CHARTWELL
SENIORS HOUSING REIT

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

MANAGEMENT DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the Years Ended December 31, 2007 and 2006

Contents

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 twelve months ended December 31, 2007. This MD&A should be read in conjunction with Chartwell's audited financial statements for the years ended December 31, 2007 and December 31, 2006, and the notes thereto (the "Financial Statements"). 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 March 6, 2008.

In this document, "Q1" refers to the three month period ended March 31; "Q2" refers to the three month period ended June 30; "Q3" refers to the three month period ended September 30; "Q4" refers to the three month period ended December 31; "2007" refers to the twelve months ended December 31, 2007; and, "2006" refers to the twelve months ended December 31, 2006.

Unless otherwise indicated, all comparisons of results for Q4 2007 are in comparison to results from Q4 2006 and all comparisons of results for the full year 2007 are in comparison to the results for the full year 2006.

Business Overview

Chartwell commenced operations on November 14, 2003 following the completion of its Initial Public Offering. Chartwell did not hold any material assets prior to November 14, 2003.

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 December 31, 2007, Chartwell's portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 37,436 suites in 271 communities which are operating, under construction or in various stages of development. Chartwell's portfolio of owned and leased communities consisted of interests in 27,766 suites in 200 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.

Our Vision

Our vision is to create and operate seniors housing communities where our residents enjoy a lifestyle and quality of life exceeding their expectations.

Our Mission

Our mission is:

- to be the most trusted name in seniors housing;
- to provide accommodation, care and services in every home, reflective of our residents' needs, preferences and interests, and adapt as they evolve;
- to ease the transition through the various stages of aging by providing a full continuum of care in the markets we serve;
- to provide comfort and assurance to the families of our residents that their loved ones are treated with the highest level of care, compassion and respect;
- to attract and retain the best employees by providing a rewarding and fulfilling work environment; and
- to generate reliable, sustainable and growing distributions for our Unitholders.

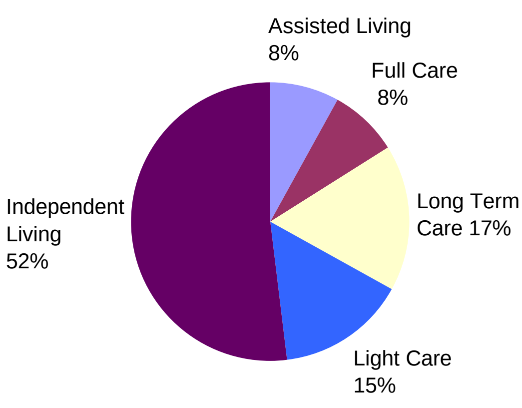
The following is the composition of Chartwell's owned, leased and managed portfolio of seniors housing communities in its four operating segments at December 31, 2007:

	Canadian Retirement Operations (2)(3)(6)	Canadian Long Term Care Operations (4)	United States Operations (5)(7)	Canadian Management Operations (2)	Total
Communities (1)	98	26	76	71	271
Suites/Beds	11,497	3,504	12,765	9,670	37,436

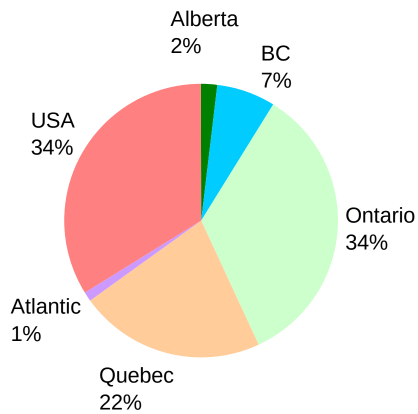
(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Includes stabilized, lease-up and communities under development.
(3) Includes 10 communities (1,555 suites) where Chartwell owns a 50% interest and one community (53 suites) where Chartwell owns a 39% interest.
(4) Includes eight communities (1,384 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 314 suites under development at four 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 at December 31, 2007 by:

Level of Care



Geographical Location



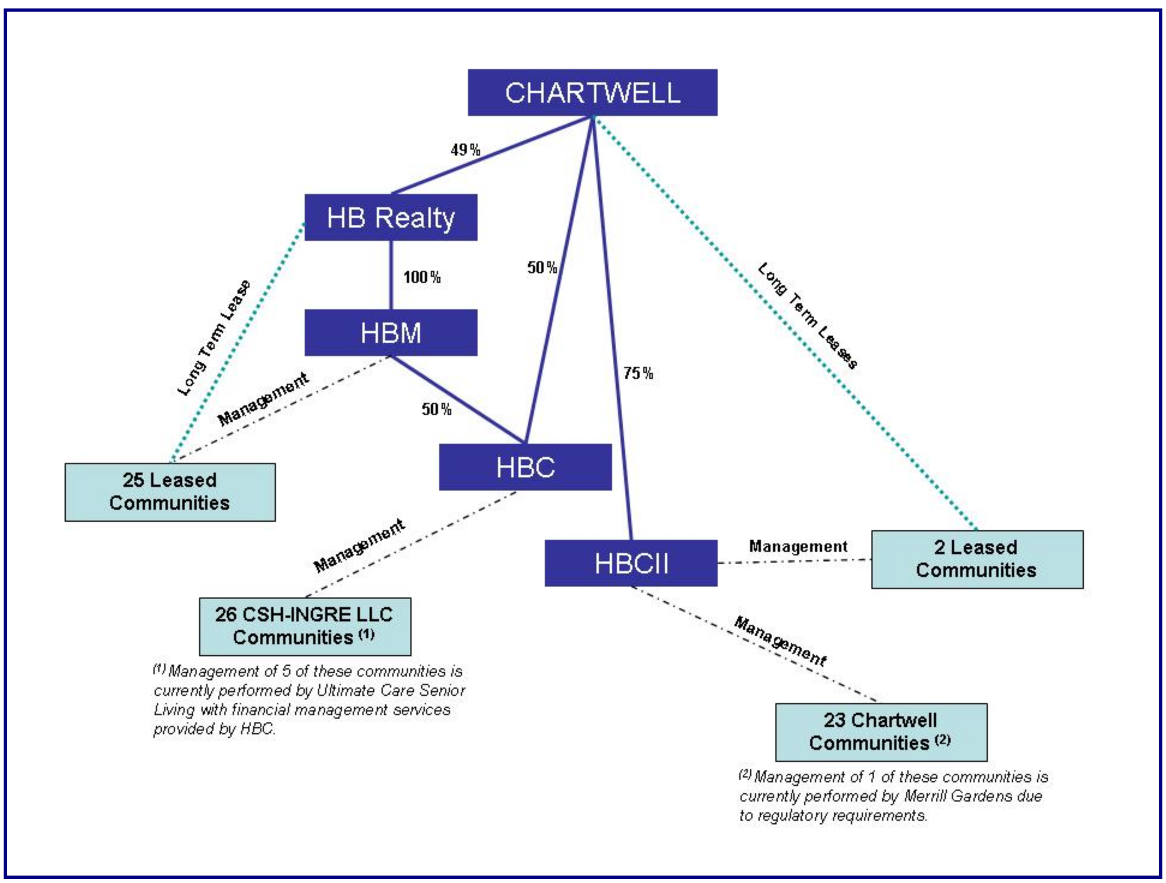
Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development program carried out by Spectrum Seniors Housing Development LP ("Spectrum"), a development entity in which certain of the Trust's senior executives own a controlling interest. Chartwell 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 require 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 North America. At December 31, 2007, Chartwell and ING each held a 50% interest in CSH-INGRE LLC ("CSH-INGRE"), which owned 26 seniors housing communities (4,636 suites) in the United States, In addition, Chartwell and ING owned a 50% interest each in eight seniors housing communities (1,384 suites) in Canada.

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 CSH-INGRE properties in the United States. The remaining 50% interest in HBC is owned directly by Chartwell. Chartwell's wholly owned properties in the United States are managed by HBCII Manager LLC ("HBCII"). Chartwell owns a 75% interest in HBCII.

The following chart describes the structure of Chartwell's U.S. Portfolio:



Owned and Leased Property Portfolio

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

	December 31, 2007[(1)(3)]	December 31, 2006[(2)]
Number of suites	27,766	16,501
Number of communities	200	131

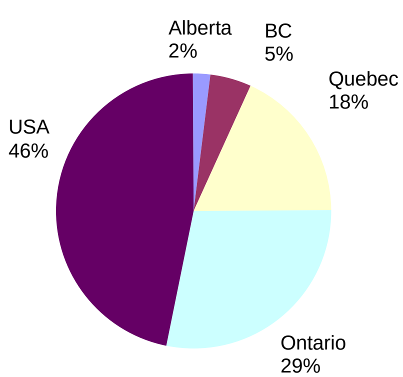
(1) Includes 44 communities (7,575 suites) in which Chartwell holds a 50% interest, and one community (53 suites) in which Chartwell holds a 39% interest, 25 communities (5,632 suites) in which Chartwell holds a 49% leased interest, and two communities (233 suites) in which Chartwell holds a 100% leased interest.

(2) Includes 30 communities (5,376 suites) in which Chartwell holds a 50% interest and one community (55 suites) in which Chartwell owns a 39% interest.

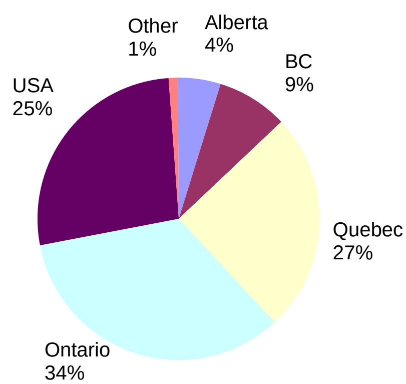
(3) Includes 412 suites under development at five existing communities.

Composition of Portfolio of Owned and Leased Suites by Geographical Location at December 31

2007



2006



Significant Events and 2008 Outlook

Over the last four years Chartwell has achieved an enviable presence in the North American seniors housing market. This includes its competitive advantage due to the age of Chartwell's properties, which on average are less than 10 years old. In addition, the diversification of its portfolio, which includes a large proportion of independent living communities, is attractive to the leading edge of baby boomers.

Chartwell's considerable growth has transformed the REIT into the largest owner and operator of seniors communities in Canada, and the third largest in North America. It is recognized and respected as providing the highest levels of care, service and respect for today's seniors and their families, and is the employer of choice in the seniors housing business with a dedicated and experienced team of people who truly enjoy caring for today's rapidly expanding seniors population.

Chartwell's growth has also been based on the strong fundamentals present in the North American seniors housing market. Significant demand is being driven by powerful demographic trends that are resulting in the seniors population growing at approximately three to four times the general population. As a result, in Canada alone, forecasts indicate that more than 11,000 new seniors housing suites are required each year until 2026 just to meet current supply ratios. In addition, today's senior is healthier, wealthier and more informed about the options available for his or her retirement years.

Recognizing that Chartwell has reached a significant size and critical mass, our main objective is to generate strong and sustainable organic growth on an annual basis, as measured by increased AFFO per unit, through a continued focus on the efficient management of our operations, and ensuring we capture all of the available economies of scale and operating synergies resulting from our growth.

The following events have had a significant effect on the financial results of Chartwell for 2007 or are expected to affect results in the future.

Acquisitions

At December 31, 2007, Chartwell had cash and cash equivalents of $72.5 million and had the ability to complete additional acquisitions valued at approximately $438.0 million based on its available borrowing capacity.

In 2007, Chartwell completed acquisitions of varying interests in 72 seniors housing communities. The aggregate asset value of these acquisitions and related management contracts amounted to approximately $911.0 million (excluding assets held for sale).

