



MANAGEMENT DISCUSSION AND ANALYSIS

SECOND QUARTER REPORT
JUNE 30, 2007



MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the Three and Six Months Ended June 30, 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 and six months ended June 30, 2007. This MD&A should be read in conjunction with Chartwell’s unaudited consolidated financial statements for the three and six months ended June 30, 2007, and the notes thereto. This material is available on Chartwell’s website at www.chartwellreit.ca. Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of August 7, 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 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 June 30, 2007, Chartwell’s portfolio of seniors housing communities owned or managed on behalf of others consisted of interests in 36,933 suites in 267 communities which are operating, under construction or in various stages of development. Chartwell’s portfolio of owned and leased communities consisted of interests in 27,446

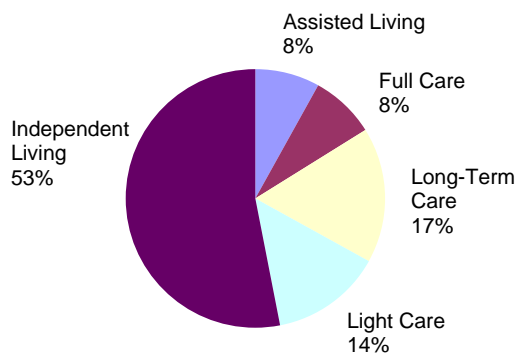
suites in 198 communities. Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of clients and the demands of their local marketplace.

The following is the composition of Chartwell’s owned and managed portfolio of seniors housing communities in its four operating segments at June 30, 2007:

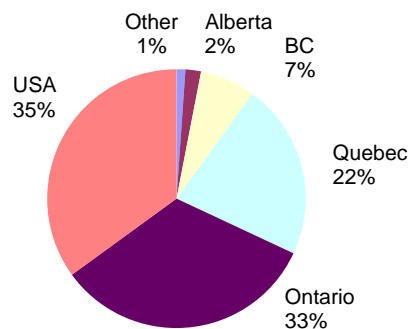
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Management Operations	Total
Communities	96 ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾⁽⁶⁾	26 ⁽¹⁾⁽⁴⁾	76 ⁽⁵⁾⁽⁷⁾	69 ⁽²⁾	267
Suites/Beds	11,177	3,504	12,765	9,487	36,933

- (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 nine communities (1,434 suites) where Chartwell owns a 50% interest and one community (53 suites) where Chartwell owns a 39% interest. Chartwell accounts for this property using the equity method of accounting.
- (4) Includes one community (175 beds) in which Chartwell owns a 50% interest.
- (5) Chartwell owns a 50% interest in 26 communities (4,636 suites), a 100% interest in 23 communities (2,264 suites), a 49% leased interest in 25 communities (5,632 suites), and a 100% leased interest in two communities (233 suites).
- (6) Includes 271 suites under development at five existing communities.
- (7) 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 June 30, 2007



Composition of Portfolio of Owned, Leased and Managed Suites by Geographical Location at June 30, 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 (collectively with its affiliates: “ING”). ING is Chartwell’s strategic financial partner in acquisitions of seniors housing communities in the United States. At June 30, 2007, Chartwell and ING each held a 50% interest in CSH-INGRE LLC, which owned 26 seniors housing communities (4,636 suites) in the United States.

In the first quarter of 2007, Chartwell acquired a 49% interest in Horizon Bay Realty LLC (“HB Realty”), which, through its subsidiaries, owns leased interests in 25 seniors housing communities (5,632 suites). 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.

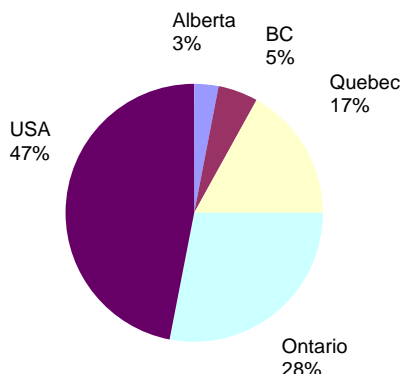
Owned and Leased Property Portfolio

The following table summarizes the composition of Chartwell’s real estate portfolio of owned and leased communities as at June 30, 2007 and June 30, 2006:

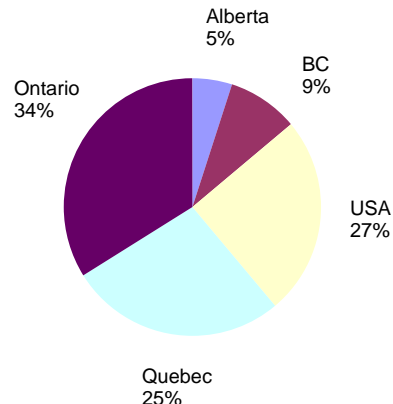
	June 30, 2007 ⁽¹⁾⁽³⁾	June 30, 2006 ⁽²⁾
Number of suites	27,446	13,511
Number of communities	198	113

- (1) Includes 36 communities (6,245 suites) in which Chartwell holds a 50% interest, and one community (53 suites) in which Chartwell holds a 39% interest, 25 communities (5,632 suites) in which Chartwell holds a 49% leased interest, and two communities (233 suites) in which Chartwell holds a 100% leased interest.
- (2) Includes 30 communities (5,311 suites) in which Chartwell holds a 50% interest and one community (55 suites) in which Chartwell owns a 39% interest.
- (3) Includes 369 suites under development at six existing communities.

Composition of Portfolio of Owned and Leased Suites by Geographical Location at June 30, 2007



Composition of Portfolio of Owned and Leased Suites by Geographical Location at June 30, 2006



Significant Events

The following events have had a significant effect on the financial results of Chartwell for the three and six months ended June 30, 2007.

Acquisitions

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

(\$000's)	Total Six Months Ended June 30, 2007	Q2, 2007	Q1, 2007
# Communities	69	33	36
# Suites	10,853	3,918	6,935
Purchase price (including closing costs)	968,921	664,841	304,080
Financed as follows:			
Assumption of mortgages payable	261,233	208,681	52,552
Other assumed liabilities, net	88,622	85,069	3,553
Future tax liability	4,904	4,904	-
Discharge of mezzanine loan receivable	1,688	-	1,688
Issuance of Class B Units of Chartwell Master Care LP	10,145	-	10,145
Issuance of Class B Common Units of a subsidiary of CSH-INGRE LLC	663	-	663
Deferred consideration on acquisitions of properties	44,005	4,119	39,886
New mortgage financing	353,529	252,428	101,101
Cash	204,132	109,640	94,492
Total	968,921	664,841	304,080

On June 30, 2007, Chartwell completed the acquisition of the Regency portfolio consisting of eight LTC communities and management contracts for six other communities for a total purchase price of approximately \$258.1 million. Under the participation agreement between Chartwell and ING, at June 30, 2007, ING was committed to participate as a 50% partner in the acquisition of the eight LTC communities and funded its share of equity in the amount of approximately \$41.9 million. However, certain legal and structuring steps remained incomplete at June 30, 2007, and Chartwell was considered a 100% owner of the portfolio. Amounts funded by ING were included in other liabilities in Chartwell's financial statements.

On August 1, 2007, all remaining legal and structuring steps were completed and ING became a 50% owner of the eight LTC communities. Chartwell and ING agreed that ING will participate in the earnings of this portfolio effective June 30, 2007.

In the second quarter of 2007, Chartwell also acquired a 100% interest in 22 seniors housing communities in the United States and a 100% leased interest in two other communities (collectively "Merrill Gardens portfolio"). The total purchase price for the Merrill Gardens portfolio amounted to approximately \$385.0 million (US\$346.9 million).

