CHARTWELL

SENIORS HOUSING REIT

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the Years Ended December 31, 2006 and 2005

CONTENTS

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

The discussion and analysis in this MD&A is based on information available to management as of March 7, 2007.

FORWARD LOOKING DISCLAIMER

This MD&A may contain forward-looking statements that reflect the current expectations of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. These statements generally can be identified by use of forward looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or similar variations. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond Chartwell's control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: business risks; real property ownership and lack of diversity; geographic concentration; continued growth; acquisition and development; competition; debt financing; mezzanine financing; environmental liabilities; liability and insurance; personnel costs; labour relations; conflicts of interest; management contracts; U.S./Canadian exchange rate fluctuations; government regulations; operations in the United States; joint venture interests; availability of cash flows; the redemption right of Unitholders; accounting guidelines; dilution; nature of Units; Unitholder liability; market for Units and Unit price; matters affecting trading prices of convertible debentures; credit risk and prior ranking indebtedness; absence of covenant protection; and tax, including changes to tax laws . There can be no assurance that the expectations of management of Chartwell will prove to be correct. See "Risk Factors". Subject to applicable law, Chartwell does not undertake any obligation to publicly update or revise any forward-looking statements.

BUSINESS OVERVIEW

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

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. Chartwell indirectly owns and manages a portfolio of seniors housing communities across the complete spectrum of care from independent living communities ("IL Communities"), through retirement homes ("Retirement Homes") to long-term care communities ("LTC Communities"), which are located in Canada and the United States. All references to

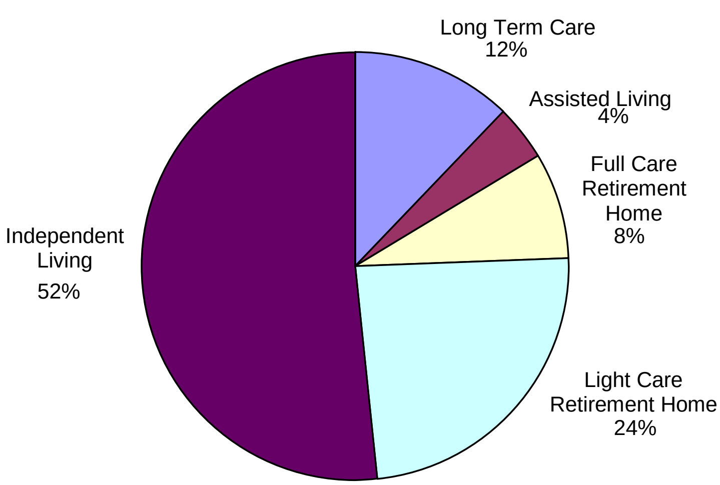
"Chartwell" or "Trust", unless the context indicates otherwise, refer to the Trust and its subsidiaries. For ease of reference "Chartwell" and "the Trust" are used in reference to ownership of seniors housing communities and the operation of the seniors housing communities and the development management business. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust. As of December 31, 2006 Chartwell's portfolio of seniors housing communities owned or managed on behalf of others consisted of interests in 25,429 suites in 195 communities which are operating, under construction or in various stages of development. Chartwell's owned portfolio consisted of interests in 16,501 suites in 131 communities. Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of clients and the demands of their local marketplace.

The following is the composition of Chartwell's owned and managed portfolio of seniors housing communities in its four operating segments at December 31, 2006:

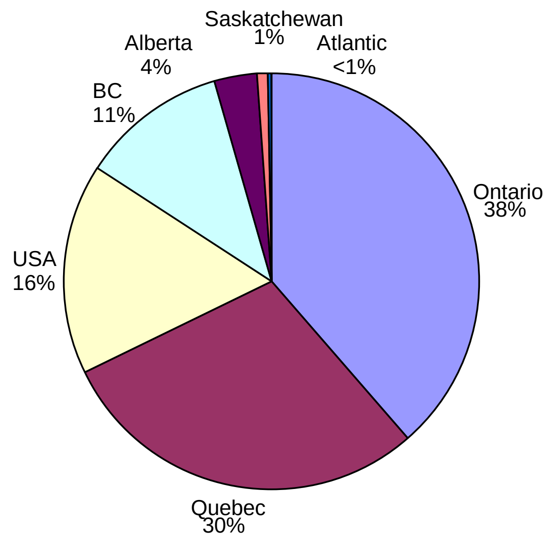
	Retirement Operations	Long-Term Care Operations	United States Operations	Management Operations	Total
Communities	92 (1)(2)(3)(5)	17 (1)	22 (4)	64 (2)	195
Suites/Beds	10,421	1,923	4,157	8,928	25,429

(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Includes stabilized, lease-up and communities under development.
(3) Includes 9 communities (1,475 suites) where Chartwell owns a 50% interest and 1 community (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 communities, except for one property (256 suites) purchased in the fourth quarter of 2006 which is wholly-owned by Chartwell.
(5) Includes 259 suites under development at four existing communities.

Composition of Portfolio of Owned and Managed Suites by Level of Care at December 31, 2006



Composition of Portfolio of Owned and Managed Suites by Geographical Location at December 31, 2006



Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development program carried out by Spectrum Seniors Housing Development LP ("Spectrum"), a development entity in which certain of the Trust's Senior Executives own a controlling interest. Chartwell provides mezzanine financing to Spectrum and to certain of Spectrum's joint venture partners for the development of seniors housing communities. In return, Chartwell has the ability to purchase Spectrum's interest in such communities, when stabilized at a discount to the appraised value. Stabilization occurs when a community has had an average resident occupancy rate of 90% or greater 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 communities and development program.

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

Chartwell also provides due diligence project management and asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited ("ING"). ING is Chartwell's strategic financial partner in acquisitions of seniors housing communities in the United States of America. At December 31, 2006, Chartwell and ING each held a 50% interest in CSH-INGRE LLC, which owned 21 seniors housing communities (3,901 suites) in the United States.

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

Owned Property Portfolio

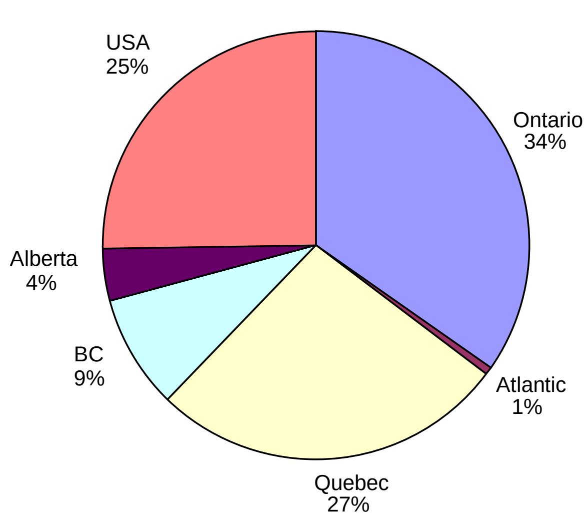
The following table summarizes the composition of Chartwell's real estate portfolio of owned communities as at December 31, 2006 and December 31, 2005:

	December 31, 2006[(1)]	**December 31, 2005[(2)]**
Number of suites	16,501	10,250
Number of communities	131	98