The following table summarizes acquisitions completed in 2007:

($000's)	Total 2007	Q4 2007	Q3 2007	Q2 2007	Q1 2007
# Communities	72	1	2	33	36
# Suites	11,158	121	184	3,918	6,935
Purchase price (including closing costs and assets held for sale)	1,034,163	18,900	46,342	664,841	304,080
Financed as follows:					
Assumption of mortgages payable	277,886	11,043	5,610	208,681	52,552
Other assumed liabilities, net	93,282	99	4,561	85,069	3,553
Future income tax liability	4,904	-	-	4,904	-
Discharge of mezzanine loan receivable	3,831	1,350	793	-	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	364,380	-	10,851	252,428	101,101
Cash	235,067	6,408	24,527	109,640	94,492
Total	1,034,163	18,900	46,342	664,841	304,080

Included in the above acquisitions are the following:

On June 30, 2007, Chartwell completed the acquisition of the Regency portfolio consisting of eight long term care communities (1,384 suites) and management contracts for six other communities for a total purchase price of approximately $262.2 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 long term care communities and funded its share of equity in the amount of approximately $42.4 million. As certain legal and structuring steps remained incomplete at June 30, 2007, ING became the 50% owner effective August 1, 2007 of these eight long term care communities. Chartwell and ING agreed that ING would 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") totaling 2,238 suites. The total purchase price for the Merrill Gardens portfolio amounted to approximately $385.0 million (US$346.9 million).

In the first quarter of 2007, CSH-INGRE LLC acquired five seniors housing communities (640 suites) in the United States (the "Bristal portfolio"). Chartwell's share of the purchase price amounted to $170.0 million (US $145.8 million).

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, as described in the "Business Overview" section of this MD&A, Chartwell acquired an interest in the management contracts for these properties.

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

2007 Acquisitions

#	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[2]	Oakville, ON	Long term care	June 30, 2007	168
63.	Regency Care – The WenLeigh[2]	Mississauga, ON	Long term care	June 30, 2007	161
64.	Regency Care – The WestBury[2]	Etobicoke, ON	Long term care	June 30, 2007	187
65.	Regency Care – The WoodHaven[2]	Markham, ON	Long term care	June 30, 2007	192
66.	Regency Care – The WynField[2]	Oshawa, ON	Long term care	June 30, 2007	172
67.	Regency Care – The WestMount[2]	Kitchener, ON	Long term care	June 30, 2007	160
68.	Regency Care – The WillowGrove[2]	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
70.	Chateau Vincent D'Indy	Montreal, QC	Retirement	July 23, 2007	96
71.	Rouge Valley Retirement Residence[3]	Markham, ON	Retirement	July 31, 2007	88
72.	Constantia Retirement Residence[2][3]	Thornhill, ON	Retirement	November 15, 2007	121
					11,158

(1) Chartwell acquired a 49% leased interest and related management contracts for these communities.
(2) Chartwell acquired a 50% interest in these communities.
(3) These communities were 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 this community 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

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.

During 2005, Chartwell completed the development of 185 suites at four of our properties and the repositioning of two existing properties, at total cost of $32.7 million. As of December 31, 2007, 130 of these newly developed suites were leased.

Chartwell completed the following internal growth projects in 2006 and 2007:

Project	Location	Suites	Total Cost ($million)	Debt ($million)	Construction Completion	Leased Units December 31, 2007
2007						
Birchwood Retirement Residence	Chilliwack, BC	12	2.5	2.5	Q4 2007	5
Hartford Retirement Centre	Morrisburg, ON	22	5.9	5.5	Q3 2007	14
2007 Total		34	$8.4	$8.0		19
2006						
L'Oasis	St. Jean, QC	86	14.5	10.4	Q4 2006	64
Marquis de Tracy II, Ph II[(1)]	Sorel, QC	72	10.0	7.7	Q4 2006	27
New Edinburgh Square	Ottawa, ON	16	3.6	1.0	Q1 2006	16
2006 Total		174	$28.1	$19.1		107
Total		**208**	**$36.5**	**$27.1**		**126**

(1) Chartwell owns a 50% interest in this property.

In addition to the projects completed in 2005 through to 2007, there are currently five internal growth projects (412 suites) in various stages of development, as follows:

Canada:

- A 28 suite addition to the Collegiate Heights Retirement Residence in Sault Ste Marie in Ontario. The estimated construction costs are approximately $6.7 million, of which approximately $5.4 million is expected to be financed by a construction loan. Construction is expected to be completed in the second quarter of 2008.*
- A 132 suite addition to Residence Ste-Marthe in St. Hyacinthe, Quebec. The estimated construction costs are approximately $14.8 million of which approximately $10.5 million is expected to be financed by a construction loan. Construction is expected to be completed in the third quarter of 2008.*
- An 82 suite addition to Manoir Pierrefonds in Montreal, Quebec. The estimated construction costs are approximately $9.8 million of which approximately $7.2 million is expected to be financed with a construction loan. Construction is expected to be completed in the second quarter of 2008.*

* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A*

- A 72 suite addition to Maison Herron in Dorval, Quebec. The estimated construction costs are approximately $9.3 million, of which approximately $4.9 million is expected to be financed with a construction loan. Construction is expected to be completed in the third quarter of 2008.*

United States:

- A 98 suite expansion of the 50% owned Gayton Terrace retirement residence in Richmond, Virginia. The estimated project costs are approximately US $22.1 million of which approximately US $17.7 million is being financed by a construction loan at a fixed rate of 6.14%. Construction is expected to be completed in the first quarter of 2009.*

In addition, we have 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 2008.*

Mezzanine Loans

At December 31, 2007 Chartwell had $112.0 million of mezzanine loans outstanding. During the year, Chartwell advanced mezzanine loans totaling approximately $17.9 million to Spectrum, Melior and their joint venture partners net of placement fees of approximately $0.4 million. Mezzanine loans in the amount of approximately $3.8 million were repaid following the acquisition by Chartwell of interests in three communities. In addition, other mezzanine loan repayments totaled approximately $3.4 million during 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 the 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 “5.9% Convertible Debentures”. 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. Three of the properties that we had planned on acquiring with the proceeds of these offerings have been delayed pending either lender or regulatory approvals; we anticipate closing these acquisitions in 2008.*

On November 28, 2006, Chartwell completed a public offering of Trust Units and a 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

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* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A.*

the private placement of approximately $273.0 million, net 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, net 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, to finance capital expenditures and for general business purposes.

Development

Chartwell's strong relationships with seniors housing developers provides a pipeline of opportunities to acquire new and fully stabilized properties, which are designed to our specifications. Since commencement of our operations, we acquired interests in 14 new seniors housing communities representing approximately 1,144 suites in Canada from Spectrum and its joint venture partners where applicable. At December 31, 2007, Spectrum, Melior and their joint venture partners had over 6,000 suites under development or in lease-up across Canada. Chartwell has an option to acquire these suites upon stabilization, in many cases at a discount to appraised value. While these projects are in the development and lease-up phase, we generate a revenue stream from interest and fees through our mezzanine financing program.

Third Party Management

At December 31, 2007, Chartwell's portfolio of managed suites included over 9,670 suites in 71 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.

Taxation Related Matters

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of certain 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 certain publicly-listed or traded partnerships and trusts, such as an income trust and a real estate investment trust (a "REIT").

Under the SIFT Rules, following a transition period for SIFTs existing on October 31, 2006 (described below), 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 fiscal 2007, Chartwell is subject to tax on certain income.

Under the existing SIFT Rules, certain flow-through subsidiaries of Chartwell may also be SIFTs. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. The proposed technical amendment to the SIFT definition would exclude trusts and partnerships whose equity is not publicly traded, and is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. A subsidiary partnership of Chartwell may not meet this ownership requirement and therefore this entity may be a SIFT. This technical issue cannot be resolved until detailed legislation is released. Due to this uncertainty, we have provided for SIFT tax at the partnership level and recorded a current tax provision.

Based on the current structure of Chartwell and management's understanding of the SIFT rules, and certain operational assumptions, management has recorded a provision for future income tax expense of $13.9 million. In addition, we have recorded a current income tax provision of $1.8 million related to SIFT tax and $0.2 million related to taxes of US subsidiaries or $0.02 per unit diluted in aggregate.

Approximately 97.7% of Chartwell's distributions in 2007 were characterized as non-taxable returns of capital in Chartwell's indirect investment in its subsidiaries.

Distributions

Effective with the payment to Unitholders for March 2008, due on April 17, 2008, cash distributions will be reduced to $0.74 per unit per annum from the current level of $1.065 per unit per annum. The new annual cash distribution, if implemented for the full 2007 year, would have been equal to 2007 pre-tax AFFO and will result in an annual cash retention above current levels by approximately $30.0 million. These funds will be redeployed and utilized to accelerate Chartwell's value-enhancing initiatives, including internal growth projects, select acquisitions and development activities.

Chartwell intends to manage its distributions over time to a level which will allow Chartwell to continue to fund the maintenance of its properties to the high standards to which its residents are accustomed, while providing an appropriate cushion to recognize the operating nature of Chartwell's business and allow funds to be allocated to the growth and enhancement of the portfolio.

Key Performance Indicators (“KPI”)

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. 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.

The denominator for basic and diluted weighted average units outstanding used in the calculation of basic and diluted FFO per unit is calculated using GAAP methodology.

The tables presented under the Consolidated Results of Operations, Non-GAAP Measures section of this MD&A provide a reconciliation of FFO to net income, as reported in Chartwell’s consolidated financial statements.

Normalized Funds from Operations

In addition to presenting FFO in accordance with the definition adopted by REALpac, Chartwell also discloses Normalized FFO which excludes the effects of recording operating lease expense on a straight line basis and unrealized foreign exchange gains and losses to allow for better comparability to prior periods.

Normalized Funds from Operations (“NFFO”) 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. NFFO as presented may not be comparable to similar measures presented by other companies. Management believes NFFO is useful in the assessment of the operating performance of Chartwell and that this measure is also useful for valuation purposes. Management calculates NFFO by adding or subtracting certain items to FFO as defined by REALpac, as follows:

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.

Unrealized gains and losses on derivative financial instruments and unrealized foreign exchange gains and losses:
These non-cash items are adjusted for as these amounts may fluctuate significantly over time and we believe that this adjustment improves comparability across periods.

SIFT Income Tax Expense
Current income tax expense arising from the probability that one of Chartwell's subsidiaries will be taxed as a SIFT is added back to income in our calculation of Normalized Funds from Operations. We believe that various restructuring options are available to ensure that the entities would no longer be subject to the SIFT tax by 2009.

The denominator for basic and diluted weighted average units outstanding used in the calculation of basic and diluted NFFO per unit is calculated using GAAP methodology.

The tables presented under the Consolidated Results of Operations, Non-GAAP Measures section of this MD&A provide details of NFFO calculations.

Adjusted Funds from Operations

Adjusted Funds from Operations ("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. Management believes AFFO is useful in the assessment of the operating performance of Chartwell and that this measure is also useful for valuation purposes. Management calculates AFFO by adding or subtracting certain items to FFO as defined by REALpac, as follows:

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.

Unrealized gains and losses on derivative financial instruments and unrealized foreign exchange gains and losses:
These non-cash items are commonly adjusted for 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 and Long Term Care to communities which meet certain design criteria. We include this item in AFFO calculations.

Amounts received under income guarantees:
This item represents cash flow received from vendors of acquired communities. It is generally applicable to communities in lease-up.

Amortization of debt mark to market adjustments, including accretion on the convertible debentures, 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.

Capital maintenance reserve:
Capital maintenance reserve is estimated at 2% of property revenue.