Acquisitions Completed in the First Six Months of 2007

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1-25	HB Realty ⁽¹⁾	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 Bristal at East Meadow ⁽²⁾	East Meadow, NY	Retirement	February 21, 2007	121
31.	The Bristal at Westbury ⁽²⁾	Westberg, NY	Retirement	February 21, 2007	140
32.	The Bristal at North Hill ⁽²⁾	North Hills, NY	Retirement	February 21, 2007	141
33.	The Bristal at North Woodmere ⁽²⁾	North Woodmere, NY	Retirement	February 21, 2007	118
34.	The Bristal at Massapequa ⁽²⁾	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 ⁽³⁾	Kingston, ON	Retirement	March 29, 2007	85
37.	Jardins de la Gare	Saint-Hyacinthe, QC	Retirement	April 27, 2007	296
38.	Merrill Gardens at Northport	Northport, AL	Retirement	April 30, 2007	78
39.	Merrill Gardens at Apache Junction	Apache Junction, AZ	Retirement	April 30, 2007	123
40.	Merrill Gardens at Chandler	Chandler, AZ	Retirement	April 30, 2007	88
41.	Merrill Gardens at Altamonte Springs	Altamonte Springs, FL	Retirement	April 30, 2007	95
42.	Merrill Gardens at Lutz	Lutz, FL	Retirement	April 30, 2007	85
43.	Merrill Gardens at Orange City	Orange City, FL	Retirement	April 30, 2007	84
44.	Merrill Gardens at Port St. Lucie	Port St. Lucie, FL	Retirement	April 30, 2007	82
45.	Merrill Gardens at Sarasota	Sarasota, FL	Retirement	April 30, 2007	146
46.	Merrill Gardens at Tamarac	Tamarac, FL	Retirement	April 30, 2007	95
47.	Merrill Gardens at Vero Beach	Vero Beach, FL	Retirement	April 30, 2007	104
48.	Merrill Gardens at Carrollton	Carrollton, GA	Retirement	April 30, 2007	69
49.	Merrill Gardens at Rome	Rome, GA	Retirement	April 30, 2007	69
50.	Merrill Gardens at Bossier City	Bossier City, LA	Retirement	April 30, 2007	84
51.	Merrill Gardens at Ten Oaks	Lawton, OK	Retirement	April 30, 2007	100
52.	Merrill Gardens at The Parkview	Memphis, TN	Retirement	April 30, 2007	128
53.	Merrill Gardens at Graham	Graham, TX	Retirement	April 30, 2007	68
54.	Merrill Gardens at Grand Prairie	Grand Prairie, TX	Retirement	April 30, 2007	85
55.	Merrill Gardens at N. Richland Hills	N. Richland Hills, TX	Retirement	April 30, 2007	105
56.	Merrill Gardens at Round Rock	Austin, TX	Retirement	April 30, 2007	68
57.	Merrill Gardens at San Antonio	San Antonio, TX	Retirement	April 30, 2007	112
58.	Merrill Gardens at San Marcos	San Marcos, TX	Retirement	April 30, 2007	68
59.	Merrill Gardens at Wichita Falls	Wichita Falls, TX	Retirement	April 30, 2007	69
60.	Merrill Gardens at Clearwater ⁽⁴⁾	Clearwater, FL	Retirement	May 31, 2007	96
61.	Merrill Gardens at Lake Orienta ⁽⁴⁾	Altamonte Springs, FL	Retirement	May 31, 2007	137
62.	Regency Care – The WaterFord	Oakville, ON	Long-term care	June 30, 2007	168
63.	Regency Care – The WenLeigh	Mississauga, ON	Long-term care	June 30, 2007	161
64.	Regency Care – The WestBury	Etobicoke, ON	Long-term care	June 30, 2007	187
65.	Regency Care – The WoodHaven	Markham, ON	Long-term care	June 30, 2007	192
66.	Regency Care – The WynField	Oshawa, ON	Long-term care	June 30, 2007	172
67.	Regency Care – The WestMount	Kitchener, ON	Long-term care	June 30, 2007	160
68.	Regency Care – The WillowGrove	Ancaster, ON	Long-term care	June 30, 2007	169
69.	Regency Care – The Brant Centre ⁽²⁾	Burlington, ON	Long-term care	June 30, 2007	175

10,853

- (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.
(4) Chartwell acquired a leased interest in these communities.

2006 Acquisitions

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
1	Chateau Cornwall ⁽³⁾	Cornwall, ON	Retirement	January 13, 2006	101
2	Manoir Pierrefonds	Montreal, QC	Long-term care	February 23, 2006	127
3.	Castel Royale	Montreal, QC	Retirement	April 28, 2006	255
4.	Mayfield	Prescott, ON	Retirement	May 1, 2006	62
5.	Wiser Hall	Prescott, ON	Retirement	May 1, 2006	8
6.	Town Village Audubon Park ⁽¹⁾	Memphis, TN	Retirement	May 11, 2006	176
7.	Town Village Sterling Heights ⁽¹⁾	Sterling Heights, MI	Retirement	May 11, 2006	222
8.	Town Village Vestavia Hills ⁽¹⁾	Birmingham, AL	Retirement	May 11, 2006	198
9.	Town Village Tulsa ⁽¹⁾	Tulsa, OK	Retirement	May 11, 2006	222
10.	Bella Vila ⁽¹⁾	Venice, FL	Retirement	May 15, 2006	115
11.	Gayton Terrace ⁽¹⁾	Richmond, VA	Retirement	May 15, 2006	100
12.	Village at Lowry ⁽¹⁾	Denver, CO	Retirement	May 15, 2006	169
13.	Waterford ⁽¹⁾	Dayton, OH	Retirement	May 15, 2006	110
14.	Willowwood ⁽¹⁾	Ft. Lauderdale, FL	Retirement	May 15, 2006	278
15.	Woodside Village ⁽¹⁾	Bedford, OH	Retirement	May 15, 2006	220
16.	Wyndham Lakes ⁽¹⁾	Jacksonville, FL	Retirement	May 15, 2006	248
17.	Amberpark ⁽¹⁾	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 ⁽²⁾	Langley, BC	Retirement	July 10, 2006	-
20.	Elizabeth Towers	St. John, NF	Retirement	August 1, 2006	104
21.	Chateau Gardens Parkhill	Parkhill, ON	Long-term care	August 1, 2006	59
22.	Chateau Gardens London	London, ON	Long-term care	August 1, 2006	95
23.	Chateau Gardens Niagara	Niagara-On-the-Lake, ON	Long-term care	August 1, 2006	124
24.	Chateau Gardens Aylmer	Aylmer, ON	Long-term care	August 1, 2006	60
25.	Chateau Gardens Elmira	Elmira, ON	Long-term care	August 1, 2006	48
26.	Chateau Gardens, Lancaster	Lancaster, ON	Long-term care	August 1, 2006	60
27.	Lake Worth Gardens ⁽¹⁾	Lakeworth, FL	Retirement	August 15, 2006	170
28.	Manoir Kirkland	Kirkland, QC	Retirement	September 15, 2006	191
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 ⁽³⁾	Sudbury, ON	Retirement	November 22, 2006	79
33.	Empress	Kanata, ON	Retirement	November 29, 2006	90
34.	Hampton House	Chilliwack, BC	Retirement	December 14, 2006	98
35.	Oak Park ⁽³⁾	LaSalle, ON	Retirement	December 14, 2006	113
36.	Peninsula ⁽¹⁾⁽³⁾	White Rock, BC	Retirement	December 28, 2006	127
37.	Treemont	Dallas, TX	Retirement	December 27, 2006	256
					5,720

(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 June 30, 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 June 30, 2007
2006 Projects						
New Edinburgh Square	Ottawa, ON	16	3.6	1.0	Q1, 2006	15
L'Oasis	St. Jean, QC	86	14.5	10.4	Q4, 2006	61
Marquis de Tracy II, Ph II ⁽¹⁾	Sorel, QC	72	10.0	7.7	Q4, 2006	20
Total – 2006 Projects		174	\$28.1	\$19.1		96
2005 Projects						
Le Monastre Aylmer Ph IV ⁽¹⁾	Aylmer, QC	86	15.0	11.8	Q4, 2005	46
Residence Principale ⁽¹⁾	Cowansville, QC	59	7.9	6.1	Q4, 2005	27
Notre Dame de Hull ⁽¹⁾	Hull, QC	40	4.3	3.6	Q2, 2005	38
Gibson LTC	Toronto, ON	N/A ⁽²⁾	3.0	2.4	Q3, 2005	N/A ⁽²⁾
Devonsire Residence	Windsor, ON	N/A ⁽²⁾	2.5	1.1	Q2, 2005	N/A ⁽²⁾
Total – 2005 Projects		185	\$32.7	\$25.0		111
Total		359	\$60.8	\$44.1		207

(1) Chartwell owns a 50 % interest in these properties

(2) Repositioning – no new units added

Mezzanine Loans

At June 30, 2007 Chartwell had \$109.3 million of mezzanine loans outstanding. In the first six months of 2007, Chartwell advanced mezzanine loans totaling approximately \$9.7 million to Spectrum, Melior and their joint venture partners. One mezzanine loan in the 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

On April 20, 2007, Chartwell completed a public offering of Trust Units and convertible debentures. Including the over allotment option exercised by the underwriters on May 17, 2007, Chartwell issued 16.2 million of Trust Units at \$14.25 per unit and \$75.0 million of convertible subordinated unsecured debentures, bearing a 5.9% coupon, \$16.25 conversion price and maturing on May 1, 2012. The net proceeds from this offering of approximately \$291.5 million net of issue related costs of approximately \$14.5 million were used to finance certain acquisitions, to advance certain mezzanine loans and for general business purposes.

