CHARTWELL SENIORS HOUSING REIT

SECOND QUARTER REPORT – JUNE 30, 2006

CHARTWELL
SENIORS HOUSING REIT

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

For the three and six months ended June 30, 2006

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

For the three and six months ended June 30, 2006

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

Chartwell Seniors Housing Real Estate Investment Trust (the "REIT", the "Trust" or "Chartwell") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the three and six months ended June 30, 2006. This discussion and analysis should be read in conjunction with the REIT's unaudited consolidated financial statements for the three and six months ended June 30, 2006, the notes therein, and the audited financial statements and management's discussion and analysis for the years ended December 31, 2005 and December 31, 2004. This material is available on the REIT's website at www.chartwellreit.ca. Additional information about the REIT, including the Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of August 10, 2006.

FORWARD LOOKING DISCLAIMER

This MD&A may contain forward-looking statements that reflect the current expectations of management about the future results, performance, achievements, prospects or opportunities for the REIT and the seniors housing industry. The REIT has tried to identify these forward-looking statements by using words such as "may", "will", "expect", "anticipate", "believe", "intent", "plan", "estimate", "potentially", or the negative thereof or similar expressions. Such forward-looking statements necessarily involve known and unknown risk and uncertainties that may cause Chartwell's or the seniors housing industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. Accordingly, the investor should not place undue reliance upon such statements. These risks and uncertainties include, among other things, risk related to: Chartwell's business; real property ownership and lack of diversity; geographic concentration; continued growth; acquisition and development; competition; government regulation; debt financing; mezzanine financing; environmental liabilities; foreign currency fluctuations; third party liability and insurance; personnel costs; labour relations; related party transactions and conflicts of interest; management contracts; availability of cash flows; redemption right; changes in accounting standards; dilution; nature of Units; Unitholder liability; market for Units and Unit price; and tax. There can be no assurance that the expectations of management of the REIT will prove to be correct. See "Risk Factors". Subject to applicable law, the REIT does not undertake any obligation to publicly update or revise any forward-looking statements.

BUSINESS OVERVIEW

The REIT commenced operations on November 14, 2003 following the completion of its Initial Public Offering. The REIT did not hold any material assets prior to November 14, 2003 and is considered to have commenced operations on that date.

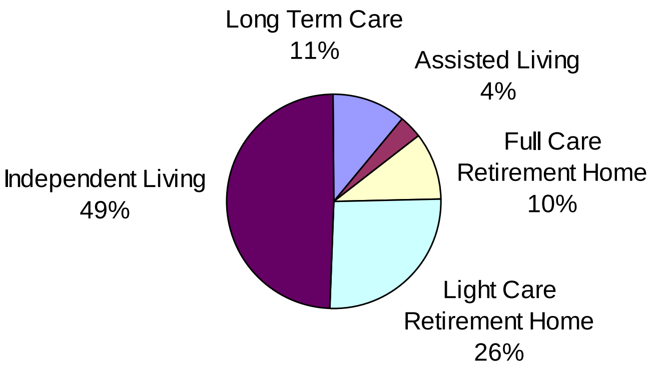
Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly owns and manages a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities ("IL Facilities"), through retirement homes ("Retirement Homes") to long-term care facilities ("LTC Facilities"), which are located in Canada and the United States. All references to "Chartwell" or "the REIT", unless the context indicates otherwise, refer to the REIT and its subsidiaries. For ease of reference "Chartwell" and "the REIT" are used in reference to ownership of seniors housing facilities and the operation of the seniors housing facilities and the development management business. The direct ownership of such facilities and operation of such business facilities is conducted by subsidiaries of the REIT. As of June 30, 2006 Chartwell's portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in 22,696 suites in 182 facilities which are operating, under construction or in various stages of development. The REIT's owned portfolio consists of 13,511 suites in 113 facilities. In addition to managing its own properties, Chartwell provides management and advisory services to third party owners of seniors housing facilities. Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of clients and the demands of their local marketplace.

The following is the composition of the REIT's owned and managed portfolio of seniors housing facilities in its four operating segments at June 30, 2006:

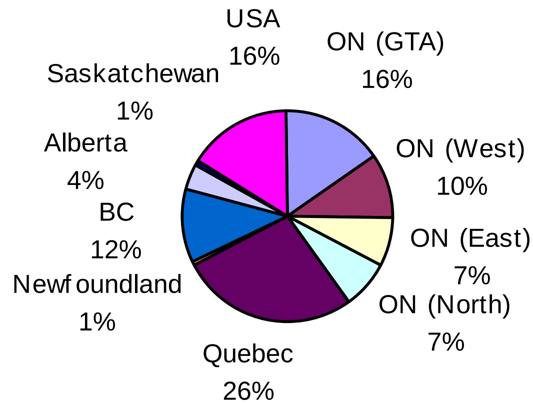
	Retirement Operations	**Long-Term Care Operations**	**United States Operations**	**Management Operations**	**Total**
Facilities	82(1)(3)(5)	11(1)	20(4)	69(2)	182
Suites/Beds	8,338	1,477	3,696	9,185	22,696

(1) Where a facility provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Includes stabilized, lease-up and facilities under development.
(3) Includes 10 facilities (1,615 suites) where Chartwell owns a 50% interest and 1 facility (55 suites) where Chartwell owns a 39% interest. Chartwell accounts for this property using the equity method of accounting.
(4) Chartwell owns a 50% interest in these facilities.
(5) Includes 213 suites under development at 4 existing facilities.

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



Composition of portfolio of owned and managed suites by geographical location at June 30, 2006



Chartwell has a first right to purchase additional stabilized seniors housing facilities through a development program carried out by Spectrum Seniors Housing Development LP ("Spectrum"), a development entity in which certain of the REIT's Senior Executives own a controlling interest. Chartwell provides the mezzanine financing to Spectrum and to Spectrum's joint venture partners for the development of seniors housing facilities. In return, the REIT receives a first right to purchase Spectrum's interest in such facilities, when stabilized, and at a discount to the appraised value. Stabilization occurs when a facility has had an average resident occupancy rate of 90% or greater during the preceding three calendar months. As part of its seniors housing operations and development management business, Chartwell also provides management, financing, and advisory services, for a fee, to Spectrum in respect of its facilities and development program.

Chartwell also provides mezzanine financing to entities affiliated with Le Groupe Melior ("Melior") and its joint venture partners to develop seniors housing facilities. Chartwell has a right to purchase these facilities upon stabilization at their fair market value. Melior and its joint venture partners can obligate Chartwell to acquire their interests in these projects at their appraised value, subject to the satisfaction of certain conditions. Chartwell also provides structuring, consulting and advisory services, for a fee, to Melior and its joint venture partners in respect of their development program.

Chartwell also provides due diligence project management and asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited ("ING"). ING is Chartwell's exclusive strategic financial partner in acquisitions of seniors housing facilities in the United States of America. At June 30, 2006, Chartwell and ING each held a 50% interest in CSH-INGRE LLC, which owned 20 seniors housing facilities (3,696 suites) in the United States.

Owned Property Portfolio

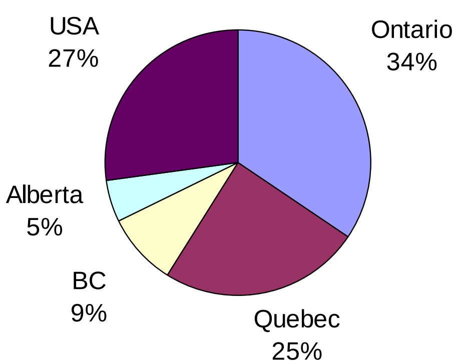
The following table summarizes the composition of Chartwell's real estate portfolio of owned facilities as at June 30, 2006 and June 30, 2005:

As at	June 30, 2006[1]	June 30, 2005[2]
Number of suites	13,511	7,643
Number of properties	113	77

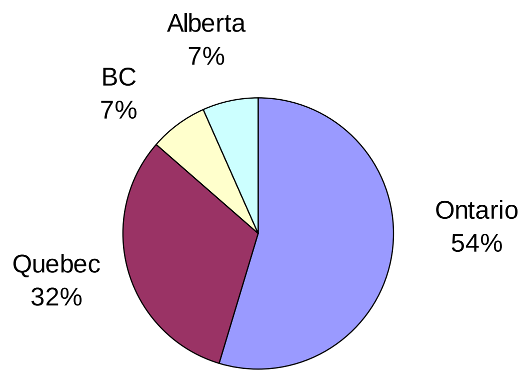
(1) Includes 30 facilities (5,311 suites) in which Chartwell holds a 50% interest, and 1 facility (55 suites) in which Chartwell holds a 39% interest.

(2) Includes 1 facility (55 suites) in which Chartwell holds a 39% interest, and 8 facilities (1,108 suites) in which Chartwell holds a 50% interest.