The denominator for basic and diluted weighted average units outstanding used in the calculation of basic and diluted AFFO per unit is calculated using GAAP methodology.

The tables presented under the Consolidated Results of Operations, Non-GAAP Measures section of this MD&A provide details of AFFO calculations.

Net Operating Income

Net operating income ("NOI") is calculated as revenue, excluding below market lease amortization, adding equity income from Quebec Co-owned properties, less direct operating expenses and is reported for each operating segment. Management uses this measure to evaluate individual and divisional property performance.

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 Canadian retirement, 10 Canadian long term care, and eight 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. However, as operating margins typically vary by the level of care offered, the mix of our portfolio's various levels of care needs to be considered when conducting performance analysis. In addition, as higher acuity levels of service often have lower margins, this can affect this performance measure while these services may add incremental NOI.

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, Administrative and Trust Expenses as a Percentage of Revenue

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

Consolidated Results of Operations

Overview of Consolidated Results of Operations

Achievements in our Key Performance Indicators for 2007 as compared to 2006 are as follows:

- Same property performance improved with net operating income ahead of 2006 by $3.6 million or 4.2%.
- In 2007, acquisitions delivered incremental NOI of $88.6 million compared to 2006, excluding the impact of foreign exchange.
- Overall, occupancy was up across our same property portfolio to 93.0% in 2007 compared to 92.4% in 2006.
- Same property portfolio operating margins were 30.9% in 2007, flat compared to 2006. Operating margins improved due to improved occupancies and new standardized cost management programmes. However, this was offset by increased flow through funding revenues in our Canadian Long Term Care operations, and service revenues which contribute additional NOI at lower margin rates. Our standardized cost management programmes are at the early stages of implementation across our organization and we anticipate future benefits will be realized across our entire portfolio of assets.*
- General, administrative and trust expenses continued to decrease as a percentage of revenues, declining 1.7 percentage points to 3.1% of revenues for 2007 before cost attributable to the Special Committee and related advisory fees. Excluding Special Committee and related advisory costs, expenses increased by $2.9 million or 17.2% compared to 2006.
- AFFO for 2007 was $0.72 per unit diluted, a decrease of $0.08 compared to 2006. For Q4 2007, AFFO was $0.15 per unit diluted in line with AFFO in 2006. Key factors in the change in AFFO can be summarized as follows:
    - Current income tax expense increased by $2.0 million or $0.02 per unit diluted, primarily as a result of SIFT tax expense recorded in Q4 2007 of $1.8 million. There is not a comparable amount in 2006.
    - General, administrative and trust expenses included $3.0 million or $0.03 per unit diluted in 2007 and $0.8 million or $0.01 per unit diluted in Q4 2007 related to the Special Committee activities. These costs are not expected to be recurring.*
    - The write off of costs related to acquisitions we decided not to pursue increased general and administrative expenses by $1.4 million or $0.01 per unit diluted and $0.8 million or $0.01 per unit diluted in Q4 2007. In addition, increased corporate overhead to support our substantial growth in 2007 increased general, administrative and trust expenses in 2007.
    - The increase in the value of the Canadian dollar relative to the US dollar reduced AFFO by approximately $0.3 million in 2007 and $0.1 million in Q4 2007.
    - Dilution from the issuance of Trust Units and Convertible Debenture Offering in April 2007 as the proceeds were not fully deployed in 2007, reduced AFFO. We estimate the impact of this dilution to be approximately $0.03 per unit diluted in 2007 and $0.01 per unit diluted in Q4 2007.

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* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A.*

These factors were offset by improvements as follows:

- Improved same property NOI added $3.6 million or $0.04 per unit diluted and $1.3 million or $0.01 per unit diluted for Q4 2007, excluding foreign exchange.
- Due diligence project management and asset management fees earned from ING increased by $3.1 million or $0.03 per unit diluted and by $0.7 million or $0.01 per unit diluted in 2007 and Q4 2007, respectively.
- In addition, AFFO was positively affected by increased capital funding from health authorities and income guarantees which increased by $1.8 million or $0.02 per unit diluted in 2007 and $1.2 million or $0.01 per unit diluted in Q4 2007.

- FFO diluted per unit was $0.58 for 2007 compared to $0.91 for 2006 and $0.14 per unit diluted for Q4 2007 compared to $0.18 per unit diluted for Q4 2006 as described in the "Funds from Operations" section of this MD&A. Normalized FFO, which excludes the effect of foreign exchange losses on intercompany debt, straight line lease expense adjustments and current SIFT income tax expense, was $0.80 per unit diluted for 2007, compared to $0.91 per unit diluted for 2006.

- Net loss increased to $0.78 per unit diluted for 2007 compared to $0.25 per unit diluted for 2006 and increased to $0.11 per unit diluted for Q4 2007 from $0.05 per unit diluted in Q4 2006. In addition to the factors described above, future income tax expense and depreciation and amortization increased in 2007 compared to 2006.

The following table presents a summary of selected operating performance measures:

($000's, except per unit amounts, occupancy rates, and operating margins)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
Property revenue	163,812	93,548	70,264	604,195	318,977	285,218
Total revenues	173,165	100,790	72,375	645,037	350,575	294,462
Net loss	(10,116)	(6,906)	(3,210)	(67,339)	(14,698)	(52,641)
Net loss per unit (basic and diluted)	(0.11)	(0.05)	(0.06)	(0.78)	(0.25)	(0.53)
Distributions declared	26,417	20,627	5,790	100,984	71,122	29,862
Distributions declared per unit	0.27	0.27	-	1.07	1.07	-
FFO [(1)]	14,317	13,574	743	55,176	60,249	(5,073)
Diluted FFO per unit	0.14	0.18	(0.04)	0.58	0.91	(0.33)
Normalized FFO [(2)]	18,024	12,922	5,102	75,939	60,197	15,742
Diluted Normalized FFO per unit	0.18	0.17	0.01	0.80	0.91	(0.11)
AFFO [(3)]	15,335	11,228	4,107	68,395	53,176	15,219
Diluted AFFO per unit	0.15	0.15	-	0.72	0.80	(0.08)
Weighted average occupancy rate:						
Same property portfolio	93.3%	93.2%	0.1pp[(4)]	93.0%	92.4%	0.6pp
Same property portfolio excluding internal growth suites	94.0%	94.4%	(0.4pp)	93.9%	93.6%	0.3pp
Operating margin – same property portfolio	29.4%	28.9%	0.5pp	30.9%	30.9%	-
Weighted average number of units including Class B Units of Chartwell Master Care LP:						
Basic	97,831,693	72,576,609	25,255,084	92,528,560	64,532,816	27,995,744
Diluted – LTIP	100,180,041	74,667,500	25,512,541	94,950,032	66,299,779	28,650,253

(1) Please refer to "Non-GAAP Measures Funds from Operations" section of this MD&A for the reconciliation of FFO and Net Income
(2) Please refer to the "Normalized Funds from Operations" section of this MD&A for the details of the NFFO calculation.
(3) Please refer to the "Adjusted Funds from Operations" section of this MD&A for the details of the AFFO calculation.
(4) Percentage points.

Summary of Property Revenue

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
Same property[1]	73,713	70,511	3,202	285,263	273,904	11,359
Acquisitions[1]	94,105	23,881	70,224	316,626	49,780	266,846
Foreign exchange on US dollar revenue	(982)	1,992	(2,974)	13,935	6,057	7,878
Equity accounted VIEs	(3,024)	(2,836)	(188)	(11,629)	(10,764)	(865)
Total property revenue	163,812	93,548	70,264	604,195	318,977	285,218
Weighted average occupancy same property portfolio	93.3%	93.2%	0.1pp[2]	93.0%	92.4%	0.6pp
Weighted average occupancy same property portfolio excluding internal growth suites	94.0%	94.4%	(0.4pp)	93.9%	93.6%	0.3pp

(1) Excluding the effect of foreign exchange on US dollar revenue
(2) Percentage points

Total property revenue increased by 89.4% in 2007 as compared to 2006, due to contributions from acquisitions completed subsequent to January 1, 2006 and same property revenue growth. Same property revenue increased by approximately $11.4 million or 4.1% in 2007, as compared to 2006 due to the following:

- Continued implementation of yield management programs in the Canadian retirement home portfolio to establish increased market based rates on suite turnover.
- Regular annual rent increases and the addition of new services for residents at some of Chartwell's communities.
- Increased contributions from internal growth projects completed in the last three years.

Chartwell owns seven operating companies with Melior in the Province of Quebec (the "Co-ownerships"). These Co-ownerships are structured to lease the respective communities from the co-owners and are considered Variable Interest Entities ("VIEs") under GAAP. As Chartwell is not considered to be the primary beneficiary of these entities, we are required to account for them using the equity method of accounting. Operating results of these communities are included in the same property portfolio for presentation purposes in the above table.

Weighted average occupancy rates in the same property portfolio excluding internal growth suites improved to 93.9% in 2007 from 93.6% in 2007, a 0.3 percentage point increase.

Fourth Quarter

In Q4 2007, same property revenue increased by $3.2 million or 4.5% as compared to Q4 2006 due to slightly increased occupancies, annual rent increases and contributions from internal growth projects.

Summary of Direct Operating Expenses

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
Same property[1]	52,071	50,149	1,922	197,109	189,342	7,767
Acquisitions[1]	64,680	17,792	46,888	215,435	37,219	178,216
Foreign exchange on US dollar expenses	(690)	1,019	(1,709)	8,725	2,802	5,923
Equity accounted VIEs	(2,109)	(1,934)	(175)	(7,855)	(7,324)	(531)
Total direct operating expenses – properties	113,952	67,026	46,926	413,414	222,039	191,375
Direct operating expenses – management operations	1,112	1,068	44	3,996	4,027	(31)
Total direct operating expenses	115,064	68,094	46,970	417,410	226,066	191,344

(1) Excluding the effect of foreign exchange on US dollar expenses

Total direct operating expenses increased by 84.6% in 2007 as compared to 2006, primarily due to additional expenses from acquisitions completed subsequent to January 1, 2006.

Same property direct operating expenses increased by approximately $7.8 million or 4.1% in 2007 as compared to 2006 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.
- Additional operating expenses related to internal growth projects completed in 2005 through to 2007.
- Inflationary increases in wage costs, combined with higher than inflationary repairs and maintenance costs, offset by the implementation of new purchasing programmes late in 2007.

Fourth Quarter

Direct operating expenses for our same property portfolio increased $1.9 million or 3.8%.

The rate of growth in direct operating expenses in Q4 2007 has been mitigated by the results of implementing new cost management programmes across the organization. Benefits from these programmes are expected to continue to be realized as we continued to standardize costs and leverage our increased purchasing power.*

* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A.*

General, Administrative and Trust Expenses

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
General, administrative and trust expenses	5,403	4,590	813	19,706	16,818	2,888
Special Committee and related advisory fees	822	-	822	3,026	-	3,026
General, administrative and trust expenses before legal costs recorded as a reduction to mezzanine loan interest	6,225	4,590	1,635	22,732	16,818	5,914
Legal costs recorded as reduction to mezzanine loan interest (1)	(288)	-	(288)	(902)	-	(902)
Total general, administrative and trust per financial statements	5,937	4,590	1,347	21,830	16,818	5,012
As % of revenue:						
Including Special Committee Costs	3.4%	4.6%	(1.2pp)	3.4%	4.8%	(1.4pp)
Excluding Special Committee Costs	3.1%	4.6%	(1.5pp)	3.1%	4.8%	(1.7pp)

(1) Effective January 1, 2007, on adoption of the New Standards, we began recording legal costs associated with our mezzanine loans received as a reduction of the mezzanine loan balances and amortized to income using the effective yield method. These costs were previously amortized to general administrative and trust expenses on a straight-line basis over the expected term of the loan.