On November 28, 2006, Chartwell completed a public offering of Trust Units and convertible debentures placement. 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 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.

Taxation

Chartwell currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly-listed or traded trusts, as discussed below, income earned by Chartwell and distributed annually to unitholders was not, and would not be, subject to taxation in Chartwell, but was taxed at the individual unitholder level. Accordingly, Chartwell did not previously record a provision for income taxes or future income tax assets or liabilities.

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT") received royal assent (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership and trust, such as an income trust and a real estate investment trust (a "REIT").

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from 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. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

Under the SIFT Rules, the new taxation regime will not apply to 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.

A SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") is 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 safe harbour 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. Therefore, commencing in 2007, Chartwell is likely to be subject to tax on certain income.

As a result of the SIFT rules in the second quarter of 2007, Chartwell recorded a future income tax provision of \$16.4 million.

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 pre-tax FFO excluding the effect of recording operating lease expense on a straight line basis and the effects of unrealized foreign exchange gains and losses 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:

FFO as defined by REALPAC	
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 mortgage 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
Equals AFFO	

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;
- Realized foreign currency gains and losses and gains and losses on derivative financial instruments relating to capital transactions; and
- 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 recording operating lease expense on a straight line basis. 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 and six months ended June 30, 2007 as compared to the same period of the prior year:

(\$000's, except per unit amounts)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Property revenue	147,515	74,554	72,961	276,383	140,242	136,141
Total revenues	156,299	81,888	74,411	294,641	155,057	139,584
Net loss	(31,153)	(3,244)	(27,909)	(40,283)	(4,887)	(35,396)
Distributions declared	26,186	17,213	8,973	48,181	31,996	16,185
Distributions declared per unit	0.27	0.27	-	0.53	0.53	-
FFO (Note 1)	10,785	14,428	(3,643)	24,699	28,940	(4,241)
FFO per unit:						
Basic	0.12	0.23	(0.11)	0.28	0.49	(0.21)
Diluted (Note 1)	0.11	0.23	(0.12)	0.28	0.48	(0.20)
AFFO	16,123	13,596	2,527	31,128	26,443	4,685
AFFO per unit						
Basic	0.17	0.22	(0.05)	0.36	0.45	(0.09)
Diluted	0.17	0.21	(0.04)	0.35	0.44	(0.09)
Payout ratio - FFO (Note 1)	243%	119%	124%	195%	111%	84%
Payout ratio - AFFO	162%	127%	35%	155%	121%	34%
Weighted average number of units including Class B Units of Chartwell Master Care LP:						
Basic	93,418,276	62,406,332	31,011,944	87,199,560	58,556,372	28,643,188
Diluted – LTIP	95,903,843	63,880,769	32,023,074	89,654,177	60,031,089	29,623,088
Diluted – LTIP and convertible debentures	107,512,871	63,880,769	43,632,102	99,473,925	60,031,089	39,442,836
<i>Note 1 – Excluding effect of recording operating lease expense on a straight line basis and unrealized foreign exchange gains/losses:</i>						
FFO	18,113	15,386	2,727	35,004	29,692	5,312
FFO per unit (diluted)	0.19	0.24	(0.05)	0.39	0.49	(0.10)
Payout ratio - FFO	145%	112%	33%	138%	108%	30%

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 details of AFFO calculation.

Revenues

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Property revenue	147,515	74,554	72,961	276,383	140,242	136,141
Mezzanine loan interest	4,051	2,479	1,572	7,408	4,787	2,621
Fees	1,485	3,428	(1,943)	5,351	7,402	(2,051)
Bank interest and other	3,248	1,427	1,821	5,499	2,626	2,873
Total revenues	156,299	81,888	74,411	294,641	155,057	139,584

Property Revenue

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Same property ⁽¹⁾	70,174	68,286	1,888	139,481	134,687	4,794
Acquisitions ⁽¹⁾	74,860	7,560	67,300	130,602	8,386	122,216
Foreign exchange on US dollar revenue	5,295	1,347	3,948	11,991	2,354	9,637
Equity accounted VIEs	(2,814)	(2,639)	(175)	(5,691)	(5,185)	(506)
Total property revenue	147,515	74,554	72,961	276,383	140,242	136,141
Weighted average occupancy same property portfolio	92.5%	92.8%	-0.3%	92.6%	92.3%	0.3%
Weighted average occupancy same property portfolio excluding internal growth suites	93.7%	93.6%	0.1%	93.8%	93.2%	0.6%

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

Total property revenue increased by 98% and by 97% in the three and six month periods ended June 30, 2007, as compared to the same periods 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 \$1.9 million (2.8%) and by \$4.8 million (3.6%) in the three and six month periods ended June 30, 2007, respectively, as compared to the same periods 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 207 suites were leased at June 30, 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 Variable Interest Entities ("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 rates in the same property portfolio excluding internal growth suites remained at over 93% in the three and six month periods ended June 30, 2007; consistent with the same periods of the prior year.

Mezzanine Loan Interest

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Gross mezzanine loan balances outstanding (end of the period)	109,260	94,621	14,639	109,260	94,621	14,639
Fees and costs recorded as a reduction against mezzanine loan balances ⁽¹⁾	(3,463)	-	(3,463)	(3,463)	-	(3,463)
Net mezzanine loan receivable	105,797	94,621	11,176	105,797	94,621	11,176
Mezzanine loan interest based on gross loan balances	2,933	2,479	454	5,783	4,787	996
Effective yield adjustments for fees and costs integral to lending activities ⁽¹⁾	1,118	-	1,118	1,625	-	1,625
	4,051	2,479	1,572	7,408	4,787	2,621

- (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 loans 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 the 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 and six month periods ended June 30, 2007 as compared to the same periods of 2006 due to the higher loan balances outstanding.

Fees

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Spectrum	628	1,384	(756)	2,205	4,153	(1,948)
Melior	1,367	537	830	1,919	1,100	819
ING	255	998	(743)	2,223	1,107	1,116
Other	554	509	45	1,011	1,042	(31)
	2,804	3,428	(624)	7,358	7,402	(44)
Fees related to lending activities recorded as yield adjustments to mezzanine loan interest income	(1,319)	-	(1,319)	(2,007)	-	(2,007)
	1,485	3,428	(1,943)	5,351	7,402	(2,051)

In the second quarter of 2007, fee revenue before adjustments decreased by \$0.6 million (18%) as compared to the same period of the prior year due to lower development management fees from Spectrum and lower fees from ING offset by higher amortization of mezzanine placement fees from Melior. Fees from ING in the second quarter of 2006 included a due diligence project management fee of approximately \$0.9 million. There were no such fees earned in the second quarter of this year as the expected closing of the Regency Care transaction was delayed. In the third quarter of 2007, Chartwell expects to recognize \$0.6 million of due diligence project management fees from ING.

In the six month period ended June 30, 2007, fee revenue before adjustments was consistent with the fee revenue in the same period of the prior year. Fees from Spectrum were lower as 2006 amounts included

\$1.0 million of additional development fees related to existing projects and \$0.5 million of fees for the assistance in Spectrum's equity raise. These were no such fees in the first six months of 2007. This was offset by higher amortization of placement fees earned from Melior and higher asset management and due diligence project management fees from ING.

Bank Interest and Other

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Bank interest and other income	2,317	512	1,805	3,686	1,057	2,629
Equity accounted VIEs	931	915	16	1,813	1,569	244
	3,248	1,427	1,821	5,499	2,626	2,873

The increase in bank interest and other income is primarily due to the higher interest income earned on Chartwell's cash balances.

Direct Operating Expenses

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Same property ⁽¹⁾	48,095	46,124	1,971	96,202	91,914	4,288
Acquisitions ⁽¹⁾	49,519	5,152	44,367	87,344	5,882	81,462
Foreign exchange on US dollar expenses	3,276	963	2,313	7,548	1,436	6,112
Equity accounted VIEs	(1,882)	(1,723)	(159)	(3,878)	(3,615)	(263)
Total direct operating expenses – properties ⁽¹⁾	99,008	50,516	48,492	187,216	95,617	91,599
Direct operating expenses – management operations	832	999	(167)	1,890	1,998	(108)
Total direct operating expenses	99,840	51,515	48,325	189,106	97,615	91,491

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

Total direct operating expenses increased by 94% in the three and six month periods ended June 30, 2007 as compared to the same periods of the prior year primarily due to additional expenses from acquisitions completed subsequent to January 1, 2006.