Composition of portfolio of owned suites by geographical location June 30, 2006



Composition of portfolio of owned suites by geographical location June 30, 2005



SIGNIFICANT EVENTS

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

Acquisitions

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

($000's)	Q2, 2006	Q1, 2006	Total Six Months ended June 30, 2006
# Properties	16[(1)]	2	18[(1)]
# Suites	2,627[(1)]	228	2,855[(1)]
Purchase price (including closing costs)	230,974	19,610	250,584
Financed as follows:			
Assumption of Mortgages Payable	4,830	11,711	16,541
Discharge of mezzanine loan receivable	-	2,758	2,758
Issuance of Class B Units of Chartwell Master Care LP	2,624	-	2,624
Deferred consideration on acquisitions of properties	520	-	520
New mortgage financing	154,265	-	154,265
Cash	68,735	5,141	73,876
	230,974	19,610	250,584

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

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

The following tables provide details of the acquisitions completed in the first six months of 2006 and in 2005:

Acquisitions completed in 2006:

#	Property	Location	Type	Effective date of acquisition	Beds/Suites
1	Chateau Cornwall	Cornwall, ON	Retirement	January 13, 2006	101
2	Manoir Pierrefonds	Montreal, QC	Long-term care	February 23, 2006	127
3.	Castel Royale	Montreal, QC	Retirement	April 28, 2006	255
4.	Mayfield	Prescott, ON	Retirement	May 1, 2006	62
5.	Wiser Hall	Prescott, ON	Retirement	May 1, 2006	8
6.	Town Village Audubon Park[(1)]	Memphis, Tennessee	Retirement	May 11, 2006	176
7.	Town Village Sterling Heights[(1)]	Sterling Heights, Michigan	Retirement	May 11, 2006	222
8.	Town Village Veslavia Hills[(1)]	Birmingham, Alabama	Retirement	May 11, 2006	198
9.	Town Village Tulsa[(1)]	Tulsa, Oklahoma	Retirement	May 11, 2006	222
10.	Bella Vila[(1)]	Venice, Florida	Retirement	May 15, 2006	115
11.	Gayton Terrance[(1)]	Richmond, Virginia	Retirement	May 15, 2006	100
12.	Village at Lowry[(1)]	Denver, Colorado	Retirement	May 15, 2006	169
13.	Waterford[(1)]	Dayton, Ohio	Retirement	May 15, 2006	110
14.	Willowwood[(1)]	Ft. Lauderdale, Florida	Retirement	May 15, 2006	278
15.	Woodside Village[(1)]	Bedford, Ohio	Retirement	May 15, 2006	220
16.	Wyndham Lakes[(1)]	Jacksonville, Florida	Retirement	May 15, 2006	248
17.	Amberpark[(1)]	Cincinnati, Ohio	Retirement	May 15, 2006	125
18.	Residence Le Riverain	Granby, QC	Retirement	June 1, 2006	119
					2,855

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

Acquisitions completed in 2005:

#	Property	Location	Type	Effective date of acquisition	Beds/Suites
1	Barclay House	North Bay, ON	Retirement	February 28, 2005	63
2	The Georgian	Timmins, ON	Retirement	February 28, 2005	63
3	The Pinewood	Pembroke, ON	Retirement	February 28, 2005	45
4	The Westmount	Sudbury, ON	Retirement	February 28, 2005	84
5	Glacier Ridge	Thunder Bay, ON	Retirement	March 30, 2005	78
6	Royal Oak	Kingsville, ON	Long-term care	April 1, 2005	160
7	Villa Val des Arbres	Laval, PQ	Retirement	May 1, 2005	163
8	Bridlewood	Gloucester, ON	Retirement	May 2, 2005	59
9	Carrington Place	Vernon, BC	Retirement	May 31, 2005	72
10	Collegiate Heights	Sault Ste. Marie, ON	Retirement	June 29, 2005	71
11	Crescent Gardens	South Surrey, BC	Retirement, Long-term care	July 11, 2005	131
12	Carlton Gardens	Burnaby, BC	Long-term care	July 11, 2005	152
13	Malaspina Gardens	Nanaimo, BC	Long-term care	July 11, 2005	135
14	Langley Gardens(1)	Langley, BC	Retirement, Long-term care	July 11, 2005	153
15	Langley Gardens at Village Square(1)	Langley, BC	Retirement	July 11, 2005	92
16	Centennial Retirement Residence	Oshawa, ON	Retirement	August 15, 2005	74
17	Arvada Meridian(1)	Arvada, Colorado	Retirement	August 19, 2005	125
18	Boulder Meridian(1)	Boulder, Colorado	Retirement	August 19, 2005	96
19	Englewood Meridian(1)	Englewood, Colorado	Retirement	August 19, 2005	266
20	Lakewood Meridian(1)	Lakewood, Colorado	Retirement	August 19, 2005	172
21	Temple Meridian(1)	Temple, Texas	Retirement	August 19, 2005	231
22	Westland Meridian(1)	Lakewood, Colorado	Retirement	August 19, 2005	153
23	Regency Retirement Residence	Mississauga, ON	Retirement	September 14, 2005	80
24	Pocasset Bay Manor(1)	Providence, Rhode Island	Retirement	October 1, 2005	169
25	Park at Trowbridge(1)	Southfield, Michigan	Retirement	October 1, 2005	300
26	Eau Claire	Calgary, Alberta	Retirement	October 1, 2005	150
27	Jackson Creek	Peterborough, Ontario	Retirement	November 1, 2005	68
28	Ste Marthe	St. Hyacinthe, Quebec	Retirement	December 1, 2005	67
					3,472

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

Internal Growth Initiatives

At June 30, 2006, Chartwell had four internal growth projects in various stages of development with one additional project scheduled to commence in the third quarter of 2006. When completed, these projects will add 344 suites to Chartwell's portfolio (refer to the Outlook section of this MD&A).

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

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

Mezzanine Loans

In the second quarter of 2006, the REIT advanced mezzanine loans totaling $11.3 million to Spectrum, Melior and Spectrum's joint venture partners. In the first six months of 2006, mezzanine advances to Spectrum, Melior and Spectrum's joint venture partners amounted to $20.0 million. In addition, a mezzanine loan in the amount of $2.8 million was discharged in the first quarter of 2006 on the acquisition of the Chateau Cornwall from Spectrum.

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

Public Offerings of Trust Units

On May 9, 2006, the REIT completed a public offering of Trust Units by issuing 13.31 million Units at $13.90 per Unit. The net proceeds of approximately $176.1 million, after the payment of issue related costs of approximately $8.9 million, were used to repay the amounts outstanding under the REIT's credit facilities, to finance certain acquisitions, to advance certain mezzanine loans and for general corporate purposes.

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

Increase in Distributions in 2005

Effective with the March 31, 2005 distribution, the REIT increased its monthly cash distribution to $0.08875 per unit from $0.0854 per Unit, which resulted in the annual distribution increasing to $1.065 per Unit from $1.025 per Unit.

KEY PERFORMANCE MEASURES

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

Funds from Operations

Funds from Operations ("FFO") is not a recognized measure under GAAP and is defined as net income computed in accordance with GAAP, excluding gains or losses from sales of depreciable real estate and extraordinary items, and adds back the following: depreciation and amortization, future income taxes, and adjustments for equity accounted for entities and non-controlling interests. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts, however, the REIT presents FFO consistent with the definition adopted by the Real Property Association of Canada ("REALPAC").

In the opinion of management, the use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial to the users of the financial information, improving their understanding of the operating results of the REIT and making comparisons of the REIT's operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing the REIT's operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of the REIT's real estate portfolio between financial reporting periods or for comparison to other real estate investment trusts.

Distributable Income

Distributable Income ("DI") is defined by Chartwell's Declaration of Trust and is based on consolidated net earnings adjusted for (i) non-cash items; (ii) items that are not representative of the REIT's operating performance; (iii) cash items that are not included in net earnings under GAAP; and (iv) other items as determined by Chartwell's Board of Trustees.

DI is presented because management believes this non-GAAP measure is a relevant measure of the ability of the REIT to earn and distribute cash returns to its Unitholders. DI is not a measure recognized under GAAP and should not be construed as an alternative to net earnings or cash flow from operating activities as determined in accordance with GAAP. DI as computed by the REIT may differ from similar computations as reported by other organizations and, accordingly, may not be comparable to distributable income as reported by such organizations.

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

* Depreciation and amortization;
* Future income tax expense or credits;
* Gains or losses on asset dispositions;
* Amortization of discounts or premiums on long-term debt and deferred financing costs;
* Interest on convertible debentures;
* Up to 100% of the principal portion of capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for long-term care facilities;
* Amounts received as contingent consideration for operating subsidies that are not included in net income under GAAP;
* Fees that are contractually receivable in the reporting period and are not included in net income under GAAP;
* Non-cash compensation expense related to issuance of Trust Units under Long-Term Incentive Program;
* Unrealized foreign currency gains and losses and unrealized gains and losses on derivative financial instruments; and
* Realized foreign currency gains and losses and gains and losses on derivative financial instruments relating to capital transactions.