General, administrative and trust expenses before the costs of the Special Committee increased by $2.9 million or 17.2% in 2007 as compared to 2006.

As a percentage of total revenues, general, administrative and trust expenses before Special Committee costs decreased to 3.1% in 2007 from 4.8% in 2006. This is primarily due to significant growth in total revenues combined with the successful implementation of cost management initiatives in 2007.

Including $3.0 million of Special Committee costs, general, administrative and trust expenses increased $5.9 million or 35.2%.

Included in general, administrative and trust expenses in 2007 are expenses of $1.4 million related to potential acquisitions which Chartwell decided not to pursue. The timing of expenses related to acquisitions that we determine it is not appropriate to pursue is inherently difficult to predict.

Management expects growth in absolute dollars in general, administrative and trust expenses but a decline as a percentage of revenues.*

Fourth Quarter

In Q4 2007, general, administrative and trust expenses, before Special Committee costs, increased by 17.7% as compared to the same period of the prior year, reflecting additional corporate infrastructure required to support the extensive growth achieved in assets under management in 2007.

* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A.*

Interest and Property Lease Expense

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
Interest Expense						
Mortgages and loans payable	20,555	13,409	7,146	74,642	44,875	29,767
Convertible debentures	2,928	694	2,234	10,567	694	9,873
Operating credit facility	-	316	(316)	52	316	(264)
	23,483	14,419	9,064	85,261	45,886	39,375
Accretion adjustment to convertible debenture liability	657	-	657	2,075	-	2,075
Amortization of debt mark to market adjustments arising on acquisition	(311)	(729)	419	(838)	(2,036)	1,199
Amortization of financing costs	1,102	1,371	(269)	4,484	3,194	1,290
Total Interest Expense:	24,931	15,061	9,871	90,982	47,043	43,939
Property Lease Expense						
Contractual lease payments for the period	8,916	-	8,916	38,400	-	38,400
Adjustment to record lease expense on a straight line basis over the lease term	1,815	-	1,815	8,069	-	8,069
Total Property Lease Expense	10,731	-	10,731	46,468	-	46,468

The increase in interest expense is consistent with the growth in Chartwell's debt portfolio as mortgages payable increased $458.7 million from approximately $987.0 million at December 31, 2006 to approximately $1,445.7 million at December 31, 2007.

In addition, Chartwell had approximately $125.0 million of 6.0% and $75.0 million of 5.9% subordinated convertible debentures outstanding in 2007 that were not issued until November 28, 2006 and April 20, 2007 respectively.

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 amount to US $70.8 million, subject to adjustments pursuant to the master lease agreement, and are expected to grow at approximately 3.35% per annum over the remaining lease term of 12 years. Chartwell accounts for lease expense on a straight line basis averaging the total lease payments over the remaining lease term of 12 years.

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 US $1.6 million, subject to adjustments pursuant to the lease agreements.

Mezzanine Loans and Interest Income

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
Mezzanine loan interest based on gross loan balances	3,075	2,798	277	11,958	10,361	1,597
Effective yield adjustments for:						
Fees integral to lending activities(1)	(220)	-	(220)	2,286	-	2,286
Costs integral to lending activities(1)	(288)	-	(288)	(902)	-	(902)
	2,567	2,798	(231)	13,342	10,361	2,981
Gross mezzanine loan balances outstanding (end of the period)				112,037	101,290	10,747
Fees net of costs recorded as a reduction of mezzanine loan balances(1)				(4,413)	-	(4,413)
Net mezzanine loan receivable				107,624	101,290	6,334

(1) Effective January 1, 2007, in accordance with the adoption of Section 3855, Financial Instruments – Recognition and Measurement, certain fees received 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 2007 as compared to 2006 due to the higher loan balances outstanding. As required by the effective interest rate method, we update our expectations for targeted completion dates of the underlying construction projects and re-discount the expected cash flows for the life of the project over the revised expected time to complete. During Q4 2007, certain projects were identified as delayed and consequently the yield adjustment for Q4 2007 recorded was negative as a result of the required re-discounting the cash flow from inception of the project to the revised expected completion date.

Other Items

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Bank interest and other income	1,957	1,199	758	8,152	3,271	4,881
Below market lease amortization revenue	259	510	(251)	1,394	2,039	(645)
Unrealized / realized gains and losses on derivative financial instruments and unrealized foreign exchange gains and losses	(122)	615	(737)	(10,925)	(126)	(10,799)
Depreciation of properties	(16,016)	(9,551)	(6,465)	(58,359)	(33,095)	(25,264)
Amortization of limited life intangible assets	(12,227)	(11,428)	(799)	(53,944)	(42,915)	(11,029)
Write down of assets	(1,284)	(159)	(1,125)	(1,456)	(858)	(598)
(Loss) / Gain on sale of assets	(413)	-	(413)	(82)	396	(478)
Current income tax expense	(2,004)	-	(2,004)	(2,004)	-	(2,004)
Future income tax (expense) recovery	4,267	-	4,267	(13,924)	-	(13,924)
Non-controlling interest	1,179	572	607	5,008	1,252	3,756
Net loss	(10,116)	(6,906)	(3,210)	(67,339)	(14,698)	(52,641)

Bank Interest and Other Income

The increase in bank interest and other income is primarily due to the higher interest income earned due to increased average cash balances in 2007.

Unrealized / Realized Gains and Losses on Derivative Financial Instruments and Unrealized Foreign Exchange Gains and Losses

In 2007, Chartwell recorded an unrealized foreign exchange loss of $10.3 million related to the intercompany cross border US dollar denominated debt used by Chartwell to finance its US operations in a tax efficient manner. At December 31, 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

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

Write Down of Assets

In 2007 Chartwell recorded a write-down of two management contracts and related customer relationships in the amount of $0.2 million due to the sale of the property by the owners.

During Q4 2007, we identified one non-core retirement property (53 suites), which we hold as an equity investment, in Ontario for sale. Assessment of the carrying value of our equity investment in this property relative to expected net proceeds resulted in recognition of a write down of our equity investment of $1.3 million in Q4 2007.

(Loss) / Gain on Sale of Assets

During 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. In addition, in Q4 2007, Chartwell disposed of another non-core property in Ontario (57 suites) and recorded a loss on disposal of $0.4 million.

Current and Future Income Tax (Expense) Recovery

Under the SIFT rules, Chartwell will be subject to tax on certain income in 2007 and subsequent years. Therefore, Chartwell has recorded a provision for future tax expense of $13.9 million for 2007. During Q4 2007, we recorded a future income tax recovery of $4.3 million which is partially attributable to a reduction in substantively enacted tax rates in Canada. The provision for future income tax expense relates 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. These temporary differences are tax effected using the estimated substantively enacted tax rate at the time that these differences are expected to reverse..

During Q4 2007, as described in the Significant Events section of this MD&A, a press release was issued by the Department of Finance which described potential changes in the determination of which legal entities are considered SIFTs. The clarifications set out in the press release could result, if ultimately enacted in legislation, in a subsidiary partnership of Chartwell REIT being considered to be a SIFT. Consequently, Chartwell has recorded a current income tax expense of approximately $1.8 million related to SIFT income taxes. In addition, included in current tax expense is $0.2 million related to taxes of non-resident subsidiaries.

Net Loss

Net loss for 2007 increased in comparison to 2006 primarily due to the provision for future income tax expense; unrealized foreign exchange losses; depreciation and amortization expenses; general, administrative and trust expenses; interest and lease expenses; and, current income tax expense. This was offset by positive contributions from property and other income. These trends are consistent in Q4 2007, with the exception of Q4 2007 benefiting from a future income tax recovery of $4.3 million which arose primarily due to a reduction in substantively enacted tax rates in Canada.

Summary of Results of Operations by Division

Canadian Retirement Operations

The following table presents the results of operations of the Canadian retirement operations segment of Chartwell for the three months and year ended December 31, 2007 and 2006, respectively.

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
Revenues						
Same property	44,843	43,297	1,546	173,723	166,323	7,400
Equity accounted VIEs	3,024	2,836	188	11,629	10,764	865
Total Same Property	47,867	46,133	1,734	185,352	177,087	8,265
Acquisitions	18,147	8,167	9,980	66,879	14,745	52,134
Total	66,014	54,300	11,714	252,231	191,832	60,399
Direct Operating Expenses						
Same property	29,261	28,366	895	110,051	105,135	4,916
Equity accounted VIEs	2,109	1,934	175	7,855	7,324	531
Total Same Property	31,370	30,300	1,070	117,906	112,459	5,447
Acquisitions	11,392	5,031	6,361	40,981	9,421	31,560
Total	42,762	35,331	7,431	158,887	121,880	37,007
Net operating income						
Same property	15,582	14,931	651	63,672	61,188	2,484
Equity accounted VIEs	915	902	13	3,774	3,440	334
Total Same Property	16,497	15,833	664	67,446	64,628	2,818
Acquisitions	6,755	3,136	3,619	25,898	5,324	20,574
Total Net Operating Income	23,252	18,969	4,283	93,344	69,952	23,392
Overall operating margins	35.2%	34.9%	0.3pp	37.0%	36.5%	0.5pp
Same property statistics:						
Operating margins	34.5%	34.3%	0.2pp	36.4%	36.5%	(0.1pp)
Weighted average occupancy rate	92.4%	92.4%	-	92.2%	91.6%	0.6pp
Weighted average occupancy rate excluding internal growth suites	93.4%	94.0%	(0.6pp)	93.5%	93.2%	0.3pp

Same property NOI increased by 4.4% in 2007 as compared to 2006 due to revenue growth, contributions of internal growth projects, and benefits yielded from the new cost management programmes.

Same property revenues increased by 4.7% in 2007 as compared to 2006 due to regular annual rent increases of between 2% and 4%, the continued implementation of yield management programs to establish increased market based rates on suite turnover, and higher contribution from the internal growth suites.

Weighted average occupancy rates excluding internal growth suites in lease-up increased from 93.2% in 2006 to 93.5% in 2007, or 0.3 percentage points.

Same property operating expenses increased by 4.8% in 2007 compared to 2006. These above inflationary increases were primarily due to higher wage costs primarily due to inflationary pressures in the Western Canadian provinces and Quebec and food costs, which were partially offset by savings from the implementation of new cost management programmes.

Overall operating margins increased by 0.5 percentage points for 2007 compared to 2006. Same property operating margins decreased in 2007 compared to 2006 by 0.1 percentage points which in part, can be attributed to the introduction of new services for fees in some properties which add incremental net operating income at lower margin rates.

Acquisitions completed subsequent to January 1, 2006 contributed an additional $20.6 million of net operating income in 2007.

Fourth Quarter

Same property NOI increased 4.2% or $0.7 million due to rent increases and positive contributions from internal growth suites. In Q4 2007, same property operating margins improved as compared Q4 2006 by 0.2 percentage points and occupancy including internal growth suites remained flat.

Canadian Long Term Care Operations

The following table represents results of operations of the Canadian long term care operating segment for the three months and year ended December 31, 2007 and 2006, respectively.