Same property operating expenses increased by approximately \$2.0 million (4.3%) and \$4.3 million (4.7%) in the three and six month periods ended June 30, 2007 as compared to the same periods 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 207 suites were leased as of June 30, 2007.
- Inflationary increases in expenses, and higher realty tax and utility costs.

Facility Lease Expense

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Contractual lease expense for the period	9,736	-	9,736	19,772	-	19,772
Adjustment to record lease expense on a straight line basis over the lease term	2,049	-	2,049	4,400	-	4,400
Total lease expense	11,785	-	11,785	24,172	-	24,172

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.

On May 31, 2007, as part of its acquisition of the Merrill Gardens portfolio, Chartwell acquired leased interests in two seniors housing communities. Annual lease payments amount to \$1.6 million, subject to adjustments pursuant to the lease agreements.

General, Administrative and Trust Expenses

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
General, administrative and trust expenses	5,148	4,242	906	10,264	7,599	2,665
Less: legal cost related to mezzanine lending activities recorded as adjustments to mezzanine loan interest income	(19)	-	(19)	(201)	-	(201)
General, administrative and trust expenses as reported	5,129	4,242	887	10,063	7,599	2,464
As % of total revenue	3.3%	5.2%	-1.9%	3.4%	4.9%	-1.5%

General, administrative and trust expenses as a percentage of total revenues decreased to 3.3% and 3.4% in the three and six months ended June 30, 2007, respectively, from 5.2% and 4.9% in the three and six months ended June 30, 2006, respectively, primarily due to significant growth in total revenues and cost control initiatives implemented in the first six months of 2007.

General, administrative and trust expenses before adjustments increased by approximately 21% and 35% in the three and six month periods ended June 30, 2007 as compared to the same periods of the prior year as Chartwell continued creating sufficient head office infrastructure throughout 2006 and in the first six months of 2007 in order to support its current and future growth.

General, administrative and trust expenses in the three and six month periods ended June 30, 2007 included the following costs that are not expected to be recurring:

- Costs of approximately \$0.2 million and \$0.4 million, respectively, related to potential acquisitions which Chartwell decided not to pursue further;

- Costs of approximately \$0.4 million and \$0.9 million, respectively, related to the work of the Board special committees and their advisors.

Excluding these non-recurring costs incurred in the first and second quarters of 2007, general, administrative and trust expenses would have been consistent over the past four quarters.

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 a percentage of revenue will remain at their current levels.

Interest Expense

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Mortgages and loans payable	19,437	10,432	9,005	33,778	19,522	14,256
Convertible debentures	2,745	-	2,745	4,608	-	4,608
Operating credit facility	33	-	33	52	-	52
	22,215	10,432	11,783	38,438	19,522	18,916
Accretion adjustment to convertible debenture liability	492	-	492	776	-	776
Amortization of debt mark to market adjustments	(469)	(405)	(64)	(910)	(843)	(67)
Amortization of financing costs	1,188	652	536	2,264	1,198	1,066
	23,426	10,679	12,747	40,568	19,877	20,691

The increase in interest expense is consistent with the growth in Chartwell's debt portfolio as mortgages payable increased from approximately \$778.5 million at June 30, 2006 to approximately \$1,447.4 million at June 30, 2007.

In addition, Chartwell had approximately \$125.0 million of 6.0% and \$75.0 million of 5.9% subordinated convertible debentures outstanding in the first six months of 2007.

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

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Losses	5,279	950	4,329	5,905	898	5,007

In the second quarter of 2007, Chartwell recorded an unrealized foreign exchange loss of \$5.0 million (\$5.4 million in the six month period ended June 30, 2007) related to the intercompany cross border US dollar denominated debt used by Chartwell to finance its US operations in a tax efficient manner. At June 30, 2007, Chartwell had approximately US \$66.5 million of this debt outstanding. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange losses are required to be recorded in income under GAAP.

In addition, included in these amounts are unrealized gains/losses related to the fluctuation in the redemption value of certain liabilities of Chartwell's subsidiaries and to the holdings of US dollar denominated cash.

Depreciation and Amortization

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Depreciation and amortization	27,869	18,138	9,731	51,716	34,064	17,652

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)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Write down of management contracts and customer relationships	172	-	172	172	440	(268)

In the second quarter of 2007, Chartwell recorded a write down in the carrying values of one management contract and related customer relationships in the amount of \$0.2 million, due to the sale of the property by the owners.

Gain on Sale of Assets

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Gain on Sale of Assets	320	100	220	320	100	220

In the second quarter of 2007, Chartwell disposed of two non-core seniors housing communities (58 suites) in British Columbia for gross proceeds of approximately \$4.4 million and recognized a gain on disposition of \$0.3 million.

Income Taxes

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Future Income Taxes	16,389	-	16,389	16,389	-	16,389

Under the SIFT rules, which received royal assent on June 22, 2007, Chartwell will likely be subject to tax on certain income in 2007. Therefore, in the second quarter of 2007, Chartwell recorded a future tax provision of \$16.4 million.

These future income taxes relate to the temporary differences between the carrying amounts and tax bases of assets and liabilities, including those that are expected to reverse in or after 2007.

Chartwell does not expect to have any material income taxes payable for the year ended December 31, 2007.

Non-Controlling Interest

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Non-controlling interest	2,117	292	1,825	2,847	449	2,398

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)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Net loss for the period	(31,153)	(3,244)	(27,909)	(40,283)	(4,887)	(35,396)

Net loss for the three and six months ended June 30, 2007 increased in comparison to the same periods of 2006 primarily due to the provision for future income taxes; unrealized foreign exchange losses; depreciation and amortization expenses; general, administrative and trust expenses; interest and lease expenses; offset by positive contribution from property and other income.

Funds from Operations

The following table provides a reconciliation of funds from operations to net loss for the three and six months ended June 30, 2007 and June 30, 2006:

(\$000's, except per unit amounts)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Net loss per financial statements	(31,153)	(3,244)	(27,909)	(40,283)	(4,887)	(35,396)
Add (Subtract):						
Depreciation of real estate assets	14,184	7,576	6,608	26,024	14,537	11,487
Amortization of management contracts, resident contracts and customer relationships	13,685	10,562	3,123	25,692	19,527	6,165
Depreciation of leasehold improvements included in depreciation of real estate assets	(55)	(74)	19	(128)	(128)	-
Gain on sale of assets	(320)	(100)	(220)	(320)	(100)	(220)
Write down of carrying value of assets	172	-	172	172	440	(268)
Future income taxes	16,389	-	16,389	16,389	-	16,389
Non-controlling interest	(2,117)	(292)	(1,825)	(2,847)	(449)	(2,398)
Funds from operations ⁽¹⁾	10,785	14,428	(3,643)	24,699	28,940	(4,241)
Funds from operations per unit						
Basic	0.12	0.23	(0.11)	0.28	0.49	(0.21)
Diluted	0.11	0.23	(0.12)	0.28	0.48	(0.20)
Payout ratio (diluted) - FFO	243%	119%	124%	195%	111%	84%
<i>Note 1 – Excluding effect of recording operating lease expense on a straight line basis and unrealized foreign exchange gains/losses:</i>						
FFO	18,113	15,386	2,727	35,004	29,692	5,312
FFO per unit (diluted)	0.19	0.24	(0.05)	0.39	0.49	(0.10)
Payout ratio - FFO	145%	112%	33%	138%	108%	30%

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

In the three and six month periods ended June 30, 2007, FFO and FFO per unit were impacted by the following items:

- Unrealized foreign exchange losses of approximately \$5.3 million (\$0.06/unit) in the quarter and approximately \$5.9 million (\$0.07/unit) year to date. These unrealized losses primarily relate to cross-border US dollar denominated loans used by Chartwell's Canadian subsidiaries to finance its investments in US operations in a tax efficient manner. Under GAAP changes in the underlying value of these loans resulting from the changes in foreign exchange rates are required to be recorded in income.
- Straight line adjustments to the lease expenses of approximately \$2.0 million (\$0.02/unit) in the quarter and approximately \$4.4 million (\$0.05/unit) year to date. These adjustments represent the excess of the average annual lease expense calculated over the term of the leases over the contractual lease payments in the period.