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

Distribution Payout Ratio

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

Net Operating Income

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

Same Property Performance

The Trust evaluates its financial performance by analyzing a same property portfolio. In this MD&A, same property statistics refer to 59 retirement homes and 7 long-term care facilities that the REIT continuously owned from January 1, 2005 to June 30, 2006.

Operating Margins

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

Occupancy Percentage

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

General and Administrative Expenses as a Percentage of Revenue

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

RESULTS OF OPERATIONS

The selected information presented below is based on the unaudited consolidated financial results of the REIT for the three and six month periods ended June 30, 2006 and 2005.

Summary

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

	For the three months ended			For the six months ended		
($000's, except per unit amounts)	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**
Property Revenue	74,554	43,812	30,742	140,242	82,998	57,244
Total Revenues	81,888	49,315	32,573	155,057	92,662	62,395
Net Loss	(3,244)	(66)	(3,178)	(4,887)	(3,403)	(1,484)
Weighted Average Number of Units (diluted)	63,880,768	44,415,348	19,465,420	60,031,089	40,929,565	19,101,524
Distributions Declared	17,213	11,773	5,440	31,996	22,023	9,973
Distributions Declared per Unit (diluted)	0.27	0.27	-	0.53	0.54	(0.01)
Funds from Operations	14,428	10,928	3,500	28,940	18,719	10,221
Funds from Operations per Unit (diluted)	0.23	0.25	(0.02)	0.48	0.46	0.02
Payout Ratio – FFO	119%	108%	11%	111%	118%	(7%)
Distributable Income	16,271	11,078	5,193	30,160	20,771	9,389
Distributable Income per Unit (diluted)	0.25	0.25	-	0.50	0.51	(0.01)
Payout Ratio – Distributable Income	106%	106%	-	106%	106%	-

Revenues

	For the three months ended			For the six months ended		
($000's)	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**
Property Revenue	74,554	43,812	30,742	140,242	82,998	57,244
Mezzanine Loan Interest	2,479	1,964	515	4,787	3,755	1,032
Fees	3,428	2,355	1,073	7,402	4,003	3,399
Other Income	1,427	1,184	243	2,626	1,906	720
Total Revenues	81,888	49,315	32,573	155,057	92,662	62,395

Total Revenues, in the three and six month periods ended June 30, 2006 increased by 66%, and 67% respectively, as compared to the same periods of last year, as the REIT continued to execute its growth strategy through acquisitions, internal growth, mezzanine lending, and development and operations management activities.

Property Revenue

($000's)	For the three months ended June 30, 2006	June 30, 2005 (restated)	Change	For the six months ended June 30, 2006	June 30, 2005 (restated)	Change
Same Property	43,696	41,114	2,582	86,581	81,068	5,513
Acquisitions	33,497	5,074	28,423	58,846	6,559	52,287
Change in Accounting for VIEs	(2,639)	(2,376)	(263)	(5,185)	(4,629)	(556)
Total Property Revenue	74,554	43,812	30,742	140,242	82,998	57,244
Weighted average occupancy same property portfolio	93.0%	91.1%	1.9%	92.9%	91.4%	1.5%

- Same property revenue increased by 6.3% and 6.8% in the three and six month periods ended June 30, 2006, respectively as compared to the same periods of last year due to the following:

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

- 46 seniors housing facilities acquired subsequent to January 1, 2005 contributed $33.5 million and $58.9 million of new revenue in the three and six months ended June 30, 2006, respectively.

- In 2005, the REIT completed its evaluation of the impact of the new accounting standards for Variable Interest Entities ("VIE's"). Management determined that seven operating companies co-owned with Melior in the Province of Quebec, which are structured to lease the respective facilities from the co-owners, are VIE's. Chartwell is not considered to be the primary beneficiary of these entities and is therefore required to account for them by using the equity method of accounting. Previously, Chartwell accounted for its 50% interest in these entities by using the proportionate consolidation method of accounting. This change in accounting policy was adopted effective January 1, 2005 ("Change in Accounting for VIEs") and therefore results for the three and six month periods ended June 30, 2005 were restated.

Mezzanine Loan Interest

($000's)	For the three months ended June 30, 2006	June 30, 2005	Change	For the six months ended June 30, 2006	June 30, 2005	Change
Mezzanine Loan Balances Outstanding (end of the period)	94,621	58,020	36,601	94,621	58,020	36,601
Mezzanine Loan Interest	2,479	1,964	515	4,787	3,755	1,032

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

Fees

($000's)	For the three months ended June 30, 2006	June 30, 2005	Change	For the six months ended June 30, 2006	June 30, 2005	Change
Spectrum	1,384	1,303	81	4,153	2,311	1,842
Melior	537	561	(24)	1,100	714	386
Other	1,507	491	1,016	2,149	978	1,171
	3,428	2,355	1,073	7,402	4,003	3,399

- For the three month period ended June 30, 2006, fees from Spectrum and Melior were consistent with the fees earned in the same period of prior year.
- In the second quarter of 2006, Chartwell entered into an agreement with ING to provide due diligence project management services. In accordance with this agreement, Chartwell is entitled to a fee equal to 50 basis points times ING's pro-rata share of the total purchase price of the property acquired by ING jointly with Chartwell. In the second quarter of 2006, Chartwell earned fees of approximately $0.9 million (US $0.8 million) pursuant to this agreement. In addition, Chartwell earned asset management fees of approximately $0.1 million (US $0.1 million) from ING. Other third party management fees earned in the second quarter of 2006 were in line with the fees earned in the same period of last year.

  For the six month period ended June 30, 2006, fees were higher by approximately $3.4 million when compared to the same period of last year due to the following:

  - Spectrum fees in the first quarter of 2006 included an additional development fee of approximately $1.0 million related to 14 existing Spectrum development projects, as well as fees of $0.5 million for assistance with a $17.5 million equity raise completed by Spectrum in 2005.
  - Higher fees from Melior due to the increase in the number of development projects conducted by Melior in the first quarter of 2006.
  - Due diligence project management and asset management fees from ING, as discussed above.

Other Income

($000's)	For the three months ended June 30, 2006	June 30, 2005 (restated)	Change	For the six months ended June 30, 2006	June 30, 2005 (restated)	Change
Interest and Other Income	512	360	152	1,057	460	597
Change in Accounting for VIEs	915	824	91	1,569	1,446	123
Other Income	1,427	1,184	243	2,626	1,906	720

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

Direct Operating Expenses

($000's)	For the three months ended June 30, 2006	June 30, 2005 (restated)	Change	For the six months ended June 30, 2006	June 30, 2005 (restated)	Change
Same Property	29,714	27,931	1,783	59,989	56,038	3,951
Acquisitions	22,526	2,788	19,738	39,244	3,112	36,132
Change in Accounting for VIE's	(1,724)	(1,552)	(172)	(3,616)	(3,183)	(433)
Direct Operating Expenses – Properties	50,516	29,167	21,349	95,617	55,967	39,650
Direct Operating Expenses – Management Operations	999	1,071	(72)	1,998	2,134	(136)
Total Direct Operating Expenses	51,515	30,238	21,278	97,615	58,101	39,514

- Same property operating expenses increased by 6% and by 7% in the three and six month periods ended June 30, 2006, respectively as compared to the same periods of last year due to the following:

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

- 46 seniors housing facilities acquired subsequent to January 1, 2005 contributed $22.5 million and $39.2 million of additional direct operating expenses in the three and six month periods ended June 30, 2006.

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

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

General and Administrative Expenses

($000's)	For the three months ended June 30, 2006	June 30, 2005 (restated)	Change	For the six months ended June 30, 2006	June 30, 2005 (restated)	Change
General and Administrative Expenses	4,242	2,451	1,791	7,599	4,450	3,149
As % of total revenue	5.2%	5.0%	0.2%	4.9%	4.8%	0.1%

- General and Administrative Expenses increased 73% and 71% in the three and six month periods ended June 30, 2006 as compared to the same periods of last year due to the following:

  - Additions of new support and management staff throughout 2005 and in the first half of 2006 in order to support current and future growth of the REIT.

- Expansion of the head office space in Mississauga and integration of Chartwell's regional office in Vancouver and the CPAC head office into one larger office.
- Higher compliance costs and professional fees due to the increased size of the REIT and the new regulatory requirements, including Bill 198 compliance.
- In the second quarter of 2006, the REIT expensed $0.1 million ($0.4 million in the six month period ended June 30, 2006) of costs related to potential acquisitions that are no longer under consideration.

• In the three and six month periods ended June 30, 2006, general and administrative expenses as a percentage of revenue increased from the same period of last year due to the items discussed above.

• Management anticipates that General and Administrative Expenses will continue to increase in 2006 due to the increased size of the REIT, increasing cost of regulatory compliance and professional fees. However, it anticipates that general and administrative expenses, as percentage of total revenue, will not exceed 5% for the full year.

