and are secured by first and second charges on specific communities. 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.

Chartwell also raises funds through the capital markets and mortgage debt financing.

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**

Chartwell's major contractual obligations as at March 31, 2007 were as follows:

<b>(\$000's)</b>	<b>Total</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Thereafter</b>
Mortgages payable	1,129,534	55,167	73,820	124,408	78,014	47,568	750,557
Loans payable	2,901	2,901	-	-	-	-	-
Purchase obligations	754,367	716,746	9,565	7,742	8,893	2,446	8,975
Property operating leases	602,569	39,995	41,504	42,895	44,332	45,817	388,026
Other operating leases	7,932	713	957	957	1,004	974	3,329
Mezzanine loan funding obligations	38,647	38,647	-	-	-	-	-
Land rent	6,899	95	126	126	126	126	6,300
<b>Total contractual obligations</b>	<b>2,542,849</b>	<b>854,263</b>	<b>125,973</b>	<b>176,128</b>	<b>132,369</b>	<b>96,931</b>	<b>1,157,188</b>

Purchase obligations relate to the following:

- Commitments with respect to the acquisition of interests in 36 seniors housing communities and management contracts for a total purchase price of approximately \$669.8 million
- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately \$67.2 million payable generally on the earlier of the maturity date or the property achieving certain operating results as defined in the respective purchase and sale agreements
- Purchase obligations with respect to previously closed acquisitions in amount of approximately \$9.6 million payment of which is contingent upon the property achieving certain operating results as defined in the respective purchase and sale agreements
- Commitments with respect to various construction contracts of approximately \$7.3 million
- Commitments with respect to fixed contracts for the purchase of natural gas of approximately \$0.5 million

Property operating leases relates to leases on the 25 seniors housing communities in which Chartwell holds a 49% interest.

Other operating leases relate to the agreements entered into by Chartwell for office space in Ontario and British Columbia.

Mezzanine loan funding obligations relate to approved loans to Spectrum and other parties to fund the development and lease-up of 18 retirement communities in Quebec, 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 approximately \$0.1 million



## **Guarantees**

<b>Guarantee</b>	<b>Maximum Amount</b>	<b>Obligation Outstanding on March 31, 2007</b>	
Spectrum	23,850	17,575	(1)
Maxwell Residence	3,100	3,100	(2)
Joint and several guarantees on the co-owned properties	51,045	46,022	(3)
<b>Total</b>	<b>77,995</b>	<b>66,697</b>	

- (1) Chartwell remains as a guarantor of the debt of two properties that it sold to Spectrum in 2005. Spectrum has indemnified Chartwell with respect to these guarantees.
- (2) Chartwell remains as a guarantor of the debt of this managed property. The borrower has indemnified Chartwell with respect to this guarantee.
- (3) Chartwell and its joint venture partners provided joint and several guarantees of the debt of eight 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. Chartwell's joint venture partners indemnify Chartwell with respect to these guarantees.

In the opinion of management, the value of each of these properties exceeds the respective total amount of debt outstanding at March 31, 2007.

## **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 and Melior each own a 50% interest in CM.
- (ii) 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 to Melior 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.
- (iii) 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 achieving certain operating targets. Chartwell owns an effective 74.5% interest in Horizon Bay Chartwell LLC.

## 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 Chartwell's properties and include additions of new suites, conversion of suites and capital expenditures incurred in order to introduce new services to residents.
- Acquisition related capital expenditures – capital expenditures which were identified during the acquisition due diligence process for newly acquired assets.
- Long-term replacement items include expenditures for assets that will likely be replaced several times over the life of the building, such as roofing, paving, HVAC equipment, etc.
- Furniture, Fixtures and Equipment ("FF&E") purchases.