- Regulatory delays in completion of certain acquisitions in the first six months of 2007, specifically the Bristol portfolio acquisition (1.5 month delay) and the Regency portfolio acquisition (2 month delay). In addition, certain Spectrum and Melior acquisitions expected to close in 2006 and in the first six months of 2007, as disclosed in Chartwell's November 16, 2006 and April 13, 2007 Prospectuses, were also delayed. We estimate that lost net revenue from these delayed acquisitions and the resulting dilution from the additional units issued to finance these acquisitions resulted in \$0.01 and \$0.02 reduction in FFO per unit in the three and six month periods ended June 30, 2007, respectively.
- Costs related to the work of the Board's special committees and their advisors of approximately \$0.4 million in the quarter and \$0.9 million year to date and write-off of costs related to potential acquisitions that Chartwell decided not to pursue further of approximately \$0.2 million and \$0.4 million for year to date. Combined these items resulted in an approximately \$0.01/unit reduction in FFO per unit in the three and six month periods ended June 30, 2007.
- Deferral of community fee revenue received from the residents of approximately \$0.9 million (\$0.01/unit) in the quarter and \$2.0 million (\$0.02/unit) year to date.
- Excluding the impact of the above items, FFO per unit would have been approximately \$0.22/unit in the quarter and approximately \$0.45 year to date.

Adjusted Funds from Operations

The following table provides the calculation of AFFO for the three and six months ended June 30, 2007 and June 30, 2006:

(\$000's, except per unit amounts)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
FFO	10,785	14,428	(3,643)	24,699	28,940	(4,241)
Adjustment to record lease expense on a straight line basis over the lease term	2,049	-	2,049	4,400	-	4,400
Amortization of below market leases	(410)	(510)	100	(823)	(915)	92
Principal portion of capital subsidy receivable from Health Authorities	199	70	129	346	138	208
Amounts received under net operating income guarantees	194	150	44	438	397	41
Amortization of deferred financing fees	1,187	651	536	2,264	1,197	1,067
Amortization of debt mark-to-market adjustments	23	(405)	428	(134)	(843)	709
Deferred financing fee reserve (Note 1)	(232)	(255)	23	(439)	(418)	(21)
Unrealized foreign exchange and derivative (gains)/losses	5,279	958	4,321	5,905	752	5,153
AFFO before Capex reserve	19,074	15,087	3,987	36,656	29,248	7,408
Maintenance Capex reserve - 2% of property revenue	(2,951)	(1,491)	(1,460)	(5,528)	(2,805)	(2,723)
AFFO⁽¹⁾	16,123	13,596	2,527	31,128	26,443	4,685
AFFO per unit						
Basic	0.17	0.22	(0.05)	0.36	0.45	(0.09)
Diluted	0.17	0.21	(0.04)	0.35	0.44	(0.09)
AFFO payout ratio	162%	127%	35%	155%	121%	34%

Note 1

Mortgages payable at the end of the period	1,447,392	987,046	1,447,392	987,046
Weighted average term to maturity	9.3	5.8	9.3	5.8
Reserve applied	0.60%	0.60%	0.60%	0.60%
Quarterly	4	4		
Deferred financing fee reserve	232	255	439	418

(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 the AFFO calculations.

In the three and six month periods ended June 30, 2007, AFFO and AFFO per unit were impacted by the delays in completion of certain acquisitions, the write-off of certain acquisition costs, costs related to the activities of the Board special committees, the deferral of community fee revenue received from the residents as more fully described under the Funds from Operations section of this MD&A.

Distributable Income

In the three and six month periods ended June 30, 2007, Chartwell's DI per unit decreased by \$0.05 and \$0.09 from the same periods of the prior year.

DI per unit was negatively impacted by delays in completion of certain acquisitions, the write-off of certain acquisition costs, costs related to the Board's special committees, and the deferral of community

fees received at certain of its communities as more fully discussed in the Funds from Operations section of this MD&A.

Chartwell's distributions in the three and six month periods ended June 30, 2007 exceeded its distributable income by approximately \$7.2 million and \$11.3 million, respectively. These excess distributions were financed from Chartwell's working capital and credit facilities. Although distributions exceeded distributable income in 2005, 2006 and in the first six months 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 and six months ended June 30, 2007 and 2006.

(\$000's, except per unit amounts)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Net income loss	(31,153)	(3,244)	(27,909)	(40,283)	(4,887)	(35,396)
<i>Add back (subtract):</i>						
Depreciation and amortization	27,869	18,138	9,731	51,716	34,064	17,652
Amortization of deferred financing expenses	1,187	651	536	2,264	1,197	1,067
Amortization of below market leases	(410)	(510)	100	(823)	(915)	92
Amortization of debt premiums, net	23	(405)	428	(134)	(843)	709
Write down of carrying value of assets	172	-	172	172	440	(268)
Future income taxes	16,389	-	16,389	16,389	-	16,389
Gain on sale of assets	(320)	(100)	(220)	(320)	(100)	(220)
Principal portion of capital funding receivable	199	70	129	346	138	208
Amounts received under net operating income guarantees	194	150	44	438	397	41
Contractually receivable management fees, not included in net income under GAAP	938	1,288	(350)	1,417	1,288	129
Management fees recorded in net income under GAAP in the period that were previously recorded in distributable income	(1,418)	(465)	(953)	(2,095)	(986)	(1,109)
Foreign exchange loss and losses on derivative financial instruments	5,279	958	4,321	5,905	752	5,153
Non-cash compensation expense related to the issuance of Trust Units under the Long-Term Incentive Program	96	32	64	349	64	285
Adjustment to record lease expense on a straight line basis over the lease term	2,049	-	2,049	4,400	-	4,400
Non-controlling interest	(2,117)	(292)	(1,825)	(2,847)	(449)	(2,398)
Distributable Income	18,977	16,271	2,706	36,894	30,160	6,734
Distributable income per unit – basic	0.20	0.26	(0.06)	0.42	0.52	(0.10)
Distributable income per unit – diluted	0.20	0.25	(0.05)	0.41	0.50	(0.09)
DI payout ratio - diluted	138%	106%	32%	131%	106%	25%

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

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Cash flow from operating activities	72,020	15,931	56,089	59,851	25,393	34,458
Add (Subtract):						
Change in non-cash operating items	(55,172)	(567)	(54,605)	(27,582)	4,529	(32,111)
Adjustment to record lease expense on a straight line basis over the lease term	2,049	-	2,049	4,400	-	4,400
Amortization of debt discounts	(13)	(76)	63	27	(149)	176
Amortization of debt premiums, net	23	(405)	428	(134)	(843)	709
Principal portion of capital funding receivable	104	70	34	346	138	208
Amounts received under net operating income guarantees	194	150	44	438	397	41
Contractually receivable management fees, net	(480)	823	(1,303)	(678)	302	(980)
Other	252	345	(93)	225	393	(168)
Distributable Income	18,977	16,271	2,706	36,894	30,160	6,734

Canadian Retirement Operations

The following table presents the results of operations and financial position of the Canadian retirement operations segment of Chartwell for the three and six month periods ended June 30, 2007 and 2006, respectively.

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Revenues						
Same property	45,383	43,556	1,827	90,604	86,519	4,085
Acquisitions	16,917	2,141	14,776	31,758	2,484	29,274
Equity accounted VIEs	(2,814)	(2,639)	(175)	(5,691)	(5,185)	(506)
Total revenues	59,486	43,058	16,428	116,671	83,818	32,853
Expenses						
Same property	28,478	26,819	1,659	57,281	54,237	3,044
Acquisitions	10,088	1,416	8,672	19,167	1,689	17,478
Equity accounted VIEs	(1,882)	(1,723)	(159)	(3,878)	(3,615)	(263)
Total expenses	36,684	26,512	10,172	72,570	52,311	20,259
Net operating income						
Same property	16,905	16,737	168	33,323	32,282	1,041
Acquisitions	6,829	725	6,104	12,591	795	11,796
Equity accounted VIEs	(932)	(916)	(16)	(1,813)	(1,570)	(243)
Total Net Operating Income	22,802	16,546	6,256	44,101	31,507	12,594
Overall operating margins	38.3%	38.4%	-0.1%	37.8%	37.6%	0.2%
Same property statistics:						
Operating margins	37.2%	38.4%	-1.2%	36.8%	37.3%	-0.5%
Weighted average occupancy rate	91.6%	92.1%	-0.5%	91.7%	91.7%	0.0%
Weighted average occupancy rate excluding internal growth suites	93.3%	93.3%	0.0%	93.4%	92.8%	0.6%

- Same property revenues increased by 4.2% and 4.7% in the three and six month periods ended June 30, 2007 as compared to the same periods in the prior year due to regular annual rent increases of 2-3% and the implementation of yield management programs to establish increased market rates on suite turnover.
- Weighted average occupancy rates excluding internal growth suites remained at over 93% for the three and six month periods ended June 30, 2007.
- Same property operating expenses increased by 6.2% and 5.6% in the three and six month periods ended June 30, 2007 compared to the same periods of the prior year. These above inflationary increases were primarily due to higher realty tax and utility costs.
- Same property Net Operating Income increased by 1.0% and 3.2% in the three and six month periods ended June 30, 2007 as compared to the same periods of the prior year due to revenue growth and contributions of six internal growth projects. Operating margins declined by 1.2% and 0.5%, respectively, due to the higher growth in operating expenses as discussed above.