Interest Expense

	For the three months ended			For the six months ended		
($000's)	**June 30, 2006**	**June 30, 2005**	**Change**	**June 30, 2006**	**June 30, 2005**	**Change**
Interest Expense	10,679	5,781	4,898	19,877	11,465	8,412

• Increase in interest expense is consistent with the growth in the REIT's portfolio as mortgages payable increased from $419.1 million at June 30, 2005 to $748.6 million at June 30, 2006.

Foreign Exchange Loss

	For the three months ended			For the six months ended		
($000's)	**June 30, 2006**	**June 30, 2005**	**Change**	**June 30, 2006**	**June 30, 2005**	**Change**
Foreign Exchange Loss	(950)	-	(950)	(898)	-	(898)

• In the second quarter of 2006, Chartwell entered into a forward foreign currency contract to acquire $26 million US dollars to eliminate the risk of foreign currency fluctuation on its acquisition of a portfolio of seniors housing facilities in the United States. This transaction did not qualify for hedge accounting under GAAP and, consequently, the REIT recognized a foreign exchange loss of approximately $0.6 million in the quarter.
• In addition, Foreign Exchange Loss includes unrealized gains and losses on the related party cross-border debt used to finance Chartwell's acquisitions in the United States, and the unrealized gains/losses on fluctuations in the redemption value of Series A Interests of Chartwell's US subsidiary and realized gains/losses on Chartwell's holdings of US cash.

Depreciation and Amortization

	For the three months ended			For the six months ended		
($000's)	**June 30, 2006**	**June 30, 2005**	**Change**	**June 30, 2006**	**June 30, 2005**	**Change**
Depreciation and Amortization	18,138	11,003	7,135	34,064	21,772	12,292

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

Write-down of the Carrying Value of Assets

	For the three months ended			For the six months ended		
($000's)	**June 30, 2006**	**June 30, 2005**	**Change**	**June 30, 2006**	**June 30, 2005**	**Change**
Write down of management contracts and customer relationships	-	-	-	440	-	440
Write down of properties	-	-	-	-	817	(817)
	-	-	-	440	817	(377)

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

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

Gain on Sale of Assets

	For the three months ended			For the six months ended		
($000's)	**June 30, 2006**	**June 30, 2005**	**Change**	**June 30, 2006**	**June 30, 2005**	**Change**
Gain on sale of assets	100	103	(3)	100	103	(3)

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

Non-Controlling Interest

	For the three months ended			For the six months ended		
($000's)	**June 30, 2006**	**June 30, 2005**	**Change**	**June 30, 2006**	**June 30, 2005**	**Change**
Non-controlling Interest	292	(11)	303	449	437	12

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

Net Loss

($000's)	For the three months ended June 30, 2006	June 30, 2005 (restated)	Change	For the six months ended June 30, 2006	June 30, 2005 (restated)	Change
Net Loss for the period	(3,244)	(66)	(3,178)	(4,887)	(3,403)	(1,484)

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

Funds from Operations

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

($000's except per unit amounts)	For the three months ended June 30, 2006	June 30, 2005 (restated)	Change	For the six months ended June 30, 2006	June 30, 2005 (restated)	Change
Net loss per financial statements	(3,244)	(66)	(3,178)	(4,887)	(3,403)	(1,484)
Add (subtract):						
Depreciation of real estate assets	7,576	4,620	2,956	14,537	8,909	5,628
Amortization of management contracts, resident contracts and customer relationships	10,562	6,383	4,179	19,527	12,863	6,664
Depreciation of leasehold improvements and computer software included in depreciation of real estate assets	(74)	(20)	(54)	(128)	(30)	(98)
Write down of carrying value of assets	-	-	-	440	817	(377)
Gain on sale of assets	(100)	-	(100)	(100)	-	(100)
Non-controlling interest	(292)	11	(303)	(449)	(437)	53
Funds from Operations	14,428	10,928	3,500	28,940	18,719	10,221
Funds from Operations per Unit (diluted)	0.23	0.25	(0.02)	0.48	0.46	0.02
Payout Ratio – FFO	119%	108%	11%	111%	118%	(7%)

- FFO increased 32% in the second quarter and 55% in the first six months of 2006 as compared to the same period of last year due to the significant growth in the REIT's property portfolio and higher interest and fee income, offset by higher general and administrative expenses, interest expenses and foreign exchange loss.

- FFO per Unit decreased by $0.02 (8%) in the second quarter as compared to the second quarter of last year. FFO per Unit in the second quarter was negatively affected by higher general and administrative expenses primarily related to professional fees incurred for regulatory compliance, acquisition related expenses and foreign exchange loss.

  In addition, per Unit amounts were negatively affected by the dilution resulting from the timing of deployment of funds raised in May 2006 pursuant to the public offering of Trust

Units. Management estimates that this dilution resulted in approximately $0.01 reduction in FFO per Unit in the second quarter of 2006.

- FFO per Unit in the six month period ended June 30, 2006 increased by $0.02 (4%) due to higher property and fee income contributions offset by higher general and administrative expenses and foreign exchange losses as described above.

Distributable Income

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

	For the three months ended			For the six months ended		
($000's except per unit amounts)	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**
Net Income Loss	(3,244)	(66)	(3,178)	(4,887)	(3,403)	(1,484)
Add back (subtract):						
Depreciation and amortization	18,138	11,003	7,135	34,064	21,772	12,292
Amortization of deferred financing expenses	651	371	280	1,197	715	482
Amortization of below market leases	(510)	(436)	(74)	(915)	(851)	(64)
Amortization of debt premiums, net (1)	(405)	(311)	(94)	(843)	(700)	(143)
Write down of carrying value of assets	-	-	-	440	817	(377)
Gain on sale of assets	(100)	(103)	3	(100)	(103)	3
Principal portion of capital funding receivable	70	65	5	138	85	53
Amounts received under Net Operating Income Guarantees	150	463	(313)	397	770	373
Contractually receivable management fees, not Included in net income under GAAP	1,288	81	1,207	1,288	2,106	(818)
Management fees recorded in Net Income under GAAP in the period that were previously recorded in Distributable Income	(465)	-	(465)	(986)	-	(986)
Foreign exchange loss and losses on derivative financial instruments	958	-	958	752	-	752
Non-cash compensation expense related to the issuance of Trust Units under the Long-Term Incentive Program	32	-	32	64	-	64
Non-controlling interest	(292)	11	(303)	(449)	(437)	(12)
Distributable income	16,271	11,078	5,193	30,160	20,771	9,389
Distributable income per unit – basic	0.26	0.25	0.01	0.50	0.52	-
Distributable income per unit – diluted	0.25	0.25	-	0.50	0.51	(0.01)
Payout Ratio	106%	106%	-	106%	106%	-

(1) Includes amortization of debt discounts of $76 and $149 for the three month and six month periods ended June 30, 2006 and $55 and $103 for the three and six month periods ended June 30, 2005, respectively.

- Distributable Income increased by $5.2 million (47%) in the second quarter of 2006 and by $9.4 million (45%) in the first six months of 2006 as compared to the same periods of last year. The increase in DI is due to the REIT's expanded property operations and an increase in interest and fee income. This increase was offset by contractually receivable management fees recorded in DI in prior periods. In the second quarter of 2006, $0.5 million ($1.0 million in the six month period ended June 30, 2006) of these fees were recorded as revenue in the REIT's financial statements and deducted in the calculation of DI. In the first six months of 2005, $2.1 million of contractually receivable fees were included in DI, as compared to only $1.3 million of new contractually receivable fees included in the DI in the first half of 2006.

- DI per Unit in the three and six months ended June 30, 2006 remained consistent with the DI per Unit in the same periods of 2005, as positive property and fee income contributions were offset by higher general and administrative and interest costs.

  In addition, per Unit amounts were negatively affected by the dilution resulting from the timing of deployment of funds raised in May 2006 pursuant to the public offering of Trust Units. Management estimates that this dilution resulted in approximately $0.01 reduction in DI per Unit in the second quarter of 2006.

Reconciliation of Distributable Income to Cash Flow from Operating Activities

The following table provides a reconciliation of Distributable Income to Cash Flow from operating activities for the six months ended June 30, 2006 and June 30, 2005.