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Revenues						
Same property	19,080	18,310	770	73,046	70,977	2,069
Acquisitions	21,411	7,434	13,977	60,703	14,603	46,100
Total revenues	40,491	25,744	14,747	133,749	85,580	48,169
Direct Operating Expenses						
Same property	16,662	16,050	612	63,588	61,739	1,849
Acquisitions	18,907	6,734	12,173	53,302	13,016	40,286
Total expenses	35,569	22,784	12,785	116,890	74,755	42,135
Net operating income						
Same property	2,418	2,260	158	9,458	9,238	220
Acquisitions	2,504	700	1,804	7,401	1,587	5,814
Total Net Operating Income	4,922	2,960	1,962	16,859	10,825	6,034
Overall operating margins	12.2%	11.5%	0.7pp	12.6%	12.6%	-
Same property statistics:						
Operating margins	12.7%	12.3%	0.4pp	12.9%	13.0%	(0.1pp)
Weighted average occupancy rate	98.0%	98.0%	-	97.7%	97.3%	0.4pp

Same property net operating income increased by $0.2 million or 2.4% for 2007 compared to 2006. This is primarily a result of improved occupancies in 2007 as well as the realization of savings from the implementation of new cost management programmes.

Acquisitions completed subsequent to January 1, 2006 provided additional incremental net operating income of $5.8 million in 2007.

Operating margin in the same property portfolio was 12.9% in 2007, a decrease of 0.1 percentage points over 2006 which is primarily a result of increased flow through revenue from government funding which does not contribute incremental NOI as it is fully offset by the required related expenditures.

Weighted average occupancies in the same property portfolio are at 97.7% for 2007 reflecting the improved occupancies of the properties over the same period in 2006 when the weighted average occupancy was 97.3%. Occupancy in the Ontario Long Term Care Communities exceeded 97% for 2007 in all properties. As a result, these communities receive funding as though fully occupied.

Fourth Quarter

Same property net operating income increased by $0.2 million or 7.0% for Q4 2007 compared to Q4 2006. Operating margin in the same property portfolio was 12.7% in 2007, an increase of 0.4 percentage points over 2006, as a result of the new cost management programmes.

U.S. Operations

The following table represents the results of operations of the U.S. operating segment for the three months and year ended December 31, 2007 and 2006, respectively.

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Revenues						
Same property	6,766	6,068	698	26,865	25,840	1,025
Acquisitions and other	54,547	8,280	46,267	189,044	20,432	168,612
Total revenues	61,313	14,348	46,965	215,909	46,272	169,637
Direct Operating Expenses						
Same property	4,039	3,799	240	15,615	15,144	471
Acquisitions and other	34,381	6,027	28,354	121,152	14,782	106,370
Total expenses	38,420	9,826	28,594	136,767	29,926	106,841
Net Operating Income						
Same property	2,727	2,269	458	11,250	10,696	554
Acquisitions and other	20,166	2,253	17,913	67,892	5,650	62,242
Total Net Operating Income	22,893	4,522	18,371	79,142	16,346	62,796
Foreign Exchange	(292)	973	(1,265)	5,210	3,255	1,955
Total Net Operating Income in CDN	22,601	5,495	17,106	84,352	19,601	64,751
Overall operating margins[(1)]	37.5%	33.6%	3.8pp	36.7%	37.5%	(0.8pp)
Same property statistics:						
Operating margins[(1)]	40.3%	37.4%	2.9pp	41.9%	41.4%	0.5pp
Weighted average occupancy rate	93.1%	92.9%	0.2pp	92.7%	92.1%	0.6pp

(1) Calculated based on US Dollars.

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

Same property NOI increased by $0.6 million or 5.2%.

Same property revenue increased by US$1.0 million or 4.0% for 2007 compared to 2006. Additional revenue from improved occupancies and 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 direct operating expenses have increased 3.1% for 2007 compared to 2006, reflecting increased realty tax costs and contract service costs at certain properties offset by the implementation of new cost management programmes in the latter half of 2007.

Acquisitions completed subsequent to January 1, 2006 and the U.S. management operations added US $62.2 million of additional incremental net operating income in 2007.

Same property operating margins increased slightly by 0.5 percentage points in 2007 as compared to 2006.

Fourth Quarter

In Q4 2007, operating margins showed an improving trend relative to year to date results as we began to realize benefits from new cost management programmes introduced in the latter half of the year. Same property NOI increased $0.5 million.

Canadian Management Operations

The following table presents the results of operations of the Canadian management operations of Chartwell for the year and three months ended December 31, 2007 and 2006, respectively.

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Management and Other Fee Revenue						
Spectrum:						
Development management	1,206	371	835	4,477	4,523	(46)
Operations management	497	305	192	1,591	863	728
Financing	-	-	-	-	627	(627)
Other [1]	122	35	87	669	662	7
Total Spectrum	1,825	711	1,114	6,737	6,675	62
Melior	(326)	237	(563)	1,946	1,981	(35)
ING	1,050	306	744	4,784	1,681	3,103
Other	881	579	302	2,999	2,150	849
Total Management and Other Fee Revenue before yield adjustments:	3,430	1,833	1,597	16,466	12,487	3,979
Fees related to the lending activities recorded as yield adjustments to Mezzanine Loan Interest Income	221	-	221	(2,286)	-	(2,286)
Total	3,651	1,833	1,818	14,180	12,487	1,693
Direct operating expenses	1,112	1,068	44	3,996	4,027	(31)
Income from Management Operations	2,539	765	1,774	10,184	8,460	1,724

(1) Includes mezzanine placement fees earned from Spectrum's joint venture partners.

In 2007, management operations revenue before yield adjustments increased by $4.0 million as compared to 2006 primarily due to higher management, asset management and due diligence project management fees from ING and additional third party management fee revenue.

In 2007, development management fees from Spectrum remained consistent with the fees earned 2006. Operating management fees increased due to a larger number of projects in lease-up. Other fees from Spectrum included $0.25 million of fees related to a waiver of Chartwell's purchase option on one of Spectrum's development projects disposed of by Spectrum to a third party, mortgage guarantee fees of $0.08 million and mezzanine loan placement fees of $0.3 million received from Spectrum's joint venture partners.

Fees from ING increased in 2007 as compared to 2006 as a result of higher asset and operations management fees of approximately $1.6 million related to the increased assets under management and due to approximately $1.5 million of due diligence project management fees due to increased acquisitions in 2007.

Revenue from other third parties was higher in 2007 as compared to 2006 due to approximately $0.8 million of revenue related to third party management contracts acquired as part of the Regency Care acquisition.

During 2007, Chartwell was contractually entitled to receive management fees of $2.0 million (2006 - $1.6 million) that did not meet the criteria, under GAAP, to be recognized as revenue. This amount was nil for Q4 2007 (Q4 2006 - $0.3 million).

During Q4 2007, as described in the “Mezzanine Loans and Interest Income” section of this MD&A, we recorded a reduction in income from the placement fees on mezzanine loans due to an increase in the expected time to complete certain projects which reduced revenue by approximately $0.3 million.

Management Operations Direct Operating Expenses:

Direct operating expenses principally represent the allocation of compensation costs of individuals involved in management operations.

Non-GAAP Measures

The following measures included in this MD&A do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP):

- Funds from Operations (“FFO”)
- Normalized Funds from Operations (“NFFO”)
- Adjusted Funds from Operations (“AFFO”)

Refer to the Key Performance Indicators section of this MD&A for a detailed discussion of the nature of various adjustments made in the calculation of FFO, NFFO and AFFO, along with management’s discussion of the usefulness of these measures in evaluating our performance.

Funds from Operations (FFO)

The following table provides a reconciliation of funds from operations to net loss for the year and three months ended December 31, 2007 and December 31, 2006:

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
Net loss per financial statements	(10,116)	(6,906)	(3,210)	(67,339)	(14,698)	(52,641)
Add (Subtract):						
Depreciation of properties	16,016	9,551	6,465	58,359	33,095	25,264
Amortization of management contracts, resident contracts and customer relationships	12,227	11,428	799	53,944	42,915	11,029
Depreciation of leasehold improvements included in depreciation of properties	(61)	(86)	25	(242)	(273)	31
Loss (Gain) on sale of assets	413	-	413	82	(396)	478
Write down of carrying value of assets	1,284	159	1,125	1,456	858	598
Future income tax expense	(4,267)	-	(4,267)	13,924	-	13,924
Non-controlling interest	(1,179)	(572)	(607)	(5,008)	(1,252)	(3,756)
Funds from operations[1]	14,317	13,574	743	55,176	60,249	(5,073)
Funds from operations per unit:						
Basic	0.15	0.19	(0.04)	0.60	0.93	(0.33)
Diluted	0.14	0.18	(0.04)	0.58	0.91	(0.33)

(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 year and three months ended December 31, 2007, FFO and FFO diluted per unit compared to the same periods 2006 were affected by the following items:

- Unrealized foreign exchange losses of approximately $10.9 million or $0.11 per unit diluted for 2007 and $0.1 million for Q4 2007. 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 $8.1 million or $0.08 per unit diluted in 2007 and approximately $1.8 million or $0.02 per unit diluted for Q4 2007. 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.
- Amortization of financing costs and debt mark-to-market adjustments, and accretion on the convertible debentures combined reduced FFO by $4.6 million ($0.05 per unit diluted) for 2007 and $0.8 million ($0.01 per unit diluted) for Q4 2007.
- Costs related to the work of the Board's special committees and its advisors reduced FFO by approximately $3.0 million in 2007 or $0.03 per unit diluted and $0.8 million or $0.01 per unit diluted for Q4 2007. Costs related to potential acquisitions that Chartwell decided not to pursue further were written off which reduced FFO by approximately $1.4 million for 2007 or $0.01 per unit diluted and $0.8 million or $0.01 per unit diluted for Q4 2007.
- Current income tax expense related to SIFT tax rules reduced FFO $1.8 million or $0.02 per unit diluted for 2007 and Q4 2007.

- In addition, FFO in the year and three months ended December 31, 2007 reflected positive contributions from our property portfolio resulting from improved occupancies and cost management programmes.
- Chartwell has not yet fully deployed the proceeds of our April 2007 Trust Unit and Convertible Debenture issue, and as a result we have had excess cash on hand throughout 2007 closing at December 31, 2007 with $72.5 million. This undeployed cash was dilutive on FFO throughout 2007.

Normalized and Adjusted Funds from Operations (NFFO and AFFO)

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

($000's, except per unit amounts)	Q4 2007	Q4 2006	Increase / (Decrease)	2007	2006	Increase / (Decrease)
FFO [1]	14,317	13,574	743	55,176	60,249	(5,073)
Add (Subtract):						
Adjustment to record lease expense on a straight line basis over the lease term	1,815	-	1,815	8,068	-	8,068
Unrealized foreign exchange and derivative (gains)/losses	122	(652)	774	10,925	(52)	10,977
SIFT Income Tax Expense	1,770	-	1,770	1,770	-	1,770
NFFO[2]	18,024	12,922	5,102	75,939	60,197	15,742
Add (Subtract):						
SIFT Income Tax Expense	(1,770)	-	(1,770)	(1,770)	-	(1,770)
Amortization of below market leases	(259)	(510)	251	(1,394)	(2,039)	645
Principal portion of capital subsidy receivable from Health Authorities	502	111	391	1,343	344	999
Amounts received under income guarantees	888	116	772	1,548	757	791
Amortization of financing costs	1,102	1,371	(269)	4,484	3,194	1,290
Accretion adjustment to convertible debenture liability	657	-	657	2,075	-	2,075
Amortization of debt mark-to-market adjustments arising on acquisition	(310)	(729)	419	(837)	(2,036)	1,199
Deferred financing fee reserve [3]	(238)	(212)	(26)	(909)	(861)	(48)
AFFO before Capex reserve	18,596	13,069	5,527	80,479	59,556	20,923
Maintenance Capex reserve - 2% of property revenue	(3,261)	(1,841)	(1,420)	(12,084)	(6,380)	(5,704)
AFFO[4]	15,335	11,228	4,107	68,395	53,176	15,219
NFFO per unit						
Basic	0.18	0.18	-	0.82	0.93	(0.11)
Diluted	0.18	0.17	0.01	0.80	0.91	(0.11)
AFFO per unit						
Basic	0.16	0.15	0.01	0.74	0.82	(0.08)
Diluted	0.15	0.15	-	0.72	0.80	(0.08)

(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.