The following table summarizes additions to properties for the three months ended March 31, 2007:

<b>(\$000's)</b>	<b>For the three months ended March 31, 2007</b>
Building improvements and additions	4,441
Acquisitions related capital expenditures	-
Long-term replacement items	37
Furniture, fixtures and equipment	1,619
Other	339
	<hr/>
	6,436

## Cash Flows

The following table summarizes Chartwell's cash flows for the three months ended March 31, 2007 and 2006:

<b>(\$000's)</b>	<b>For the three months ended March 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash provided by (used in):</b>		
Operating activities	(12,169)	9,462
Financing activities	84,393	(2,908)
Investing activities	(181,966)	(17,223)
Foreign exchange gain (loss) on U.S. dollar denominated cash	199	(138)
<b>Increase (decrease) in cash and cash equivalents</b>	<hr/>	<hr/>
	(109,542)	(10,807)

Negative cash flow provided by operating activities in the first quarter of 2007 is primarily due to the changes in non-cash working capital balances – negative \$27.6 million. This is primarily due to approximately \$33.2 million of amounts due from ING on the acquisition of the Bristol portfolio which were outstanding at March 31, 2007. These amounts were repaid in April 2007.

## **TRANSACTIONS WITH RELATED PARTIES**

In the normal course of operations, Chartwell enters into transactions with various related parties. The following is a summary of significant related party transactions for the three month period ended March 31, 2007:

### **Spectrum**

Under the terms of the Development Agreement with Spectrum, a company in which Chartwell's senior management owns a controlling interest (including Stephen Suske, Vice Chairman and Co-CEO, Robert Ezer, President and Co-CEO, Brent Binions, Senior Executive Vice President, Leslie Veiner, Senior Vice President, Real Estate, Richard Noonan, Chief Operating Officer, Canadian Retirement Communities, Peter Gaskill, Senior Vice President, Development and Evan Miller, Vice President, Development), Chartwell provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee.

As of March 31, 2007, mezzanine loans receivable from Spectrum amounted to approximately \$45.4 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 34 seniors' housing development properties.

During the three month period ended March 31, 2007, Chartwell earned mezzanine loan interest of approximately \$1.3 million from Spectrum. Chartwell also earned development management, operations management, financing and other fees of approximately \$1.4 million from Spectrum.

Other assets as of March 31, 2007 include approximately \$2.5 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell on behalf of Spectrum. Subsequent to March 31, 2007, approximately \$0.5 million of this balance was paid.

Included in distributions payable at March 31, 2007 is \$0.3 million due to Spectrum.

In the first quarter of 2007, Chartwell acquired one seniors housing community from Spectrum for a total purchase price of approximately \$18.0 million, inclusive of closing costs. The purchase price was settled by the assumption of a mortgage payable of \$12.4 million, a discharge of mezzanine loans receivable of approximately \$1.7 million, and approximately \$3.9 million of cash.

### **Melior and Other Spectrum Partners**

As of March 31, 2007, Chartwell had mezzanine loans receivable of approximately \$58.1 million from six of Spectrum's joint venture partners (including approximately \$43.4 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 Borrowers' interests in 23 development projects.

In the first quarter of 2007, Chartwell earned interest and fee income of approximately \$1.6 million.

Accounts receivable and other assets at March 31, 2007 included approximately \$2.8 million due from Melior. Subsequent to March 31, 2007, approximately \$0.5 million of outstanding amounts due from Melior were collected.

### **Other**

Included in mortgages payable at March 31, 2007, is a vendor-take-back loan of approximately \$2.0 million due to an officer of Chartwell.

### **SUBSEQUENT EVENTS**

Subsequent to March 31, 2007, Chartwell acquired one seniors housing facility in Canada for a purchase price of approximately \$22.0 million.

Subsequent to March 31, 2007, Chartwell acquired 24 seniors housing facilities and an interest in two leased seniors housing facilities in the United States for an aggregate purchase price of approximately \$396.3 million (US \$343.7 million).

On April 20, 2007, Chartwell completed a public offering of 14,100,000 Trust Units for \$14.25 per unit and \$75,000 of 5.9% convertible unsecured subordinated debentures due on May 1, 2012 for aggregate gross proceeds of approximately \$275.9 million to a syndicate of underwriters.