	For the three months ended			For the six months ended		
($000's)	June 30, 2006	June 30, 2005 (restated)	Change	June 30, 2006	June 30, 2005 (restated)	Change
Cash flow from operating activities	15,931	12,469	3,462	25,393	21,752	3,641
Add (Subtract):						
Change in non-cash operating items	(567)	(1,662)	1,095	4,529	(3,190)	7,719
Amortization of debt discounts	(76)	(55)	(21)	(149)	(103)	(46)
Amortization of debt premiums, net	(405)	(311)	(94)	(843)	(700)	(143)
Principal portion of capital funding receivable	70	65	5	138	85	53
Amounts received under Net Operating Income Guarantees	150	463	(313)	397	770	(373)
Contractually receivable management fees, net	823	81	742	302	2,106	(1,804)
Income/(Loss) from long-term investment net of distributions	(275)	28	(303)	(218)	51	(269)
Foreign exchange loss	620	-	620	611	-	611
Distributable Income	16,271	11,078	5,193	30,160	20,771	9,389

SEGMENTED INFORMATION

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

Effective June 30, 2005, the REIT changed the composition of its reportable segments to classify seniors housing facilities as retirement homes or long term care facilities based on the primary level of care provided. Previously, revenues, expenses, assets and liabilities of these facilities were allocated to both retirement homes or long-term care facilities based on the number of retirement and long-term care beds. The comparative information for prior periods has been restated to conform to the current classification.

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

As a result, revenues of the retirement operations segment for the three and six months ended June 30, 2005, were reduced by $2,376 and $4,629, respectively, and expenses were reduced by $1,552, and $3,183, respectively.

In 2005, the REIT acquired a 50% interest in management operations and in eight seniors housing facilities in the United States. In the second quarter of 2006, the REIT acquired 50% interest in additional 12 seniors housing facilities in the United States. The REIT monitors and operates these facilities separately and consequently reports the results of operations and financial position of its United States operations as a separate operating segment.

Retirement Operations

The following table presents the results of operations and financial position of the retirement operations segment of the REIT for the three and six month periods ended June 30, 2006 and 2005, respectively.

	For the three months ended			For the six months ended		
$000's	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**	**June 30, 2006**	**June 30, 2005 (restated)**	**Change**
Revenues						
Same Property	32,468	30,767	1,701	64,392	60,490	3,902
Acquisitions	13,229	3,135	10,094	24,611	4,620	19,991
Change in Accounting for VIEs	(2,639)	(2,376)	(263)	(5,185)	(4,629)	(556)
Total Revenues	43,058	31,526	11,532	83,818	60,481	23,337
Expenses						
Same Property	19,785	18,851	934	40,229	37,814	2,415
Acquisitions	8,451	1,247	7,204	15,698	1,571	14,127
Change in Accounting for VIEs	(1,724)	(1,552)	(172)	(3,616)	(3,183)	(433)
Total Expenses	26,512	18,546	7,966	52,311	36,202	16,109
Net Operating Income						
Same Property	12,683	11,916	767	24,163	22,676	1,487
Acquisitions	4,778	1,888	2,890	8,913	3,049	5,864
Change in accounting for VIEs	(915)	(824)	(91)	(1,569)	(1,446)	(123)
Total Net Operating Income	16,546	12,980	3,566	31,507	24,279	7,228
Overall Operating Margins	38.4%	41.2%	(2.8%)	37.6%	40.1%	(2.5%)
Same Property Statistics:						
Operating Margins	39.1%	38.7%	0.4%	37.5%	37.5%	-
Weighted Average Occupancy Rate	92.4%	91.6%	0.8%	92.3%	91.9%	0.4%

Same property Net Operating Income increased by approximately $0.8 million (6.4%) and by approximately $1.5 million (6.6%) in the three and six months ended June 30, 2006 as compared to the same periods of last year, respectively, due to the following:

- Additional services introduced to residents at certain facilities in 2005 produced higher net operating income contribution.
- Regular annual rent increases between 2-3% also contributed to higher net operating income in 2006.

- Management implemented certain cost savings measures at several of its properties where the occupancies were lower than budgeted.
- Positive net operating income contribution from the repositioning of one retirement facility completed in 2005, which achieved stabilized occupancy in the first quarter of 2006.
- Positive net operating income contributions from additional suites added at 4 of the REIT's properties (204 suites), of which 99 suites were leased at June 30, 2006.

Same property operating margins in the three and six month periods ended June 30, 2006 were in line with the operating margins in the same periods of prior year.

Acquisitions contributed an additional $4.8 million and $8.9 million of net operating income in the three and six month periods ended June 30, 2006, as compared to the same periods of last year.

Overall operating margins decreased by 2.8% and 2.5% in the three and six month periods ended June 30, 2006 as compared to the same periods of the prior year as certain of the acquired properties offer enhanced resident care and service programs. These acquisitions, while generate positive net operating income contribution and accretive yields, generally operate at lower operating margins.

Long-Term Care Operations

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

	For the three months ended			For the six months ended		
$000's	**June 30, 2006**	**June 30, 2005**	**Change**	**June 30, 2006**	**June 30, 2005**	**Change**
Revenues						
Same Property	11,228	10,347	881	22,189	20,578	1,611
Acquisitions	8,156	1,939	6,217	14,627	1,939	12,688
Total Revenues	19,384	12,286	7,098	36,816	22,517	14,299
Expenses						
Same Property	9,929	9,080	849	19,760	18,224	1,536
Acquisitions	6,916	1,541	5,375	12,076	1,541	10,535
Total Expenses	16,845	10,621	6,224	31,836	19,765	12,071
Net Operating Income						
Same Property	1,299	1,267	32	2,429	2,354	75
Acquisitions	1,240	398	842	2,551	398	2,153
Total Net Operating Income	2,539	1,665	1,468	4,980	2,752	2,228
Overall Operating Margins	13.1%	13.6%	(0.5%)	13.5%	12.2%	1.3%
Same Property Statistics:						
Operating Margins	11.6%	12.2%	(0.6%)	11.0%	11.4	(0.4%)
Weighted Average Occupancy Rate	96.5%	88.3%	8.2%	96.5%	88.3%	8.2%

Same property net operating income increased by $0.03 million (2.5%) in the second quarter of 2006 as compared to the same period of last year due to the following:

- Completion of the repositioning of Gibson LTC in 2005. The weighted average occupancy in this facility increased from 73% in 2005 to 99% in 2006.
- Improved occupancies in the remainder of the long-term care portfolio.

Acquisitions of 3 long-term care facilities subsequent to January 1, 2005 resulted in $1.2 million of additional net operating income in the second quarter of 2006.

Operating margins in the same property portfolio have decreased from 12.2% in the second quarter of 2005 to 11.6% in the second quarter of 2006 primarily due to higher flow-through Health Authorities funding, which although increases revenues, does not contribute incremental net operating income.

In the six month period ended June 30, 2006, same property net operating income increased by $75 (3.2%) due to the improved occupancies as discussed above.

U.S. Operations

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

$000's	For the three months ended June 30, 2006	For the three months ended June 30, 2005	For the six months ended June 30, 2006	For the six months ended June 30, 2005
Revenues	12,112	-	19,608	-
Direct Operating Expenses	7,159	-	11,470	-
Net Operating Income	4,953	-	8,138	-
Operating Margins	40.9%	-	41.5%	-
Weighted Average Occupancy Rate(1)	94.1%	-	94.1%	-

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

As at June 30, 2006, the U.S. Operations segment includes Chartwell's 50% interest in twenty seniors housing facilities located in Colorado (6 facilities), Florida (3 facilities), Ohio (3 facilities), Michigan (2 facilities), Texas, Rhode Island, Tennessee, Alabama, Oklahoma and Virginia (1 facility in each state) (3,696 suites). In addition, the results of U.S. Operations include Chartwell's 50% interest in Horizon Bay Chartwell LLC ("HBC"), a property manager for the above eight facilities.

US Operations operating margins declined from 41.5% in the first quarter of 2006 to 40.9% in the second quarter of 2006 due to the fact that the properties acquired in the second quarter of 2006 include higher service component, which results in lower overall operating margins.

Management Operations

$000's	For the three months ended June 30, 2006	For the three months ended June 30, 2005	Change	For the six months ended June 30, 2006	For the six months ended June 30, 2005	Change
Revenues	3,428	2,355	1,073	7,402	4,003	3,399
Direct Operating Expenses	999	1,071	(72)	1,998	2,134	(136)
Net Operating Income	2,429	1,284	1,145	5,404	1,869	3,535
Operating Margins	70.9%	54.5%	16.4%	73.0%	46.7%	26.3%

Revenue

	For the three months ended			For the six months ended		
$000's	June 30, 2006	June 30, 2005	Change	June 30, 2006	June 30, 2005	Change
Spectrum:						
Development Management	986	990	(4)	2,904	1,735	1,169
Operations Management	149	113	36	278	255	23
Financing	216	200	16	382	321	66
Other	33	-	33	584	-	584
Total Spectrum	1,384	1,303	81	4,153	2,311	1,842
Melior	537	561	(24)	1,100	714	386
Other	1,507	491	1,016	2,149	978	1,171
Total Fee Revenue	3,428	2,355	1,073	7,402	4,003	3,399

Management operations revenues were higher in the second quarter of 2006 as compared to the same period of last year primarily due to approximately $1.0 million of due diligence project management fees and asset management fees earned from ING.

Due diligence project management fees of approximately $0.9 million (US $0.8 million) were earned in connection with CSH-INGRE LLC's acquisitions of two portfolios of seniors housing facilities in the United States in the second quarter of 2006. In accordance with the agreement between Chartwell and ING, these fees are equal to 50 bps times ING's share of the purchase price of the properties.