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

(3) Deferred financing fee reserve is calculated quarterly as 0.6 basis points applied to our mortgages payable at the end of the quarter, prorated based on the weighted average term to maturity.

(4) 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 year and three months ended December 31, 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 and the deferral of community fee revenue received from the residents as more fully described under the Funds from Operations section of this MD&A. In addition, AFFO was positively affected compared to 2006 by increased capital funding from health authorities and income guarantees received from vendors of the acquired properties. Dilution from the issuance of Trust Units and Convertible Debenture Offering in April 2007 as the proceeds were not fully deployed in 2007, reduced AFFO.

Quarterly Financial Information

The following table summarizes Chartwell's quarterly unaudited financial information:

($000's, except per unit amounts)	2007				2006			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues	173,165	177,231	156,299	138,342	100,790	94,728	81,888	73,169
Direct operating expenses	(115,064)	(113,240)	(99,840)	(89,266)	(68,094)	(60,357)	(51,515)	(46,100)
General, administrative and trust expenses	(5,935)	(5,832)	(5,129)	(4,934)	(4,590)	(4,629)	(4,242)	(3,357)
Income before interest and depreciation and amortization	52,166	58,159	51,330	44,142	28,106	29,742	26,131	23,712
Interest expense	(24,931)	(25,483)	(23,426)	(17,142)	(15,061)	(12,105)	(10,679)	(9,198)
Property lease expenses	(10,731)	(11,565)	(11,785)	(12,387)	-	-	-	-
Foreign exchange gains (losses)	(122)	(4,898)	(5,279)	(626)	615	157	(950)	52
Depreciation and amortization	(28,243)	(32,344)	(27,869)	(23,847)	(20,979)	(20,967)	(18,138)	(15,926)
Write down of carrying value of management contracts	(1,284)	-	(172)	-	(159)	(259)	-	(440)
(Loss) Gain on sale of assets	(413)	11	320	-	-	296	100	-
Non-controlling interest	1,179	982	2,117	730	572	232	292	157
Current income tax expense	(2,004)	-	-	-	-	-	-	-
Future income tax (expense) recovery	4,267	(1,802)	(16,389)	-	-	-	-	-
Net loss for the period	(10,116)	(16,940)	(31,153)	(9,130)	(6,906)	(2,904)	(3,244)	(1,643)
Net loss per unit, diluted	(0.11)	(0.19)	(0.36)	(0.12)	(0.02)	(0.05)	(0.06)	(0.03)
FFO	14,317	16,160	10,785	13,194	13,574	17,735	14,428	14,512
FFO per unit, diluted	0.14	0.16	0.11	0.17	0.18	0.25	0.23	0.26

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

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

Selected Annual Financial Information

The following table summarizes selected annual financial information for each of the last three years ended December 31:

($000's, except per unit amounts)	2007	2006	2005
Property revenues	604,195	318,977	203,345
Total revenues	645,037	350,575	224,627
Direct operating expenses	417,410	226,066	143,220
Net loss	(67,339)	(14,698)	(11,670)
Total assets	2,603,199	1,977,750	1,191,644
Total debt	1,628,753	1,109,464	645,678
Net loss per unit, diluted	(0.78)	(0.25)	(0.29)
Cash distributions declared per unit	1.07	1.07	1.07

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

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and Unitholders' equity between December 31, 2006 and December 31, 2007.

	Increase / (Decrease) ($000's)	Explanation
Properties	600,776	Properties increased as follows: properties acquired in 2007 added $728.7 million; internal growth developments and building improvements added $28.1 million; capital additions increased properties by $17.2 million. These increases were offset by a reduction due to foreign exchange translation of $108.8 million, depreciation and amortization of $58.3 million and the disposal of three properties with a carrying value of $4.6 million.
Mezzanine loans	6,334	New mezzanine loan advances of $17.5 million (net of fees) and amortization of fees of $1.3 million increased mezzanine loans. This was offset by repayments of $7.2 million and adjustments to implement the New Standards amounting to $5.3 million.
Total assets	625,449	The increase in total assets in 2007 is principally due to the acquisitions of new seniors housing communities, offset by foreign exchange translation, and depreciation and amortization charges.
Mortgages payable	458,665	Mortgages payable increased as a result of the following: $267.1 million of debt was assumed on acquisitions of properties in 2007 before mark to market adjustments of $10.7 million; upward refinancings of $17.3 million; and new mortgages of $279.8 million were entered into during 2007, primarily related to acquisitions on which we did not assume financing. These increases were offset by decreases as follows: regular amortizing principal repayments of $24.8 million; mortgages extinguished on properties sold during the year of $3.9 million; foreign exchange translation of $79.2 million; and, deferred financing costs of $17.7 million, primarily due to the amount transferred from other assets on implementation of the New Standards.
Debt component of convertible debentures	60,541	The debt component of convertible debentures increased primarily due to the issuance of the 5.9% Convertible Debentures on April 20, 2007 as described in the Significant Events section of this MD&A.
Future income tax liability	18,732	As described in the Significant Events section of this MD&A, as a result of new legislation, we believe we are subject to tax as a SIFT and consequently have recorded a future income tax liability of $18.7 million in 2007.
Total liabilities	582,796	The increase in total liabilities primarily relates to debt to finance the acquisition of new seniors housing properties, offset by a decrease due to foreign exchange translation.
Non-controlling interest	(7,448)	As described in Note 12 to our Financial Statements, the non-controlling interest represents the interest of the holders of the Class B Units of Master LP. Non-controlling interest decreased due to distributions to the holders of the Class B Units of Master LP of $6.9 million, allocation of the non-controlling interest's share of comprehensive loss for the year of $7.1 million and exchanges of Class B Units of Master LP for Trust Units of $3.7 million.
Unitholders' equity	50,101	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 to the Trust's Unitholders
Total liabilities and equity	625,449	The increase in Total Liabilities and Unitholder's Equity in 2007 is primarily due to our significant acquisition activity, the issuance of Trust Units and Convertible Debentures, offset by foreign exchange translation, distributions to Unitholders and net loss for the year.

Mortgage Debt

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

($000's) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2008	24,515	107,570	132,085	9.9%	6.4%
2009	22,181	102,305	124,486	9.4%	5.2%
2010	21,739	56,592	78,331	5.2%	5.5%
2011	22,167	25,976	48,143	2.4%	5.9%
2012	23,669	70,710	94,379	6.5%	5.8%
2013	23,697	56,515	80,212	5.2%	5.3%
2014	21,698	33,396	55,094	3.1%	5.9%
2015	21,629	77,167	98,796	7.1%	5.4%
2016	19,001	170,010	189,011	15.6%	6.0%
2017	14,578	246,935	261,513	22.6%	5.7%
2018-2022	62,507	96,819	159,326	8.9%	6.1%
Thereafter	76,394	48,511	124,905	4.4%	5.6%
Total	353,775	1,092,506	1,446,281		
Mark to market adjustment arising on acquisition			17,147		
Less: Financing costs			(17,717)		
Total Mortgage Debt			1,445,711		

At December 31, 2007, the average term to maturity for the total mortgage portfolio was approximately 9.1 years (December 31, 2006 – 7.0 years), and the weighted average contractual interest rate was 5.8% (December 31, 2006 – 5.7%). In 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 a significant increase in weighted average interest rates.

During 2008 and 2009 respectively, 9.9% and 9.4% of our debt portfolio matures. We believe that we will be able to re-finance the maturing debt in due course.* Over 60% of the 2008 maturities and over 84% of the 2009 maturities are comprised of CMHC insured debt.

At December 31, 2007, Chartwell had approximately $35.0 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 December 31, 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.

* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A.*

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

($000's)	**December 31, 2007**
Mortgages payable	1,445,711
Loans payable	2,386
Guarantees	66,990
Total indebtedness excluding convertible debentures	1,515,087
Convertible debentures (face value)	199,925
Indebtedness	1,715,012
Total assets	2,603,199
Accumulated depreciation and amortization[1]	255,600
Gross book value of assets	2,858,799
Less: Assets financed by deferred purchase consideration on acquisition properties	41,305
Gross book value of assets (net of deferred consideration)	2,817,494
Debt to GBV before convertible debentures	53.8%
Debt to GBV including convertible debentures	60.9%

[1] Includes accumulated depreciation and amortization related to fully amortized assets of $35,873.

In 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 $175 million. This would allow Chartwell to acquire approximately $438 million of new assets.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units in 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 (“DRIP”)	328,065	-	-	328,065
Conversion of convertible debentures	4,808	-	-	4,808
Trust Units issued under the Long Term Incentive Program (“LTIP”)	-	342,198	-	342,198
Disposition of Long Term Incentive Program units under subscription	76,250	(76,250)	-	-
Class B Units of Master LP issued on acquisition of property		-	696,758	696,758
Exchange of Class B Units of Master LP	425,039	-	(425,039)	-
Balance December 31, 2007	91,625,701	2,336,323	6,273,378	100,235,402

Cash Flow Analysis

The following table summarizes the significant changes in the REIT’s operating, financing and investing cash flows between December 31, 2006 and December 31, 2007.

	Increase / (Decrease) ($000’s)	Explanation
Cash provided by (used in):		
Operating activities	38,014	Cash flows from operating activities increased $38.0 million for 2007 compared to 2006 primarily due to growth in our operations from acquisitions combined with improved FFO from our same property portfolio and positive change in non-cash working capital balances.
Financing activities	(99,122)	Cash flows from financing activities decreased by $99.1 million for 2007 compared to 2006. This decrease is attributable to reduced proceeds from offerings of Trust Units and Convertible Debentures in 2007 compared to 2006, which combined amount to a reduction in cash flow from financing activities of $157.6 million. In addition increased distributions to Unitholders, which are a result of the increased number of units outstanding, reduced cash flow from financing activities by $21.2 million compared to 2006. These decreases were offset by increased proceeds from mortgage financings which, net of repayments, increase cash flow from financing activities by $39.2 million.
Investing activities	(92,049)	Cash flow used in investing activities decreased by $92.9 million for 2007 compared to 2006 which is primarily attributable to higher acquisition activity.

Distributions

As described in the "Significant Events and 2008 Outlook" section of this MD&A, effective with the payment to Unitholders for March 2008, due on April 17, 2008, cash distributions will be reduced to $0.74 per annum per unit from the current level of $1.065 per annum per unit. The declaration and payment of future distributions is subject to the discretion of the board of Trustees and will be dependent upon a number of factors including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors deemed relevant by the Board of Trustees.

Approximately 97.7% of Chartwell's distributions in 2007 (2006 – 83%) were characterized as non-taxable returns of capital in Chartwell's indirect investment in its subsidiaries.

Chartwell's Distribution Reinvestment Plan ("DRIP Plan") allows Unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Unitholders who are Canadian residents and beneficial holders of 1,000 units or more are eligible to participate. Participating investors registered in the DRIP Plan receive additional bonus units in an amount equal to 3% of their distributions which they have elected to reinvest, and this amount is paid in the form of additional units.