Acquisitions contributed an additional \$6.8 million and \$12.6 million of net operating income in the three and six months ended June 30, 2007.

Canadian Long-Term Care Operations

The following table represents results of operations and financial position of the Canadian long-term care operating segment for the three and six months ended June 30, 2007 and 2006, respectively.

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Revenues						
Same property	18,118	18,097	21	35,539	35,046	493
Acquisitions	10,251	1,287	8,964	18,659	1,770	16,889
Total revenues	28,369	19,384	8,985	54,198	36,816	17,382
Expenses						
Same property	15,770	15,680	90	31,217	30,292	925
Acquisitions	9,034	1,165	7,869	16,655	1,544	15,111
Total expenses	24,804	16,845	7,959	47,872	31,836	16,036
Net operating income						
Same property	2,348	2,417	(69)	4,322	4,754	(432)
Acquisitions	1,217	122	1,095	2,004	226	1,778
Total Net Operating Income	3,565	2,539	1,026	6,326	4,980	1,346
Overall operating margins	12.6%	13.1%	-0.5%	11.7%	13.5%	-1.9%
Same property statistics:						
Operating margins	13.0%	13.4%	-0.4%	12.2%	13.6%	-1.4%
Weighted average occupancy rate	97.7%	97.2%	0.5%	97.3%	96.7%	0.6%

Same property net operating income decreased by \$0.1 million (2.9%) and \$0.4 million (9.1%), in the three and six month periods ended June 30, 2007 as compared to the same periods of the prior year primarily due to the following:

- Higher utility cost.
- Higher food costs due to the prior period inventory adjustments in the first quarter of 2007 of approximately \$0.1 million.
- Lower occupancy in the retirement suites attached to two LTC communities.
- Overspending in nursing envelopes in certain communities which are expected to be corrected by the end of 2007.

Acquisitions completed subsequent to January 1, 2006 added in \$1.2 million and \$2.0 million of additional net operating income in the three and six months ended June 30, 2007, respectively.

Operating margins in the same property portfolio were 13.0% and 12.2% in the three and six month periods ended June 30, 2007, respectively, a decrease from the operating margins of 13.4% and 13.6% in the same periods of the prior year. The decrease was primarily due to increases received in the nursing envelope in the Ontario LTC communities which result in higher revenues but do not contribute to net operating income.

Weighted average occupancies in the same property portfolio remain above 97% in the first six months of 2007, slightly increasing from the weighted average occupancies in the same period of the prior year.

U.S. Operations

The following table represents the results of operations and the financial position of the U.S. operating segment for the three and six months ended June 30, 2007 and 2006, respectively.

(USD \$000's, unless otherwise indicated)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Revenues						
Same property	6,673	6,633	40	13,338	13,122	216
Acquisitions	47,692	4,132	43,560	80,185	4,132	76,053
Total revenues	54,365	10,765	43,600	93,523	17,254	76,269
Expenses						
Same property	3,847	3,625	222	7,704	7,385	319
Acquisitions	30,397	2,571	27,826	51,522	2,649	48,873
Total expenses	34,244	6,196	28,048	59,226	10,034	49,192
Net Operating Income						
Same property	2,826	3,008	(182)	5,634	5,737	(103)
Acquisitions	17,295	1,561	15,734	28,663	1,483	27,180
Total Net Operating Income	20,121	4,569	15,552	34,297	7,220	27,077
Foreign Exchange	2,019	384	1,635	4,443	918	3,525
Total Net Operating Income in CAN\$	22,140	4,953	17,187	38,740	8,138	30,602
Overall operating margins	37.1%	40.9%	-3.8%	36.7%	41.5%	-4.8%
Same property statistics:						
Operating margins	42.3%	45.3%	-3.0%	42.2%	43.7%	-1.5%
Weighted average occupancy rate	92.3%	91.5%	0.8%	92.5%	91.7%	0.8%
Same property NOI in USD\$	2,826	3,008	(182)	5,634	5,737	(103)
Average exchange rate for the period	1.0975	1.12134	(0.0238)	1.13485	1.13857	(0.0037)
Same property NOI in CAN\$	3,102	3,373	(271)	6,394	6,532	(138)

As at June 30, 2007, the U.S. Operations segment includes Chartwell's 50% interest in 26 seniors housing communities, 100% interest in 23 communities and two leased communities, 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 management company.

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 remained unchanged for the three months and increased by \$0.2 (1.6%) for the six months ended June 30, 2007 compared to the same period in the prior year, as the regular annual rent increases were partially offset by the deferral of upfront community fees collected from the residents,

which are recognized in income under GAAP over the estimated resident stay period, and lower ancillary income.

Same property operating expenses increased by 6.1% and 4.3% in the three and six month period ended June 30, 2007 compared to the same periods in the prior year. These above inflationary increases were primarily due to higher realty tax expense and higher contract services at certain properties.

Acquisitions completed subsequent to January 1, 2006 added US \$17.3 million and US \$28.7 million of additional net operating income in the three and six month periods ended June 30, 2007, respectively.

Same property operating margins decreased by 3.0% and 1.5% in the three and six month periods ended June 30, 2007 as compared to the same periods of the prior year primarily due to the expense growth and deferral of the community fees as discussed above.

Management Operations

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Revenues	1,485	3,428	(1,943)	5,351	7,402	(2,051)
Direct operating expenses	832	999	(167)	1,890	1,998	(108)
Net operating income	653	2,429	(1,776)	3,461	5,404	(1,943)
Operating margins	44.0%	70.9%	-26.9%	64.7%	73.0%	-8.4%

Revenues

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Spectrum:						
Development management	305	987	(682)	1,409	2,905	(1,496)
Operations management	369	150	219	707	279	428
Financing	-	212	(212)	-	383	(383)
Other	(47)	35	(82)	89	586	(497)
Total Spectrum	627	1,384	(757)	2,205	4,153	(1,948)
Melior	1,367	537	830	1,919	1,100	819
ING	255	998	(743)	2,223	1,107	1,116
Other	554	509	45	1,011	1,042	(31)
	2,803	3,428	(625)	7,358	7,402	(44)
Fees related to the lending activities recorded as yield adjustments to Mezzanine Loan Interest Income	(1,318)	-	(1,318)	(2,007)	-	(2,007)
Total fee revenue	1,485	3,428	(1,943)	5,351	7,402	(2,051)

In the second quarter of 2007, fee revenue before adjustments declined by \$0.6 million as compared to the same period of the prior year. Fees from Spectrum declined primarily due to lower development management activities in the quarter. Asset management fee from ING increased in the quarter due to the growth in assets under management. However, in the second quarter of 2006, Chartwell earned due diligence project management fees of approximately \$0.9 million. There were no such fees in the second quarter of the current year as the completion of the Regency Care portfolio acquisition by ING was delayed. Chartwell expects to record fees from ING of approximately \$0.6 million in the third quarter of

2007. The decreases in Spectrum and ING fee income were partially offset by higher amortization of Melior placement fees.

In the six month period ended June 30, 2007, total fee revenue before adjustments was comparable to the revenue earned in the same period of prior year as lower fees from Spectrum were offset by higher ING and Melior fees.

Fee revenue from Spectrum decreased in the first six months of 2007 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 the completion of a \$17.5 million equity raise. Excluding these fees, income from Spectrum in the first six months of 2007 was consistent with income recorded in the same period of the prior year.

Fees from ING were higher in the first six months 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 declined in the three and six month periods ended June 30, 2007 as compared to the same period of the prior year due to lower revenues as discussed above.