In the six month period ended June 30, 2006, fees were higher than in the same period of last year due to the following:

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

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

- Fees from Melior were higher due to the increased number of projects being developed by Melior and its joint venture partners.

- Other fees increased due to approximately $0.9 million of due diligence project management fees earned from ING on acquisitions of 12 properties in the United States in the second quarter of 2006. In addition, asset management fees from ING amounted to approximately $0.2 million in the first half of 2006.

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

Direct Operating Expenses

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

Operating Margins

Operating margins increased in the three and six month periods ended June 30, 2006 as compared to the same period of last year due to significantly higher fee revenue.

QUARTERLY FINANCIAL INFORMATION

The following table summarizes the REIT's quarterly financial information. The quarterly results for the three month periods ended September 30, 2005, June 30, 2005 and March 31, 2005 have been restated to reflect changes in accounting for VIEs (see Significant Accounting Policies). As a result of this change, both Revenues and Direct Operating Expenses for the periods ended September 30, 2005, June 30, 2005 and March 31, 2005 were reduced by $1,579, $1,552 and $1,631 respectively.

In response to Emerging Issues Committee ("EIC") 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which was issued on January 19, 2005, Chartwell REIT has adopted a new accounting policy applicable to the Class B Units of Master LP effective December 31, 2004. Under EIC-151, equity applicable to the Class B Units of Master LP is considered to be a non-controlling interest. Previously, Chartwell REIT included the Class B Units of Master LP as part of its unitholders' equity. As a result of this change, the net loss for the three month period ended September 30, 2004 was reduced by $3.

($000's, except per unit amounts)	Three Months Ended June 30, 2006 (unaudited)	Three Months Ended March 31, 2006 (unaudited)	Three Months Ended Dec. 31, 2005 (unaudited)	Three Months Ended Sept. 30, 2005 (restated) (unaudited)	Three Months Ended June 30, 2005 (restated) (unaudited)	Three Months Ended March 31, 2005 (restated) (unaudited)	Three Months Ended Dec. 31, 2004 (unaudited)	Three Months Ended Sept. 30, 2004 (restated) (unaudited)
Revenues	81,888	73,169	71,712	60,254	49,315	43,347	45,406	38,691
Direct Operating Expenses	(51,515)	(46,100)	(46,515)	(38,605)	(30,238)	(27,863)	(27,161)	(23,366)
General, Administrative and Trust Expenses	(4,242)	(3,357)	(3,206)	(2,525)	(2,451)	(1,999)	(2,024)	(1,513)
Income before interest, depreciation and amortization	26,131	23,712	21,991	19,124	16,626	13,485	16,221	13,812
Interest Expense	(10,679)	(9,198)	(8,613)	(7,368)	(5,781)	(5,684)	(6,521)	(4,686)
Foreign Exchange Gains (Losses)	(950)	52	(325)	(1,434)	-	-	-	-
Depreciation and Amortization	(18,138)	(15,926)	(16,268)	(12,892)	(11,003)	(10,769)	(10,671)	(9,270)
Write down of carrying value of assets	-	(440)	(3,436)	-	-	(817)	(1,159)	-
Gain on sale of assets	100	-	-	-	103	-	-	-
Non-controlling interest	292	157	683	271	(11)	448	196	3
Net Loss for the period	(3,244)	(1,643)	(5,968)	(2,299)	(66)	(3,337)	(1,934)	(141)
FFO	14,428	14,512	13,038	10,302	10,928	7,791	9,696	9,126
FFO per Unit, diluted	0.23	0.26	0.23	0.21	0.25	0.21	0.26	0.28
Distributable Income	16,271	13,889	15,302	14,118	11,078	9,693	11,145	9,398
Distributable Income Per Unit, diluted	0.25	0.25	0.27	0.28	0.25	0.26	0.30	0.29

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

General, Administrative and Trust Expenses have increased in the last four quarters in order to provide the additional infrastructure required to support the REIT's growth, and increasing professional fees related to regulatory compliance including requirements of Bill 198.

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

FINANCIAL POSITION

($000's)	June 30, 2006	Dec. 31, 2005	Change
Properties	1,171,667	957,244	214,423
Mezzanine Loans	94,621	77,436	17,185
Total Assets	**1,476,744**	**1,191,644**	**285,100**
Mortgages Payable	778,548	613,654	164,894
Loans Payable	2,485	32,024	29,539
Total Liabilities	**838,019**	**693,911**	144,108
Non-controlling Interest	49,524	52,448	2,924
Unitholders' Equity	589,201	445,285	143,916
Total Liabilities and Equity	**1,476,744**	**1,191,644**	**285,100**

The increase in total assets in the first six months of 2006 is principally due to the acquisitions of interests in 18 seniors housing facilities and additional mezzanine loan advances, offset by depreciation and amortization charges and the write down of management contracts and customer relationships.

Mortgages payable increased in the first six months of 2006 due to the financing required to complete acquisitions and due to upward refinancings completed in the period. Loans payable decreased as the REIT repaid amounts outstanding on its secured line of credit from the proceeds of the pubic offering of its units completed in May of 2006.

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

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

Outstanding Units Data

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

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2005	49,218,102	1,475,000	5,429,235	56,122,337
Units issued pursuant to public offering	13,310,000			13,310,000
Units issued pursuant to dividend reinvestment program	72,084			72,084
Disposition of LTIP Units under subscription	6,250	(6,250)		-
Class B Units of Master LP issued on acquisition of property			177,404	177,404
Exchange of Class B Units of Master LP	209,339		(209,339)	-
Balance June 30, 2006	**62,815,775**	**1,468,750**	**5,397,300**	**69,681,825**

Mortgage Debt

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

($000's) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2006 remainder	8,419	44,740	53,159	7%	6.19%
2007	16,145	27,955	44,100	4%	4.89%
2008	15,247	51,597	66,844	8%	5.16%
2009	12,417	117,522	129,939	18%	4.68%
2010	11,292	44,939	56,231	7%	5.80%
2011	10,439	13,425	23,864	2%	4.74%
2012	10,302	63,945	74,247	10%	5.30%
2013	9,496	14,491	23,987	2%	5.32%
2014	8,334	19,189	27,523	3%	5.77%
2015	7,736	84,261	91,997	13%	5.38%
Thereafter	12,246	174,411	186,657	26%	6.10%
Total	**122,073**	**656,475**	**778,548**		

At June 30, 2006, the average term to maturity for the total mortgage portfolio is approximately 6.5 years (December 31, 2005 – 5.8 years), and the weighted average interest rate is 5.46% (December 31, 2005 – 5.21%). In the first six months of 2006, Management continued its strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt. To finance acquisitions completed in the second quarter of 2006, the REIT arranged new 10-year mortgages totaling approximately $154.3 million with interest rates ranging from 5.74% to 6.34%.

At June 30, 2006, the REIT had $27.9 million of variable rate mortgage debt. This debt primarily relates to internal growth projects and facilities in lease-up. The REIT anticipates it will convert these loans into permanent fixed rate debt upon completion of the internal growth projects or the stabilization of the facilities in lease-up.

The REIT also is a party to an interest rate swap on a $13.8 million mortgage, securing a fixed rate of 5.95% including stamping fee, until the mortgage matures in February 2014.

The maximum debt leverage permitted by Chartwell's Declaration of Trust is 60% (65% including convertible debentures).

The following table presents the calculation of the debt leverage ratio as at June 30, 2006, including the indebtedness of third parties guaranteed by Chartwell which have not been previously included in Chartwell's calculation of the debt leverage ratio:

($000's)		
Mortgages payable		778,548
Loans payable		2,485
Deferred consideration on acquisition of properties		4,202
		785,235
Guarantees		66,610
Indebtedness		851,845
Total Assets	1,476,744	
Accumulated depreciation and amortization	115,530	1,592,274
Debt/GBV		53.5%

If Chartwell were to increase its borrowing to the maximum 60% allowed under its Declaration of Trust, it would increase its available cash by approximately $103.0 million. This would allow the REIT to acquire approximately $258.0 million of new assets.

LIQUIDITY AND CAPITAL RESOURCES

Chartwell's cash commitments include payments related to long-term debt, cash distributions to Unitholders, operating leases and minimum purchase obligations.

Chartwell's principal source of liquidity is cash flow from operations. In order to provide for its operating and capital requirements, the REIT has arranged for a secured revolving operating facility of up to $90.0 million. As of June 30, 2006, the REIT had a borrowing capacity of approximately $71.6 million based on available security. Management is working with the lenders to arrange for additional security to enable Chartwell to borrow the entire $90.0 million. Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific facilities. The credit facility is due on June 27, 2007. The term may be extended with the consent of the lenders for an additional 364 day period.