Subsequent to March 31, 2007 Chartwell advanced approximately \$1.0 million of mezzanine loans to Spectrum and its joint venture partners.

### **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**

In 2006, we acquired interests in 37 seniors housing communities for a total purchase price of approximately \$614.6 million.

In the first quarter of 2007, Chartwell completed acquisitions of varying interests in 11 seniors housing communities and a 49% interest in HB Realty LCC which, through its subsidiaries, owns leased interests in an additional 25 seniors housing communities and related management contracts. The aggregate purchase price of these acquisitions amounted to approximately \$304.1 million.

Subsequent to March 31, 2007, Chartwell completed acquisitions of a portfolio of 25 seniors housing communities and leased interests in two other seniors housing communities (“Merrill Gardens portfolio”) for approximately \$396.3 million. Chartwell also completed acquisition of one seniors housing community in Canada for a purchase price of approximately \$22.0 million.

Together with the previously announced acquisition of the Regency Care portfolio, which is expected to be completed in the second quarter of 2007, Chartwell will then have acquired over \$850 million of assets in 2007.

On April 20, 2007 Chartwell completed an offering of its Trust Units and Convertible Debentures for total gross proceeds of \$275.9 million which further strengthened its acquisition capacity.

Our acquisitions pipeline remains full and we anticipate continuing robust acquisition activity in 2007.

### **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 for revenue and expense optimization, including additions of new suites to existing communities.

As previously discussed in this MD&A, in 2005 and 2006, Chartwell completed six internal growth projects adding 359 new suites to its portfolio and repositioning two other properties. Four of these projects - two repositioned properties, one 40 suite addition and one 16 suite addition - achieved stabilized occupancies in 2006. We anticipate that the remaining new suites will achieve stabilized occupancy in 2007.

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

- A 23 suite addition to the Hartford Retirement Centre in Morrisburg, Ontario. The estimated construction costs are approximately \$5.9 million, of which approximately \$5.5 million is expected to be financed with a construction loan. Construction is expected to be completed in the second quarter of 2007.
- A 30 suite addition to the Collegiate Heights Retirement Residence in Sault Ste Marie in Ontario. The estimated construction costs are approximately \$6.0 million, of which approximately \$4.8 million is expected to be financed by a construction loan. Construction is expected to be completed in the first quarter of 2008.
- A 131 suite addition to Residence Ste-Marthe in St. Hyacinthe, Quebec. The estimated construction costs are approximately \$14.5 million of which approximately \$10.6 million is expected to be financed by a construction loan. Construction is expected to be completed in the second quarter of 2008.
- A 75 suite addition to Manoir Pierrefonds in Montreal, Quebec. The estimated construction costs are approximately \$8.8 million of which approximately \$6.6 million is expected to be financed with a construction loan. Construction is expected to be completed in the first quarter of 2008.
- A 98 suite expansion of the 50% owned Gayton Terrace retirement residence in Richmond, Virginia. The estimated project costs are approximately \$24.4 million (US\$ 21.1 million) of which approximately \$19.5 million (US\$16.9 million) is expected to be financed by a construction loan. Construction is expected to be completed in the third quarter of 2008.

- The addition of 12 cottages adjacent to the Birchwood Retirement Residence in Chilliwack, British Columbia. The estimated project costs are approximately \$2.5 million of which approximately \$2.1 million is expected to be financed by a construction loan. Construction is expected to be completed in the fourth quarter of 2007.

In addition, we identified further opportunities to add over 2,500 suites at our communities in the markets with significant demand for new seniors housing suites. We will continue our evaluation of these internal growth projects in 2007 and 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 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.

Since commencement of our operations, we acquired interests in 12 new seniors housing communities representing approximately 935 suites in Canada from Spectrum and its joint venture partners where applicable. At March 31, 2007, Spectrum, Melior and their joint venture partners had over 6,000 suites under development or in lease-up across Canada. Chartwell has an option to acquire these suites upon stabilization, in many cases at a discount to appraised value.

### **Third Party Management**

At March 31, 2007, Chartwell's portfolio of managed suites included over 9,000 suites in 65 communities 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 2007 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**

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

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 Chartwell's consolidated financial statements and note disclosures.