Quarterly Financial Information

The following table summarizes Chartwell's quarterly financial information:

(\$000's, except per unit amounts)	Three Months Ended June 30, 2007 (unaudited)	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)
Revenues	156,299	138,342	100,790	94,728	81,888	73,169	71,712	60,254
Direct operating expenses	(99,840)	(89,266)	(68,094)	(60,357)	(51,515)	(46,100)	(46,515)	(38,605)
Facility lease expenses	(11,785)	(12,387)	-	-	-	-	-	-
General, administrative and trust expenses	(5,129)	(4,934)	(4,590)	(4,629)	(4,242)	(3,357)	(3,206)	(2,525)
Income before interest, depreciation and amortization	39,545	31,755	28,106	29,742	26,131	23,712	21,991	19,124
Interest expense	(23,426)	(17,142)	(15,061)	(12,105)	(10,679)	(9,198)	(8,613)	(7,368)
Foreign exchange gains (losses)	(5,279)	(626)	615	157	(950)	52	(325)	(1,434)
Depreciation and amortization	(27,869)	(23,847)	(20,979)	(20,967)	(18,138)	(15,926)	(16,268)	(12,892)
Write down of carrying value of assets	(172)	-	(159)	(259)	-	(440)	(3,436)	-
Gain on sale of assets	320	-	-	296	100	-	-	-
Non-controlling interest	2,117	730	572	232	292	157	683	271
Income taxes	(16,389)	-	-	-	-	-	-	-
Net loss for the period	(31,153)	(9,130)	(6,906)	(2,904)	(3,244)	(1,643)	(5,968)	(2,299)
FFO	10,785	13,194	13,574	17,735	14,428	14,512	13,038	10,302
FFO per unit, diluted	0.11	0.17	0.18	0.25	0.23	0.26	0.23	0.21

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)	June 30, 2007	December 31, 2006	Change
Properties	2,108,701	1,510,209	598,492
Mezzanine loans	105,797	101,290	4,507
Assets held for sale	122,505	-	122,505
Total assets	2,841,514	1,977,750	863,764
Mortgages payable	1,447,392	987,046	460,346
Debt component of convertible debentures	178,800	120,115	58,685
Loans payable	2,991	2,303	688
Liabilities related to assets held for sale	80,107	-	80,107
Future income tax liability	21,293	-	21,293
Total liabilities	1,943,839	1,215,794	728,045
Non-controlling interest	55,523	54,453	1,070
Unitholders' equity	842,152	707,503	134,649
Total liabilities and equity	2,841,514	1,977,750	863,764

The increase in total assets in the first six 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 six months of 2007 due to the financings required to complete acquisitions. Assets held for sale and related liabilities are related to the acquisition of the Regency Care portfolio. On June 30, 2007, Chartwell became the 100% owner of the portfolio and was in the process of completing certain legal and structuring steps in order to dispose of a 50% interest in this portfolio to ING as per the participation agreement between Chartwell and ING. These steps were completed on August 1, 2007. Both Chartwell and ING agreed that ING will participate in earnings of these communities effective June 30, 2007 as ING funded their share of equity by that date. The increase in Unitholder's equity in 2007 is due to the completion of the Offering of Trust Units in the second quarter of 2007 offset by 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 six months 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 public offering	16,215,000	-	-	16,215,000
Trust Units issued pursuant to dividend reinvestment program	124,897	-	-	124,897
Conversion of convertible debentures	4,808	-	-	4,808
Trust Units issued under the Long-Term Incentive Program	-	557,875	-	557,875
Disposition of Long-term Incentive Program units under subscription	31,100	(31,100)	-	-
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)	-
Balance June 30, 2007	91,132,748	2,597,150	6,518,013	100,247,911

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at June 30, 2007:

(\$000's)	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Year					
2007	13,247	29,015	42,262	2.62%	5.71%
2008	26,529	63,366	89,895	5.72%	5.26%
2009	24,064	108,776	132,840	9.81%	4.85%
2010	23,184	55,777	78,961	5.03%	5.48%
2011	23,457	26,808	50,265	2.42%	4.83%
2012	24,643	69,044	93,687	6.23%	4.99%
2013	24,482	57,374	81,856	5.18%	5.11%
2014	22,271	34,199	56,470	3.09%	5.81%
2015	22,083	84,062	106,145	7.58%	5.34%
2016	19,278	168,090	187,368	15.16%	6.01%
2017-2021	63,293	356,880	420,173	32.19%	5.79%
Thereafter	70,378	55,173	125,551	4.98%	5.71%
Total	356,909	1,108,564	1,465,473	100%	
Less: Deferred financing costs			(18,081)		
Total			1,447,392		

At June 30, 2007, the average term to maturity for the total mortgage portfolio was approximately 9.3 years (December 31, 2006 – 7.0 years), and the weighted average interest rate was 5.5% (December 31, 2006 – 5.4%). In the first six months 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 June 30, 2007, Chartwell had approximately \$20.4 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 June 30, 2007 Chartwell had \$124.9 million of the 6% convertible unsecured subordinated debentures and \$75 million of the 5.9% convertible unsecured subordinated debentures outstanding. The 6% convertible debentures are convertible into Trust Units at a conversion price of \$15.60 per unit, and mature on December 1, 2011. The 5.9% convertible debentures are convertible into Trust Units at a conversion price of \$16.25 per unit and mature on May 1, 2012.

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 June 30, 2007, including the indebtedness of third parties guaranteed by Chartwell:

(\$000's)	June 30, 2007
Mortgages payable	1,447,392
Loans payable	2,991
Guarantees	66,780
Total indebtedness excluding convertible debentures	1,517,163
Convertible debentures (face value)	199,925
Indebtedness	1,717,088
Total assets	2,841,514
Accumulated depreciation and amortization	183,548
Gross book value of assets	3,025,062
Less: Assets financed by deferred purchase consideration on acquisition properties	69,300
Gross book value of assets (net of deferred consideration)	2,955,762
Debt/GBV before convertible debentures	51.3%
Debt/GBV including convertible debentures	58.1%

In the second quarter of 2007, Chartwell Unitholders at their Annual General Meeting approved an amendment to the definition of indebtedness and gross book value of assets to exclude deferred consideration related to the acquisition of properties.

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 \$229 million. This would allow Chartwell to acquire approximately \$574 million of new assets.

Liquidity and Capital Resources

Chartwell's cash commitments include payments related to long-term debt and convertible debentures, 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 June 30, 2007, Chartwell had a borrowing capacity of approximately \$67.7 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 28, 2008. The term can be extended with the consent of the lenders for an additional 364 day period.

The syndicated credit facility agreement between Chartwell and the lenders contains a covenant which requires Chartwell to maintain its Distributable Income such that not exceeding 100% of Distributable Income on an annual basis. Chartwell obtained waivers of this covenant from its lenders for the years ended December 31, 2005 and 2006. Chartwell anticipates obtaining a similar waiver for the year ending December 31, 2007.

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 June 30, 2007 were as follows:

(\$000's)	Total	2007	2008	2009	2010	2011	Thereafter
Mortgages payable	1,465,473	42,262	89,895	132,840	78,961	50,265	1,071,250
Convertible debentures	199,925	-	-	-	-	124,925	75,000
Loans payable	2,991	2,991	-	-	-	-	-
Purchase obligations	135,996	95,413	10,968	7,398	8,396	5,152	8,668
Property operating leases	556,796	19,346	40,094	41,380	42,709	44,083	369,184
Other operating leases	7,708	486	957	957	1,004	974	3,330
Mezzanine loan funding obligations	18,981	18,981	-	-	-	-	-
Land leases	14,705	126	252	252	252	252	13,570
Total contractual obligations	2,402,575	179,605	142,167	182,828	131,322	225,650	1,541,002

Purchase obligations relate to the following:

- Commitments with respect to the acquisition of interests in four seniors housing communities and management contracts for a total purchase price of approximately \$51.7 million.
- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately \$69.3 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.
- Deferred purchase obligations with respect to previously closed acquisitions in amount of approximately \$9.3 million payable 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 \$5.4 million.
- Commitments with respect to fixed contracts for the purchase of natural gas of approximately \$0.3 million.

Property operating leases relate to Chartwell's leased interests in 27 seniors housing communities.

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 12 retirement communities in Quebec, Ontario and British Columbia.