The REIT's distributions for the six months ended June 30, 2006 exceeded its distributable income by $1.8 million. These excess distributions were financed from the REIT's credit facilities. Management believes that the REIT will generate sufficient cash from its activities to maintain its current level of distributions.

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

Contractual Obligations

The REIT's major contractual obligations as at June 30, 2006 were as follows:

($000's)	Total	2006	2007	2008	2009	2010	Thereafter
Mortgages Payable	778,548	53,159	44,100	66,844	129,939	56,231	428,275
Loans Payable	2,485	2,485					
Operating Leases	8,941	385	931	957	957	1,003	4,708
Land Rent	6,993	63	126	126	126	126	6,426
Mezzanine Loan Funding Obligations	24,710	24,710					
Purchase Obligations	138,753	134,765	3,468	-	520		
Total Contractual Obligations	960,430	215,567	48,625	67,927	131,542	57,360	439,409

Operating Leases relate to the agreements entered into by the REIT for office space in Ontario and British Columbia.

Land Rent relates to an obligation assumed by Chartwell in respect of a land lease which expires on July 17, 2061 with annual payments of $0.1 million.

Mezzanine Loan Funding Obligations relate to approved loans to Spectrum and other parties to fund the development and lease-up of 12 retirement residences in Quebec, Ontario and British Columbia.

Purchase Obligations relate to the following:

- Acquisition of 10 seniors housing facilities for approximately $101.7 million.
- Five contingent considerations in respect of completed acquisitions:
    - $4.25 million contingent upon the property achieving certain operating targets, the measurement of which is to be made annually commencing on December 31, 2005. Based on the current property performance, Chartwell accrued approximately $1.7 million of this contingent consideration in Accounts Payable and other Liabilities in its financial statements.
    - $4.0 million in respect of certain suites being added to the acquired facility, payable in installments commencing in the year ended December 31, 2005 and conditional upon the property achieving certain operating targets. The first $1.0 million installment of the original $5.0 million deferred purchase consideration was paid in 2005.
    - $0.68 million in respect of two properties upon the properties achieving predetermined income targets over a three-year period.
    - The vendors of two properties are entitled to receive an additional $7.0 million (U.S. $6.0 million), payable as to 50% by Chartwell and 50% by the Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on investment equity, measured quarterly. Any payments made by Chartwell in respect of contingent consideration will be

recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due. At June 30, 2006, Chartwell's 50% share of the remaining obligation amounted to $2.4 million (U.S. $2.1 million).

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

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

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

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

- Commitments of approximately $22.0 million with respect to various construction contracts that are related to the REIT's internal growth projects.

- Commitments with respect to fixed contracts of $0.3 million for the purchase of natural gas.

Guarantees

At June 30, 2006, Chartwell remains as a guarantor on the debt of two properties to a maximum of $22.8 million. As at June 30, 2006, $17.2 million of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for $3.9 million. Spectrum has indemnified Chartwell with respect to these guarantees.

At June 30, 2006, Chartwell remains as a guarantor of the debt of one managed property to a maximum of $6.6 million, with an outstanding balance of $5.4 million. The borrower has indemnified Chartwell with respect to this guarantee.

In addition, Chartwell and its joint venture partners, provided joint and several guarantees of the debt of 8 co-owned properties. These properties are proportionately consolidated in Chartwell's financial statements and, therefore, Chartwell's 50% share of the properties' debt is reflected in the financial statements. The maximum amount of guarantees at 50% share amounts to $45.1 million with $44.0 million outstanding at June 30, 2006. Chartwell's joint venture partners indemnify Chartwell with respect to these guarantees.

In the opinion of management, these properties have a value in excess of these guarantees.

Other Contracts

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

(ii) Chartwell's properties in the United States are managed by Horizon Bay Chartwell LLC. The property management agreements are for a term of 20 years and call for payment of management fees between 4% and 5% of gross revenues plus incentive fees based on certain operating targets. Chartwell owns a 50% interest in Horizon Bay Chartwell LLC.

(iii) In accordance with contracts between Chartwell and Melior, Chartwell committed to the following:

   (a) For a period of 10 years, expiring February 5, 2016, payment of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell in the Province of Quebec whether or not such acquisitions are introduced, presented or referred by Melior. In addition, 2.0% of the purchase price of all acquisitions by Chartwell of properties in Canada, excluding the Province of Quebec, which are introduced, presented or referred by Melior.

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

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

At June 30, 2006 Chartwell was committed to issue an additional 1,097,500 units under its LTIP program. Subsequent to the quarter end 657,875 of these units were issued to eligible employees.

Capital Expenditures

Chartwell classifies its capital expenditures under the following categories:

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

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

- Long-term replacement items include expenditures for assets that will likely be replaced several times over the life of the building, such as roofing, paving, HVAC equipment, etc.

- Furniture, Fixtures and Equipment ("FF&E") purchases.

The following table summarizes additions to properties for the six months ended June 30, 2006:

($000's)	**Three months ended June 30, 2006**
Building improvements and additions	5,367
Acquisitions related capital expenditures	279
Long-Term Replacement Items	109
Furniture, Fixtures and Equipment	1,464
Other	527
	7,746

Cash Flows

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

	Three months ended		Six months ended	
($000's)	**June 30, 2006**	**June 30, 2005 (restated)**	**June 30, 2006**	**June 30, 2005 (restated)**
Cash provided by (used in):				
Operating Activities	15,931	12,469	25,393	21,752
Financing Activities	267,988	6,949	265,080	55,579
Investing Activities	(243,275)	(56,700)	(260,498)	(70,115)
Foreign exchange gain on U.S. dollar denominated cash	3,821	-	3,683	-
Increase (decrease) in cash and cash equivalents	44,465	(37,282)	33,658	7,216

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the REIT enters into transactions with various related parties. The following is a summary of significant related party transactions for the three and six months ended June 30, 2006:

Spectrum

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

As of June 30, 2006, mezzanine loans receivable from Spectrum amounted to approximately $46.0 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 35 seniors' housing development properties.

During the three and six month periods ended June 30, 2006, Chartwell REIT earned mezzanine loan interest of approximately $1.2 million and $2.4 million, respectively from Spectrum. During the three and six month periods ended June 30, 2006, Chartwell REIT earned development and operations management, financing and other fees of approximately $1.4 million and $4.2 million, respectively from Spectrum.

Other assets as of June 30, 2006 include approximately $2.4 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to June 30, 2006, approximately $1.6 million of this balance was paid.

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

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

In the first quarter of 2006, the REIT acquired one seniors housing facility from Spectrum for a total purchase price of $7.0 million, inclusive of closing costs. The purchase price was settled by a discharge of a mezzanine loan receivable of $2.8 million, an assumption of $4.0 million of mortgages payable and the remaining balance in cash. An additional consideration of $0.9 million will be payable to Spectrum if the facility reaches certain earnings targets within three years following the closing of the acquisition.

Melior and Other Spectrum Partners

As of June 30, 2006, the REIT had mezzanine loans receivable of approximately $48.6 million from six of Spectrum's joint venture partners (including approximately $37.6 million advanced to entities controlled by Melior) (the "Borrowers"). These loans bear interest at rates between 10% and 14% and are secured by second fixed charges or pledges of the Borrower's interests in 19 development projects.

Each mezzanine loan matures on the earliest of the fifth anniversary of the initial advance of the funds, the date of sale of the related development property, or the second anniversary of the date upon which the property achieves stabilized occupancy, as defined in the Development Agreement with Spectrum, and the loan agreements with the Borrowers.

During the three and six month periods ended June 30, 2006, the REIT earned interest income of approximately $1.0 million and $1.9 million, respectively, and fees of approximately $0.5 million and $1.1 million, respectively from Melior.

In the three and six month periods ended June 30, 2006, Chartwell paid to Melior referral fees of approximately $1.3 million and $1.7 million, respectively, related to acquisitions of properties in the Province of Quebec.

Accounts receivable and other assets at June 30, 2006 included approximately $1.5 million due from Melior and deferred revenue includes $3.6 million from Melior. Subsequent to June 30, 2006, approximately $0.5 million of outstanding amounts due from Melior were collected.

Other

Included in mortgages payable at June 30, 2006 is a vendor-take-back mortgage of approximately $2.9 million due to an officer of Chartwell REIT. In the second quarter of 2006, the REIT incurred interest expense of $0.1 million with respect to this mortgage.

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

SUBSEQUENT EVENTS

Subsequent to June 30, 2006, Chartwell completed acquisitions of varying interests in 3 seniors housing facilities for a purchase price of approximately $51.6 million.

Subsequent to June 30, 2006, the REIT advanced two mezzanine loans to Spectrum and Melior totaling $2.6 million.

Subsequent to June 30, 2006, Chartwell issued 675,875 LTIP Units to its employees.