The following table summarizes distributions made in Q4 2007 and the years ended December 31, 2007, 2006 and 2005:

		Year Ended December 31		
($000's)	**Q4 2007**	**2007**	**2006**	**2005**
Distributions declared	24,738	94,145	65,378	44,856
Distributions on Class B units of Master LP	1,680	6,839	5,744	5,602
Distributions reinvested under DRIP	(1,274)	(4,317)	(2,476)	(1,664)
Distributions applied against LTIP installment loan receivable	(627)	(2,557)	(1,848)	(1,015)
Distributions paid or payable in cash	24,517	94,110	66,798	47,779

The following table summarizes cash distributions made by Chartwell in Q4 2007 and for the years ended December 31, 2007, 2006 and 2005 in relation to net loss and cash flows from operating activities:

		Year Ended December 31		
($000's)	**Q4 2007**	**2007**	**2006**	**2005**
Cash flows from operating activities	19,262	101,435	63,421	57,337
Loss before non-controlling interest	(11,295)	(72,347)	(15,950)	(13,061)
Cash distributions declared[(1)]	24,517	94,110	66,798	47,779
Excess(shortfall) of cash flows from operating activities over cash distributions paid	(5,255)	7,325	(3,377)	9,558
Excess (shortfall) of net loss over cash distributions paid	(35,812)	(166,457)	(82,748)	(60,840)

(1) Cash distributions do not include distributions satisfied through issuance of the units under the Distribution Reinvestment Program or distributions applied against the LTIP installment loan receivable

The following table provides the details of additional sources of cash available to Chartwell to fund its distributions to Unitholders:

		Year Ended December 31		
($000's)	**Q4 2007**	**2007**	**2006**	**2005**
Principal portion of capital subsidy receivable from Health Authorities [(1)]	502	1,343	344	219
Amounts received under net operating income guarantees [(1)]	888	1,548	757	1,185

(1) Please refer to Key Performance Indicators – Adjusted Funds from Operations section of this MD&A for the description of these items.

The remaining portion of the excess of cash distributions over cash flow from operating activities in Q4 2007 and in the years ended December 31, 2006 and 2007, were financed from Chartwell's cash on hand and credit facilities (please refer to the details of Chartwell's operating credit facility under the "Liquidity and Capital Resources" section of this MD&A).

The excess of cash flow from operating activities over cash distributions in the year ended December 31, 2007, partially relates to the positive changes in non-cash working capital balances of $21.0 million. The shortfall of cash flow from operating activities was similarly reduced in 2006 by positive non-cash working capital fluctuations of approximately $2.3 million. Changes in non-cash working capital are expected to fluctuate from period to period.[*]

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 raises funds through the capital markets, arranges mortgage debt financing and has arranged for a secured revolving operating facility of up to $90.0 million. As of December 31, 2007, Chartwell had a borrowing capacity of approximately $64.5 million based on available security. Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% or banker's acceptance rate plus 2.25% 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 credit facility agreement ("Credit Agreement") contains a covenant which requires Chartwell to limit cash distributions to Distributable Income, as defined in the Credit Agreement and in Chartwell's Declaration of Trust, on an annual basis. In 2007, distributions paid or payable in cash exceeded this limitation by approximately $12.2 million. For the year ended December 31, 2006 distributions paid or payable in cash exceeded this limitation by approximately $6.0 million. Chartwell has obtained waivers of this covenant from its lenders for each of these years.

Management expects that our principal use of funds in the future will be for debt repayments, distributions, capital expenditures on our existing property portfolio, the acquisition of seniors housing

[*] *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A.*

properties, and mezzanine financing to Spectrum and other third parties. As at December 31, 2007, Chartwell also had cash on hand of approximately $72.5 million.*

Contractual Obligations

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

($000's)	Total	2008	2009	2010	2011	2012	Thereafter
Mortgages payable	1,446,282	132,085	124,486	78,331	48,143	94,379	968,858
Convertible debentures	199,925	-	-	-	124,925	-	75,000
Loans payable	2,386	2,386	-	-	-	-	-
Purchase obligations	135,406	109,035	8,129	8,264	5,038	4,940	-
Property operating leases	500,069	37,305	38,502	39,739	41,017	50,255	293,251
Other operating leases	11,639	1,725	1,752	1,826	1,824	1,855	2,657
Mezzanine loan funding obligations	10,690	10,690	-	-	-	-	-
Land leases	14,505	252	252	252	252	252	13,245
Total contractual obligations	2,320,902	293,478	173,121	128,412	221,199	151,681	1,353,011

Purchase obligations relate to the following:

- Commitments with respect to the acquisition of interests in four seniors housing communities for a total purchase price of approximately $59.7 million.
- Deferred purchase obligations with respect to previously closed acquisitions in the amount of approximately $41.3 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.
- Purchase obligations with respect to previously closed acquisitions up to the amount of approximately $7.1 million payment which is contingent upon the property achieving certain operating results as defined in the respective purchase and sale agreements.
- Commitments with respect to various construction contracts of approximately $23.1 million.
- Commitments with respect to fixed contracts for the purchase of natural gas and electricity of approximately $4.2 million.

Property operating leases relate to Chartwell's leased interests in 25 seniors housing communities in which Chartwell holds a 49% interest and two communities that are 100% owned by Chartwell.

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

Mezzanine loan funding obligations relate to approved loans to Spectrum and other parties to fund the development and lease-up of six 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

* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A.*

Other Contracts

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.

In accordance with contracts between Chartwell and Melior, Chartwell is committed to the following:

(i) 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.

(ii) 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.

(iii) 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.

CSH-INGRE's properties in the United States are managed by HBC. 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 HBC.

Chartwell's 100% owned properties in the Unites States are managed by HBCII. The management agreements are for a term of 30 years and call for payment of management fees between 5.0% and 5.5% of gross revenues plus an incentive fee based on achieving certain specified operating targets.

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 year ended December 31, 2007:

($000's)	2007
Building improvements and additions	28,107
Acquisitions related capital expenditures	3,347
Long term replacement items	3,319
Furniture, fixtures and equipment	6,108
Other	4,423
Total	45,304

Guarantees

The following table summarizes Chartwell's outstanding guarantees:

Guarantee ($000's)	Maximum Amount	Obligation Outstanding on December 31, 2007
Spectrum	23,850	18,198
Maxwell Residence	3,100	3,100
Joint and several guarantees on the co-owned properties	51,045	45,692
Total	77,995	66,990

Spectrum

Chartwell remains as a guarantor of the debt of two properties that it sold to Spectrum in 2005 for which it receives an annual guarantee fee. Spectrum has indemnified Chartwell in respect of these guarantees.

Maxwell Residence

Chartwell remains as a guarantor of the debt of this 61 suite property which we manage. The borrower has indemnified Chartwell in respect of this guarantee.

Joint and several guarantees on the co-owned properties

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 December 31, 2007.

Transactions with Related Parties

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

Spectrum

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

As of December 31, 2007, mezzanine loans receivable from Spectrum amounted to approximately $50.1 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 32 seniors' housing development properties.

During the three months and year ended December 31, 2007, Chartwell recorded mezzanine loan interest of approximately $1.3 million and $5.2 million, respectively, from Spectrum.

During the three months and year ended December 31, 2007, Chartwell earned development, operations management and other fees of approximately $1.7 million and $ 6.6 million, respectively, from Spectrum.

Other assets as of December 31, 2007 include approximately $5.7 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell on behalf of Spectrum. Subsequent to December 31, 2007, approximately $0.4 million of this balance was paid.

Included in distributions payable at December 31, 2007 is $0.3 million due to Spectrum. Included in accounts payable is $0.6 million with respect to a property acquired from Spectrum in 2006.

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.

In the third quarter of 2007, Chartwell acquired one senior housing community from Spectrum for a total purchase price of approximately $20.1 million, inclusive of closing costs. The purchase price was settled by cash of approximately $19.3 million and a discharge of the mezzanine loan receivable of $0.8 million.

In Q4 2007, Chartwell acquired the interests in one seniors housing community from Spectrum for a total purchase price of $17.4 million. The purchase consideration included the repayment of the mezzanine loan of $1.4 million.

Other mezzanine loan repayments from Spectrum included $0.4 million for one of Spectrum's development projects disposed of by Spectrum to a third party.

In Q4 2007 Chartwell advanced $1.7 million of mezzanine loans to two existing projects.

Melior and Other Spectrum Partners

As of December 31, 2007, Chartwell had mezzanine loans receivable of approximately $ 61.9 million from six of Spectrum's joint venture partners (including approximately $45.1 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 26 development projects.

In Q3 2007, there was a partial mezzanine repayment of $2.9 million for one of Melior's development projects.

In Q4 2007, there was a new mezzanine loan advance of $0.3 million for one of Melior's development projects.

During the three months and year ended December 31, 2007, Chartwell recorded interest income from Melior of approximately $0.7 million and $6.3 million, respectively.

In the year ended December 31, 2007, Chartwell paid Melior referral fees $0.9 million related to acquisition of properties in the province of Quebec.

In addition, Chartwell paid Melior project management fees of $3.5 million and $1.7 million respectively for the year and three months ended December 31, 2007.

Accounts receivable and other assets at December 31, 2007 included approximately $2.3 million due from Melior. Subsequent to December 31, 2007, approximately $1.1 million of outstanding amounts due from Melior were collected.

At December 31, 2007 Chartwell had accounts payable of $0.6 million due to Melior relating to management fees, legal fees, promissory notes and deferred purchase consideration.

Other

Included in mortgages payable at December 31, 2007, is a vendor-take-back loan of approximately $1.0 million due to an officer of Chartwell.

Included in accounts receivable at December 31, 2007 is $0.1 million (2006 - $0.1 million) due from an officer of Chartwell related to the previous sale of a property to the Trust.

Subsequent Events

Subsequent to December 31, 2007, Chartwell acquired Cite Jardin (Phase III) in Quebec for a purchase price of $29.2 million from Spectrum, Melior and Spectrum Joint Venture partners.

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 following CICA Handbook Sections: Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and, Section 3861, Financial Instruments – Disclosure and Presentation, collectively the "New Standards". The New 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 as required by the New Standards.

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 December 31, 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 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 effect. If it is proclaimed into effect in the current form, Chartwell may be required to start amortizing the value of its long term care licenses over the respective license term.

Critical Accounting Estimates

Under Canadian GAAP, it is necessary to make estimates when preparing the financial statements and then to re-evaluate the original estimates used on an ongoing basis. Management's estimates are based on past experience and other factors that it believes are reasonable under the circumstances. As this involves varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

Valuation of properties

Properties make up approximately 81.1% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the net carrying amount of properties is recoverable from future undiscounted cash flows. Factors which could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for our overall business. In some cases, these events are clear, however, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events may occur over a period of time leading to an indication that an asset may be impaired. As a result, events occurring in these situations may not be known until a date subsequent to their occurrence.

Our businesses, markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an event has occurred, an estimate is made of the future undiscounted cash flows from the asset. If the total of the undiscounted future cash flows, excluding financing charges, is less than the carrying amount of the asset, an asset impairment charge is recognized in the financial statements. The amount of the impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is best estimated by calculating the net present value of future expected cash flows related to the asset. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgment.

The assessment of asset impairment requires management to make significant assumptions about future revenues including assumptions about rates and occupancies, labour and other supply rates, and utility costs over the life of the property which can be up to 40 years. Actual results can, and often do, differ from these estimates, and can have either a positive or negative impact on the estimate and whether an impairment situation exists. In addition, when impairment tests are performed, the estimated useful lives of the properties are reassessed, with any change accounted for prospectively.

Useful life of properties

Properties are depreciated over their estimated useful lives. Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. Major components of properties are depreciated over their own useful lives. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as discussed previously.