On January 1, 2007, Chartwell adopted the new accounting standards released by the Canadian Institute of Chartered Accountants' Handbook Section 3855, Financial Instruments –

Recognition and Measurement, Section 1530, Comprehensive Income, Section 3865, Hedges, and Section 3861, Financial Instruments – Disclosure and Presentation. These standards provide more comprehensive guidance on how to recognize financial instruments on the balance sheets, how to measure them, and how to account for gains and losses and provide criteria for application of hedge accounting in the future.

Except with respect to other comprehensive income, these standards have been adopted retroactively without restatement of prior periods.

The transitional provision of Section 3855, Financial Instruments – Recognition and Measurement requires that at the beginning of the fiscal year in which this section is applied, an entity re-measures financial assets and liabilities as appropriate. The details of the impact of these new standards on Chartwell financial statements at March 31, 2007 are described in note 1(b) of the 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 Risks and Uncertainties section.

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

## **CONTROLS AND PROCEDURES**

Chartwell is committed to maintaining effective disclosure control procedures and internal controls over financial reporting (“internal controls”). Over the past two years, we made significant improvements to our systems, processes and IT security. We expect to continue these efforts to further strengthen our internal controls in 2007 and beyond.

### **Evaluation of Disclosure Controls and Procedures**

The Co-Chief Executive Officers and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision, of 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) as at the end of March 31, 2007. Based on this evaluation, we have concluded that Chartwell maintains appropriate information systems, procedures and controls to ensure information used internally and disclosed externally is complete, reliable and timely.

### **Evaluation of Internal Controls Over Financial Reporting**

The Co-Chief Executive Officers and the Chief Financial Officer have also evaluated, or caused an evaluation under their direct supervision, of the design of Chartwell's internal controls over financial reporting as of March 31, 2007. Based on this assessment, management has identified material internal control weaknesses. (Note: A material weakness is a control deficiency, or combination of control deficiencies, that result in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected). These weaknesses have been summarized as follows:

#### A qualified Auditor's Report on Controls ("Section 5970 report") from one of its service providers

As part of management's assessment of the design of its internal controls over financial reporting, Chartwell requested a Section 5970 report from all key service organizations that provide application hosting and maintenance services. One service provider has reported weaknesses in their control environment that we consider material. The service provider has undertaken measures to remediate these weaknesses and reported that the weakness will be remediated by second quarter 2007. As a result, management performed additional substantive procedures to validate the financial information originating from our financial reporting application that they host, and do not believe that these control weaknesses have led to a material error or misstatement in Chartwell's financial statements for the three months ended March 31, 2007.

#### Segregation of duty issues at our co-owned management company in the U.S.

Based on our assessment of the internal controls over financial reporting that reside at our co-owned management company in the U.S, we have determined that there was an inadequate segregation of duties within certain positions in the Finance department. As a result, certain transactions that are recorded in Chartwell's financial statements have not been subject to an independent review for accuracy and validity.

In order to mitigate the risk of a material misstatement, Chartwell has implemented additional review and monitoring controls at our head office whereby additional review of all financial reports is undertaken on a monthly basis. In addition, we are taking steps to add personnel to augment our financial reporting processes for this co-owned management company and cross-train certain existing personnel in order to provide better segregation of certain duties.

#### Deficiencies with certain information technology controls at our co-owned management company in Quebec

Based on our evaluation of the internal controls at our Quebec co-owned company, we noted a lack of segregation of duties within certain key IT positions, insufficient access and password controls around our key applications and servers. We also noted that certain program changes were made without adequate testing or review prior to promoting these changes to our live environment.

To address these control deficiencies, we undertook a secondary review of all financial information generated by this co-owned entity on a monthly basis. In the first quarter of 2007, we migrated some of the IT operation functions from our co-owned management company to our head office. We will continue to migrate the remaining key IT functions to our head office, which is expected to be completed in the third quarter of 2007. This migration will allow (i) all program changes to follow our existing IT change management policies and procedures; and (ii) to provide proper segregation of IT responsibilities.