OUTLOOK

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

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

Acquisitions

Our target is to acquire approximately $625 million of accretive assets in 2006, including approximately $260 million of newly developed properties from Spectrum, Melior and their joint venture partners. In the six month period ended June 30, 2006, Chartwell completed acquisitions of interests in 18 properties for an aggregate purchase price of approximately $250.6 million. Including acquisitions completed subsequent to June 30, 2006, the REIT completed acquisitions of interests in 21 seniors housing facilities for a total purchase price of approximately $302.2 million.

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

Internal Growth

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

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

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

- An 86 suite addition to the L'Oasis St. Jean Retirement Home in St. Jean – Sur Richelieu, Quebec. Total project costs are estimated to amount to $14.5 million, of which $11.1 million is expected to be financed by construction debt. The construction is expected to be completed in the fourth quarter.

- A 75 suite addition to 50% owned Marquis de Tracy II Phase II in Sorel, Quebec. The total project costs are expected to amount to $11.3 million of which $9.0 million is expected to be financed by construction debt. Chartwell extended mezzanine financing to Melior for this project in the amount of $1.1 million. The construction is expected to be completed in the fourth quarter of 2006.
- A 22 suite addition to Hartford Retirement Centre in Morrisburg, Ontario. The estimated construction costs are $5.1 million of which $4.5 million is expected to be financed with a construction loan.
- A 30 suite addition to Collegiate Heights Retirement Residence in Sault Ste Marie in Qntario. The estimated construction costs are $4.6 million, of which $3.7 million is expected to be financed by a construction loan.

In addition, construction of a 131 suite addition to Residence Ste-Marthe in St. Hyacinthe, Quebec is expected to commence in the third quarter of 2006. The estimated construction costs are $15.8 million of which $9.4 million is expected to be financed by a construction loan.

Development

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

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

In 2005, and in the first quarter of 2006, we acquired seven properties in Ontario from Spectrum. At June 30, 2006, Spectrum, Melior and their joint venture partners had over 6,000 suites under development or in lease-up across Canada. The majority of these acquisitions will be made at a discount to appraised value, further increasing the value of the portfolio.

Third Party Management

At June 30, 2006, Chartwell's portfolio of managed suites included over 9,000 suites in over 69 facilities owned by Spectrum, Melior and other third parties. Chartwell also provides asset management services to ING. In addition to generating high margin fees, our third party management business also provides us with valuable insight into specific geographic markets and creates a pipeline of potential future acquisitions. We anticipate that our third party management business will continue to grow in 2006 primarily through increases in development management and other services provided to Spectrum, Melior and their joint venture partners, and asset management services provided to ING.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

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

Change in Accounting Policy

Effective December 31, 2005, Chartwell REIT changed its accounting policy for recognition of fee revenue from development services. Fee revenue is recognized on a project-specific basis using the percentage of completion method based upon the level of effort expected to achieve predetermined project milestones. Under the new policy, no fee revenue is recognized prior to completion of submissions to the Municipality for a building permit. Previously, Chartwell did not recognize revenue from development services prior to obtaining relevant permits or commencement of construction activities.

Chartwell REIT adopted this change in accounting policy on a retroactive basis. There was no material effect on the net loss for the six month period ended June 30, 2005 resulting from this change.

Correction of an Error

At June 30, 2006, Chartwell REIT, through a holding company, holds variable interests in seven VIEs. These entities are structured to lease the respective facilities from Chartwell REIT and an entity controlled by Melior. These facilities are proportionately consolidated with a cost of $59,718 and accumulated amortization of $2,786 as at June 30, 2006. Under the terms of the operating lease, Chartwell REIT and the entity controlled by Melior will receive the net revenue of the facilities less $1 per facility.

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

As a result, of this correction, at June 30, 2006, total assets were reduced by $941 (December 31, 2005 - $1,047), with the corresponding reduction in liabilities. Revenue and expenses for the three and six month periods ended June 30, 2006 were reduced by $1,724 and $3,616, respectively.

Future Changes in Significant Accounting Policies

Management monitors the Canadian Institute of Chartered Accountants ("CICA") recently issued accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on the REIT's consolidated financial statements and note disclosures.

The CICA released section 3855, Financial Instruments – Recognition and Measurement, which standard is applicable to Chartwell commencing January 1, 2007. This standard provides more comprehensive guidance on how to recognize financial instruments on the balance sheet, how to measure them, and how to account for gains and losses. The Trust is in the process of assessing the impact of this new standard on its consolidated financial statements.

CONTROLS AND PROCEDURES

The Trust's Management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Trust's disclosure controls and procedures (as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*) for the six months ended June 30, 2006, and have concluded that such disclosure controls and procedures are operating effectively.

RISKS AND UNCERTAINTIES

(a) Business Risks: Chartwell REIT is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date at the Properties and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to the REIT.

(b) Geographic Concentration: A substantial portion of the business and operations of the REIT is conducted in Ontario and Quebec, which represents 40% and 26% of the total number of suites, respectively. The market value of these Properties and the income generated from them could be negatively affected by changes in local and regional economic conditions or legislative/regulatory changes.

(c) Acquisition and Development: The REIT's external growth prospects will depend in large part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing facilities acquired by the REIT. If the REIT is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.

(d) Competition: Numerous other developers, managers and owners of seniors housing facilities will compete with the REIT in seeking residents. The existence of competing developers, managers and owners and competition for the REIT's residents could have an adverse effect on the REIT's ability to find residents for its seniors housing facilities and on the rents charged, and could adversely affect the REIT's revenues and, consequently, its ability to meet its debt obligations. The supply of LTC Facility suites in the regions in which REIT owns Retirement Homes may have an impact on the demand for suites in Retirement Homes. The Province of Ontario is currently completing an initiative to add 20,000 new LTC Facility beds. Although more than 19,500 of the new beds are already operational, the increase in supply of LTC Facility suites as a result of this initiative may result in a temporary lower occupancy of suites in the REIT's seniors housing facilities in some markets.

(e) Government Regulation: Healthcare in Canada is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect the REIT. In addition, new regulatory standards and requirements are being considered in a number of provinces which may affect all types of seniors housing facilities.

(f) Debt Financing: The REIT has and will continue to have substantial outstanding consolidated indebtedness comprised primarily of the Property Mortgages. The REIT intends to finance its growth strategy, including acquisitions and developments, through a combination of its working capital and liquidity resources, including its cash flow from operations, additional indebtedness and public or private sales of equity or debt securities.

A portion of the REIT's cash flow is devoted to servicing its debt, and there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT were unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The REIT is also subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such refinancing may not be as favourable as the terms of its existing indebtedness.

(g) Mezzanine Financing: The mezzanine financing that has been provided and may be provided by the REIT to Spectrum pursuant to the Development Agreement, to Melior, to Spectrum's joint venture Partners, is generally secured behind construction financing. In addition, the $20 million of equity that the shareholders of Spectrum were initially required to maintain in Spectrum is primarily invested in Units or Class B Master LP Units. Consequently, if mezzanine loan borrowers face financial difficulty and are not able to meet their commitments to their lenders, including the REIT, the REIT could suffer a loss of management fees and of either interest or principal or both on the mezzanine loans it has advanced since lenders under the construction financing will rank ahead of the REIT in any recovery from the assets of mezzanine loan borrowers. Additionally, the REIT may not, at the applicable time, have the financial capacity to acquire all facilities that it is entitled to acquire from mezzanine loan borrowers. In the event that the REIT does not exercise its purchase option, the REIT would expect to have the principal and any unpaid interest relating to its mezzanine financing returned to it at which time the REIT would cease to receive mezzanine interest, or may cease to receive its management fees when mezzanine loan borrowers sell the property to a third party. There is no guarantee that the level of development carried on by mezzanine loan borrowers will be maintained at current levels. Mezzanine loan borrowers' level of development activity may be constrained by its capital resources.

(h) Environmental Liabilities: Under various environmental laws and regulations, the REIT, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations sometimes regardless of whether or not the REIT knew of or was responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, management of the REIT is not aware of any material non-compliance, liability or other claim in connection with any of the owned properties and the managed properties in respect of which acquisition mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that its believes would involve material expenditure by the REIT.

Environmental laws and regulation may change and the REIT may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on the REIT's business, financial condition or results of operation and distributions.

(i) Liability and Insurance: The businesses, which are carried on, directly or indirectly, by the REIT, entail an inherent risk of liability. Management expects that from time to time the REIT may be subject to such lawsuits as a result of the nature of its businesses. The REIT maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

(j) Personnel Costs: The REIT competes with other healthcare providers with respect to attracting and retaining qualified personnel. The REIT is also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the REIT to enhance its wage and benefits package in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.

(k) Labour Relations: Chartwell REIT, directly and indirectly, employs or supervises approximately over 6,500 persons, of whom approximately 50% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that the REIT will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on the REIT's business, operating results and financial condition. However, most seniors housing facilities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing facility sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

Non-unionized seniors housing facilities may become unionized in the event they are targeted for certification by a trade union. There can be no assurance that the seniors housing facilities owned by the REIT that are currently not unionized will not in the future be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing facilities' employees.