Land leases relates to an obligation assumed by Chartwell in respect of the three leases which expire between 2044 and 2061 with annual payments of approximately \$0.3 million

Guarantees

Guarantee	Maximum Amount	Obligation Outstanding on June 30, 2007	
Spectrum	23,850	17,847	(1)
Maxwell Residence	3,100	3,100	(2)
Joint and several guarantees on the co-owned properties	51,045	45,833	(3)
Total	77,995	66,780	

- (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 June 30, 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 and six months ended June 30, 2007:

(\$000's)	Six Months Ended June 30, 2007
Building improvements and additions	8,726
Acquisitions related capital expenditures	-
Long-term replacement items	1,642
Furniture, fixtures and equipment	3,639
Other	1,237
Total	15,244

Cash Flows

The following table summarizes Chartwell's cash flows for the three and six months ended June 30, 2007 and 2006:

(\$000's)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
<i>Cash provided by (used in):</i>						
Operating activities	72,020	15,931	56,089	59,851	25,393	34,458
Financing activities	454,705	267,988	186,717	539,099	265,080	274,019
Investing activities	(379,409)	(243,275)	(136,134)	(561,374)	(260,498)	(300,876)
Foreign exchange gain (loss) on U.S. dollar denominated cash	(419)	3,821	(4,240)	(222)	3,683	(3,905)
Increase (decrease) in cash and cash equivalents	146,897	44,465	102,432	37,355	33,658	3,697

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 and six month periods ended June 30, 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 June 30, 2007, mezzanine loans receivable from Spectrum amounted to approximately \$48.1 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 35 seniors' housing development properties.

During the three and six month periods ended June 30, 2007, Chartwell earned mezzanine loan interest of approximately \$1.3 million and \$2.6 million, respectively, from Spectrum.

During the three and six month periods ended June 30, 2007, Chartwell earned development and operations management, financing and other fees of approximately \$0.6 million and \$2.2 million, respectively, from Spectrum.

Other assets as of June 30, 2007 include approximately \$3.3 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell on behalf of Spectrum. Subsequent to June 30, 2007, approximately \$1.7 million of this balance was paid.

Included in distributions payable at June 30, 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 June 30, 2007, Chartwell had mezzanine loans receivable of approximately \$61.1 million from six of Spectrum's joint venture partners (including approximately \$45.9 million advanced to entities controlled by Melior) (the "Borrowers"). These loans bear interest at rates between 10% and 14% and are secured by second fixed charges or pledges of the Borrowers' interests in 24 development projects.

During the three and six month period ended June 30, 2007, Chartwell earned interest income from Melior of approximately \$2.5 million and \$4.1 million, respectively.

In the three and six month periods ended June 30, 2007, Chartwell paid Melior referral fees of approximately \$0.5 million related to acquisitions of properties in the province of Quebec.

Accounts receivable and other assets at June 30, 2007 included approximately \$1.8 million due from Melior. Subsequent to June 30, 2007, approximately \$0.6 million of outstanding amounts due from Melior were collected.

Other

Included in mortgages payable at June 30, 2007, is a vendor-take-back loan of approximately \$1.7 million due to an officer of Chartwell.

Subsequent Events

On July 5, 2007, Chartwell acquired, from a third party vendor, the remaining 50% interest in one long-term care community in which it has previously acquired 50%, pursuant to the Regency Care portfolio acquisition. Total consideration was approximately \$4.1 million, net of estimated assumed debt and working capital.

On August 1, 2007, Chartwell and ING completed all remaining legal and structuring steps and ING became a 50% owner of the eight LTC communities acquired as a part of the Regency Care acquisition.

Subsequent to June 30, 2007, Chartwell acquired one senior housing facility in Quebec for a purchase price of \$15.3 million.

Subsequent to June 30, 2007, Chartwell acquired Rouge Valley Retirement Home from Spectrum for a total purchase price of \$19.7 million.

Subsequent to June 30, 2007, Chartwell advanced \$2.7 million of mezzanine loans to Spectrum, Melior and Spectrum's 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 six months of 2007, Chartwell completed acquisitions of varying interests in 69 seniors housing communities. The aggregate asset value of these acquisitions and related management contracts amounted to approximately \$846.0 million (excluding assets held for sale).

At June 30, 2007, Chartwell had cash and cash equivalents of \$163.3 million and had the ability to complete additional acquisitions valued at approximately \$574.0 million based on its borrowing capacity.

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 2007-2008.

There are six internal growth projects (369 suites) 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 was financed with a construction loan. Construction was completed in July 2007 with 13 of the new suites now rented.
- 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 second 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 \$9.8 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 \$23.6 million (US\$ 22.1 million) of which approximately \$18.9 million (US\$17.7 million) is expected to be financed by a construction loan. Construction is expected to be completed in the fourth 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 which is expected to be fully 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 3,000 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 June 30, 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 June 30, 2007, Chartwell's portfolio of managed suites included over 9,400 suites in 69 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, Section 3251 – Equity, 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 first 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 June 30, 2007 are described in note 1(b) of the consolidated financial statements.

As a result of the SIFT rules (please refer to Significant Events section of this MD&A), Chartwell is likely to become subject to tax on certain income in 2007.

Chartwell uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the periods in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

Management is also considering the future accounting impact of the 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. The legislation has not yet been fully proclaimed into force. If it is proclaimed into force in the current form, Chartwell may be required to start amortizing the value of its LTC licenses over the respective license term.

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 information systems and financial processes. 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 June 30, 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 the Trust's internal controls over financial reporting during the quarter and have not noted any material changes to the Trust's internal control system as at June 30, 2007. As a result the material internal control weaknesses disclosed in the prior quarter, continue to exist (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 at June 30, 2007, the Trust's service provider that provides application hosting and maintenance service has reported weaknesses in their control environment that we consider to be material. The service provider has reported that they have not completed their remediation efforts of the control weaknesses, noted in their qualified section 5970 certification for the year ended December 31, 2006. Management has developed a contingency plan to compensate for the control weaknesses that continue to exist at the service provider; the contingency plan is expected to be operational by the end of the third quarter of 2007. Furthermore, 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 and six months ended June 30, 2007.

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

Our co-owned management company in the US continues to have inadequate segregation of duties within certain positions in the Finance department. As a result, certain transactions that are recorded in the Trust'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, the Trust 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 continue to note a lack of segregation of duties within certain key IT positions; insufficient access and password controls around our key applications and servers; and change management processes.

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 June 30, 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:**

SIFT Tax

Chartwell currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly-listed or traded trusts, as discussed below, income earned by Chartwell and distributed annually to unitholders was not, and would not be, subject to taxation in Chartwell, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and was committed to continue distributing all of its income to its unitholders. Accordingly, Chartwell did not previously record a provision for income taxes or future income tax assets or liabilities, in respect of Chartwell or its investment in its subsidiary trust.

For a description of the recent tax developments relating to SIFT, please refer to the Significant Events – Taxation section of this MD&A.

Under the SIFT Rules, 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 SIFT Rules 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 SIFT Rules, 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.

Proposed Restrictions on Interest Deductibility

In the March 19, 2007 federal budget, the Minister of Finance (Canada) announced proposed changes to the Tax Act regarding the deductibility of interest (and other borrowing costs) on money borrowed to invest in foreign affiliates. On May 14, 2007, the Minister announced that the scope of the proposals would be limited to preventing abusive tax avoidance involving tax havens and structures designed to generate two expense deductions for only one investment, so-called “double dipping”, and that implementation of the proposals would be deferred until 2012. Chartwell does not utilize such “double dipping” structures; however, management is continuing to monitor and examine the proposed changes to assess their potential impact, if any.

Special Committee

As previously disclosed, in light of the 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. At this time, Chartwell will continue with its current business plan, including growth in the Canadian and United States markets. The Special Committee continues to work in reviewing Chartwell’s strategic alternatives.

- (c) **Geographic Concentration:** A substantial portion of the business and operations of Chartwell is conducted in the United States, Ontario and Quebec, which at June 30, 2007 represented 35%, 33% and 22% 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 in the respective jurisdictions.
- (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. On October 3, 2006, the Government of Ontario introduced the Bill 140, now known as the Long-Term Care Homes Act, 2007 ("LTC Act 2007") which will consolidate the three pieces of legislation currently governing the LTC Communities. Aspects of the LTC Act 2007 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 LTC Act 2007 received third reading on June 4, 2007.

The LTC Act 2007 can not be fully proclaimed into force until regulations are drafted, which is expected to take approximately twelve months. It is therefore not anticipated that the LTC Act 2007 will be fully in force until 2008.

- (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 11,000 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 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.