In light of the above noted control weaknesses, Chartwell has performed additional analyses and other post-closing procedures to ensure our consolidated financial statements are prepared accurately, completely and the data disclosed thereon is in accordance with generally accepted accounting principles. Accordingly, management believes that the consolidated financial statements included in this report fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.



## Changes in Internal Control over Financial Reporting

No changes were made to the design of our internal controls over financial reporting during the three months ended March 31, 2007 that have materially affected or reasonably likely to materially affect our internal controls over financial reporting.

## RISKS AND UNCERTAINTIES

- (a) **Business Risks:** Chartwell 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 labor costs and other operating costs, possible future changes in labor relations, competition from or the oversupply of other similar properties, changes in neighborhood 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 Chartwell.
- (b) **Taxation:** On March 29, 2007, the federal government tabled a bill in the House of Commons to implement draft legislation (the "Proposals") relating to the federal income taxation of publicly traded income trusts and certain other publicly traded flow-through entities.

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

The Proposals provided that a SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") would become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). On April 20, 2007, Chartwell issued equity capital in excess of these Safe Harbour Limits.

Under the Proposals, the new taxation regime will not apply to a Real Estate Investment Trust (a "REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Chartwell does not meet the REIT Conditions and therefore is a SIFT. Accordingly, if the Proposals are enacted into law, as Chartwell exceeded the Safe Harbour Limits commencing in 2007, Chartwell would be subject to tax on certain income which would adversely impact the level of cash otherwise available for distribution. At the date of substantive enactment, Chartwell would record future income tax assets and liabilities in respect of accounting and tax

basis differences that are expected to reverse in or after 2007, with a corresponding credit or charge to consolidated earnings for the period.

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

The Proposals provide that distributions paid by a SIFT as returns of capital will not be subject to the tax. 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 communities 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. Based on Chartwell's structure and operations and its understanding of the Proposals, the estimated trust tax per Unit may fall within a range of \$0.00 to \$0.05 for each of 2007 and 2008. As indicated in Chartwell's November 2006 press release, this estimated tax per unit will not have a material after-tax impact on the cash position of taxable investors owing to the integration of the Canadian tax system (i.e. dividend gross-up and tax credit mechanism). Chartwell considers that this likely tax impact would be less material than failing to take advantage of the many growth opportunities currently available in the marketplace.

In the March 19, 2007 Federal Budget, the Minister announced proposed changes to the Tax Act regarding the deductibility of interest (and other borrowing costs) on money borrowed to invest in foreign affiliates. Among other things, these rules will restrict the deductibility of interest (and other borrowing costs) in respect of borrowed money that may reasonably be considered to have been used to assist, directly or indirectly, a particular person or partnership with whom the borrower does not deal at arm's length, to acquire a share or indebtedness of a Relevant Foreign Affiliate. For non-arm's length debt incurred prior to March 19, 2007 the restrictions will generally apply to interest (and other borrowing costs) payable after 2008, for arm's length debt incurred prior to March 19, 2007 the restrictions will generally apply to interest (and other borrowing costs) payable after 2009, and for debt incurred on or after March 19, 2007 the restrictions will apply to interest (and other borrowing costs) payable after 2007. If these rules are enacted as proposed, beginning in 2009, they may restrict the deductibility of interest (and other borrowing costs) paid by CSH Trust on Series 1 Notes issued to Chartwell, and interest (and other borrowing costs) paid by Master LP to Chartwell, to the extent that the interest (and other borrowing costs) is related to borrowed money that may reasonably be considered to have been used to assist Chartwell to invest in its US subsidiaries. In addition, beginning in 2008, if these rules are enacted as proposed, they may restrict the deductibility of interest (and other borrowing cost) by Chartwell, CSH Trust or Master LP on other debt, to the extent such debt is related to an investment in a Relevant Foreign Affiliate in respect of the borrower under the debt. There can be no certainty that these rules will be enacted as proposed.