Valuation of mezzanine loans receivable

We evaluate our mezzanine loans receivable for impairment. Impairment is recognized when the carrying value of mezzanine loans receivable may not be recovered due to the inability of the underlying assets' performance to support a fair value that would exceed our net investment in these assets (with consideration given to third party guarantees and pledges of security). In making this determination, our estimates of future cash flow and the effects of other factors could vary and result in a significantly different assessment of impairment. Mezzanine loans comprise approximately 4.1% of our total assets.

Variable Interest Entities

In the normal course of business, we may enter into arrangements like acquisition of the interest in retirement residences, advancing mezzanine loans, providing guarantees for loans and mortgages that need to be examined to determine whether they are variable interest entities ("VIE") as defined under Canadian GAAP. Management needs to exercise significant judgment to determine if VIEs exist which are required to be consolidated in Chartwell's financial statements. This process involves understanding the arrangements, determining whether the entity is considered a VIE under the accounting rules and determining our variable interests in any VIEs identified. We use a variety of complex estimation processes involving both qualitative and quantitative factors that may involve the use of a number of assumptions about the business environment in which an entity operates to determine whether such entity is a VIE, to analyze and calculate its expected losses and its expected residual returns and also to assess financial conditions. These processes involve estimating the future cash flows and performance of the entity, assessing entity's financial condition, analyzing the variability in those cash flows and allocating the losses and returns among the identified parties holding variable interests. Our interests are then compared to those of the unrelated outside parties to identify the party that is the primary beneficiary, and thus should consolidate the entity. In addition, there is a significant amount of judgment exercised in interpreting the provisions of the accounting guidance and applying them to our specific situation.

Different estimates, with respect to key variables used for the calculations, or changes to estimates resulting in consolidation of VIE, could potentially have a material impact on Chartwell's ability to comply with certain loan covenants affecting financial position or results of operations.

Guarantees

We continually review our contingent liabilities relating to guarantees we provided on behalf of third parties. Our guarantees remain in place for certain debts assumed by purchasers in connection with property dispositions, and will remain until such debts are extinguished or lenders agree to release Chartwell's covenants. Recourse would be available to us under these guarantees in the event of a default by the borrowers, in which case we would have a claim against the underlying real estate investments. A contingent liability is recorded by us when the carrying values of the related real estate investments are not recovered either as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and/or the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the normal course of business. Our estimates of future cash flow (which amongst others, involve assumptions of estimated occupancy, rental rates and residual value) and fair value could vary and result in a significantly different assessment of such contingent liabilities.

Income taxes

In accordance with GAAP, we use the asset and liability method of accounting for future income taxes and provide for future income taxes for all significant income tax temporary differences.

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes along with the expected reversal pattern of these temporary differences. These differences result in future tax assets and liabilities which are included in our balance sheet, calculated based on the estimated tax rate in effect at the time these differences reverse.

Judgment is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets net of valuation allowances are realizable. The impact of different interpretations and applications could potentially be material.
An assessment must also be made to determine the likelihood that the Trust's future tax assets will be recovered from future taxable income. To the extent that recovery is considered less rather than more likely, a valuation allowance must be provided. Judgment is required in determining the provision for income taxes, future income tax assets and liabilities and any related valuation allowance. To the extent a valuation allowance is created or revised, current period earnings will be affected.

Fair value

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties (that is, other than in a forced or liquidation sale) in an arm's length transaction under no compulsion to act. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. We assess fair value based on estimated discounted cash flow projections and available market information. Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates (including the historical operating results and anticipated trends, local markets and economic conditions) and our own assumptions giving consideration to: (i) the potential use for the asset, other than that intended, by other market participants; (ii) our ability to accept levels of risk for a liability and manage it internally, rather than transferring that liability to another enterprise; (iii) our possession of certain capabilities not possessed by others; (iv) our possession of information or processes that allow us to realize (or avoid paying) cash flows that differ from other market participants; and (v) our ability to realize economies of scale not necessarily available to other market participants. As a result, in determining fair value we select amongst several acceptable valuation techniques and make assumptions. Consequently, our determination of fair value could vary under differing circumstances and result in significantly different calculations of fair value.

Our financial statements are affected by fair value measures, the most significant areas affected are as follows:

- Upon acquisition of properties we estimate the fair value of acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (above and below-market leases representing the value of the differential between contractual and market rents, in-place leases, customer relationships, and licenses) and the value of the differential between stated and market interest rates on long term liabilities assumed at acquisition.
- Included in revenue is the adjustment for the differential between contractual and market rents on our resident leases in place at the acquisition of our properties.

- In addition, fair value forms the basis for allocating consideration to each unit of accounting for revenues from contracts with multiple deliverables that meet the criteria for separate unit of accounting revenue recognition.
- As discussed in valuation of properties above, an impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds its fair value.
- Impairment testing of goodwill is required at least annually and requires assessing the fair value of the reporting unit to the carrying value and if carrying value is higher than fair value recognizing an impairment loss.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing fair value to carrying value to determine if an impairment loss is required to be recognized.
- In assessing our potential exposure relating to third party guarantees we evaluate the fair value of the borrowers' interests in the underlying real estate investments compared to the liabilities for which we have provided guarantees.
- On January 1, 2007, we adopted the new accounting standard Section 3855, Financial Instruments – Recognition and Measurement. This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.
- We disclose in our financial statements the fair value of our mortgages and debentures payable, which amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

Revenue

Property Revenue

Revenue is recognized when services are provided to residents. In Canada, the provinces regulate fees charged to residents of long term care homes and provincial or regional programs fund a substantial portion of these fees. We receive reimbursements from these funding authorities for services rendered to residents covered by these programs. Preparation of the financial statements requires an estimate of the amounts recoverable and earned from the various funding authorities in the jurisdictions in which we operate. Judgment is required to assess amounts recoverable under the various funding agreements, and related regulations and legislation, which are continually changing. The impact of different interpretations and applications of these agreements could change revenues.

Fee Revenue

Development fee revenue is recognized using the percentage of completion method. Judgment is required to assess the stage of work completed based on achieving project milestones and timelines. Changes to the timeline for the underlying development project could result in changes in the revenue recorded.

Mezzanine loan placement fees are recognized in income over the expected term of the loan on an effective yield basis. The term of the loan is estimated based on the expected underlying project timeline and consequently, changes in the progress of the project could change revenue.

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 2008 and beyond. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

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 December 31, 2007. Based on this evaluation, we have concluded that Chartwell maintains appropriate information systems, procedures and controls to ensure information used internally and disclosed externally is complete, reliable and timely.

Evaluation of and Changes in 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. During Q4 2007, improvements were made to our internal control systems and as a result we believe two of the three material internal control weaknesses disclosed in 2006 and in previous quarters in 2007, have been effectively remediated during Q4 2007 as described below. 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. One material internal control weakness continues to exist as follows:

Deficiencies with certain information technology ("IT") 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 information technology 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 and in the first quarter of 2007, we migrated some of the IT operation functions from this 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 2008. This migration will allow program changes to follow our existing IT change management policies and procedures and will 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 therein 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.

The following improvements were made to the design of our internal controls over financial reporting during Q4 2007 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting:

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

As at December 31, 2006, one of the Trust's service providers that provides application hosting and maintenance service had reported weaknesses in their IT general control environment that we concluded to be material to our internal controls over financial reporting in 2006 and in earlier quarters of 2007. To mitigate the risks associated with the IT general controls at the service provider, Chartwell implemented additional compensating controls at our head office in 2006 and 2007. During 2007, the service provider made significant progress in improving the IT general control weaknesses noted in their section 5970 report for the year ended December 31, 2006. Based on our review of the qualifications in the service provider's 2007 section 5970 report, we have concluded that the 2007 qualifications noted are minor in nature both individually and in combination and do not represent a material internal control weakness over our financial reporting.

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

In 2006 and in previous quarters of 2007, we had reported that a lack of segregation of duties within certain financial reporting positions in the Finance department at our co-owned management company in the US represented a material weakness in our internal controls over financial reporting. Due to the previous lack of segregation of duties, in order to mitigate the risk of a material misstatement, we implemented compensating review and monitoring controls at our head office undertaking additional review of all financial reports on a monthly basis. During Q4 2007, our co-owned management company in the US implemented changes to individual duties in order to achieve appropriate segregation of duties within certain financial reporting positions in the Finance department. We have concluded that as a result of improved segregation of duties within the Finance department at our co-owned US management company we have effectively corrected the control issues previously identified.

Forward –Looking Information and Risks and Uncertainties

Forward-Looking Information

This MD&A contains forward-looking information 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.

Examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;

- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;

- possible benefits from the implementation of new purchasing programs, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods that offset any benefits from our purchasing power and is subject to the assumption that we can negotiate favourable terms with our vendors in the future;

- growth or lack thereof of G&A expenses, which is subject to the risk and uncertainty that economic conditions result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase; and

- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks.

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See "Risks and Uncertainties" below and risk factors highlighted in materials filed with the securities regulatory authorities in Canada from time to time, including but not limited to our most recent annual information form.

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 certain 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 taxable 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.

With the enactment of the SIFT Rules contained in Bill C-52, which received Royal Asset on June 22, 2007 and the issuance of equity capital in excess of the normal growth guidelines established by the Department of Finance (Finance), Chartwell is subject to SIFT tax effective January 1, 2007.

On December 20, 2007, Finance issued a press release announcing its intention to introduce proposed technical amendments to the SIFT rules to resolve a number of technical issues that remain uncertain. Draft legislation was not released, further, the proposed technical amendments do not change Chartwell's status as a SIFT Trust.

Based on the current legislation, a possible interpretation of the SIFT rules exists under which one of Chartwell's subsidiary partnerships may be viewed as a SIFT. The precise impact of these technical issues cannot be determined until the Canada Revenue Agency provides administrative policies regarding the interpretation of the SIFT rules and their application to trusts and partnerships in which a publicly traded trust holds a direct or indirect interest and/or detailed legislation is released for the technical amendments or other future announcements may be either detrimental or beneficial to Chartwell.

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. Approximately 98% of Chartwell's distributions in 2007 are characterized as return of capital. Management believes it is likely that a high return of capital component would continue in the reasonably foreseeable future. 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 growing at a measured pace through focused 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. 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.

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 the Special Committee remains in place to address strategic matters as they arise.

(c) **Geographic Concentration**: A substantial portion of the business and operations of Chartwell is conducted in the United States, Ontario and Quebec, which at December 31, 2007 represented 34%, 34% 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) **Maintenance of Productive Capacity**: Chartwell is committed to keep its communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio the annual capital maintenance requirements are approximately 2% of annual gross property revenues.* In addition to recurring capital maintenance projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the capital maintenance requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in capital maintenance requirements of our communities could adversely impact cash available for distributions. The details of our actual capital asset spending for 2007 can be found in the "Capital expenditures" section of this MD&A.

(e) **Acquisition and Development**: Chartwell's external growth prospects will depend in 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.

(f) **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.

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* *This paragraph contains forward-looking information. Please see Forward-Looking Information and Risks and Uncertainties in this MD&A*

(g) **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 in Ontario 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 Bill140, 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.

(h) **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.

(i) **Labour Relations**: Chartwell, directly and indirectly, employs or supervises approximately over 12,000 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.

In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply which ensure the continuation of resident care and most services.

There can be no assurance that the seniors housing communities owned by Chartwell that are currently not unionized will not in the future be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing communities' employees.

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

(k) **Mezzanine Financing**: The mezzanine financing that has been provided and may be provided by Chartwell to Spectrum pursuant to the Development Agreement, to Melior, and 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 their capital resources.

(l) **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 may 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.

(m) **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 its 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.

(n) **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.