In light of the proposed changes to the federal income taxation of publicly traded income trusts, the Board of Directors of Chartwell set up a special committee (the "Special Committee") to review Chartwell's strategic options. The Special Committee received advice from its advisors and has considered various alternatives. At this time, Chartwell will continue with its current business plan, including growth in the Canadian and United States markets. The final form of the legislation, however, may change or the legislation may not be passed, thus the Special Committee and Chartwell will continue to monitor announcements relating to the proposed taxation of income trusts and market events as they unfold.

- (c) **Geographic Concentration:** A substantial portion of the business and operations of Chartwell is conducted in the United States, Ontario and Quebec, which at March 31, 2007 represented 32%, 32% and 24% 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:** Chartwell'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 communities acquired by the Trust. If Chartwell 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 communities will compete with Chartwell in seeking residents. The existence of competing developers, managers and owners and competition for Chartwell's residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect Chartwell's revenues and, consequently, its ability to meet its debt obligations. The supply of LTC Community suites in the regions in which Chartwell owns Retirement Homes may have an impact on the demand for suites in Retirement Homes.
- (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 Chartwell. In addition, new regulatory standards and requirements are being considered in a number of provinces which may affect all types of seniors housing communities.

Currently, the LTC Communities 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 Communities. The Government has indicated that it intends for the Proposed Act to become law in 2007. Aspects of the Proposed Act which could affect Chartwell's LTC Communities 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 replacement licenses to be based on a home's structural classification that will be issued for a maximum of 25 years; more onerous

duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, 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 community 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. The Proposed Act was introduced for third reading on March 19, 2007 but, has not completed the process.

- (g) **Debt Financing:** Chartwell has and will continue to have substantial outstanding consolidated indebtedness comprised primarily of the Property Mortgages. Chartwell 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.

Although Chartwell believes it is unlikely, it may not be able to renegotiate the terms of repayment of this debt at favourable rates. To extent that any financing requiring CMHC consent or approval is not obtained, or such consent or approval is only available on unfavourable terms, the Trust may be required to finance a conventional mortgage which may be less favourable to the Trust than a CMHC-insured mortgage. In addition, the terms of the Trust's indebtedness generally contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the distributions that may be made by the Trust and its subsidiaries. Therefore, upon an event of default under such indebtedness, Chartwell's ability to make distributions will be adversely affected.

A portion of Chartwell's cash flow is devoted to servicing its debt, and there can be no assurance that the Trust will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If Chartwell 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. Chartwell 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 Chartwell 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 Chartwell, the Trust 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 Chartwell in any recovery from the assets of mezzanine loan borrowers. Additionally, Chartwell may not, at the applicable time, have the financial capacity to acquire all communities that it is entitled to acquire from mezzanine loan borrowers. In the event that Chartwell does not exercise its purchase option, the Trust would expect to have the principal and any unpaid interest relating to its mezzanine financing returned to it at which time Chartwell 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:** Chartwell has interests in, and may acquire further interests in, seniors housing communities located in the United States. Chartwell will therefore be subject to foreign currency fluctuations which may, from time to time, have an impact upon its financial position and results. Chartwell 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 Trust 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, Chartwell, 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 Trust 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 Chartwell 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 it believes would involve material expenditure by the Trust.

Environmental laws and regulation may change and Chartwell 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 Chartwell's business, financial condition or results of operation and distributions.

- (k) **Liability and Insurance:** The businesses, which are carried on, directly or indirectly, by Chartwell, entail an inherent risk of liability. Management expects that from time to time Chartwell may be subject to such lawsuits as a result of the nature of its businesses. The Trust 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:** Chartwell competes with other healthcare providers with respect to attracting and retaining qualified personnel. Chartwell is also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust 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, directly and indirectly, employs or supervises approximately over 9,000 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 Chartwell 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 Chartwell's business, operating results and financial condition. However, most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing community sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

Non-unionized seniors housing communities may become unionized in the event they are targeted for certification by a trade union. There can be no assurance that the seniors housing communities owned by Chartwell 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 communities' employees.