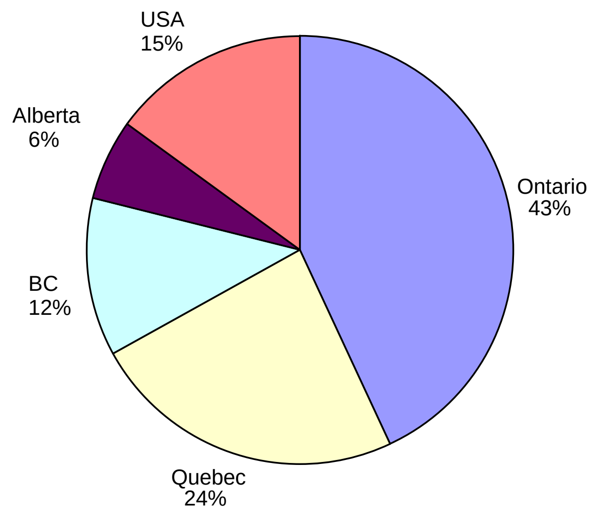
(1) Includes 30 communities (5,376 suites) in which Chartwell holds a 50% interest, and 1 community (55 suites) in which Chartwell holds a 39% interest.

(2) Includes 18 communities (2,860 suites) in which Chartwell holds a 50% interest and 1 community (55 suites) in which Chartwell owns a 39% interest.

Composition of portfolio of owned suites by geographical location at December 31, 2006



Composition of portfolio of owned suites by geographical location at December 31, 2005



SIGNIFICANT EVENTS

The following events have had a significant effect on the financial results of Chartwell for the year ended December 31, 2006.

Acquisitions

The following table summarizes acquisitions completed in 2006:

($000's)	Q4, 2006	Q3, 2006	Q2, 2006	Q1, 2006	Total Year Ended Dec. 31, 2006
# Communities	9[(3)]	10[(2)]	16[(1)]	2	37
# Suites	1,954[(3)]	911[(2)]	2,627[(1)]	228	5,720
Purchase price (including closing costs)	247,553	116,416	230,974	19,610	614,553
Financed as follows:					
Assumption of Mortgages Payable	45,246	37,041	4,830	11,711	98,828
Discharge of mezzanine loan receivable	3,507	-	-	2,758	6,265
Issuance of Class B Units of Chartwell Master Care LP	8,467	-	2,624	-	11,091
Deferred consideration on acquisitions of properties	25,506	1,180	520	-	27,206
New mortgage financing	79,995	23,683	154,265	-	257,943
Cash	84,832	54,512	68,735	5,141	213,220
Total	247,553	116,416	230,974	19,610	614,553

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

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

(3) Includes acquisition of the 50 % interest in one property (127 suites) from Spectrum.

2006 Acquisitions

#	Community	Location	Type	Effective date of acquisition	Beds/Suites
1	Chateau Cornwall(3)	Cornwall, ON	Retirement	January 13, 2006	101
2	Manoir Pierrefonds	Montreal, QC	Long-term care	February 23, 2006	127
3.	Castel Royale	Montreal, QC	Retirement	April 28, 2006	255
4.	Mayfield	Prescott, ON	Retirement	May 1, 2006	62
5.	Wiser Hall	Prescott, ON	Retirement	May 1, 2006	8
6.	Town Village Audubon Park(1)	Memphis, Tennessee	Retirement	May 11, 2006	176
7.	Town Village Sterling Heights(1)	Sterling Heights, Michigan	Retirement	May 11, 2006	222
8.	Town Village Veslavia Hills(1)	Birmingham, Alabama	Retirement	May 11, 2006	198
9.	Town Village Tulsa(1)	Tulsa, Oklahoma	Retirement	May 11, 2006	222
10.	Bella Vila(1)	Venice, Florida	Retirement	May 15, 2006	115
11.	Gayton Terrance(1)	Richmond, Virginia	Retirement	May 15, 2006	100
12.	Village at Lowry(1)	Denver, Colorado	Retirement	May 15, 2006	169
13.	Waterford(1)	Dayton, Ohio	Retirement	May 15, 2006	110
14.	Willowwood(1)	Ft. Lauderdale, Florida	Retirement	May 15, 2006	278
15.	Woodside Village(1)	Bedford, Ohio	Retirement	May 15, 2006	220
16.	Wyndham Lakes(1)	Jacksonville, Florida	Retirement	May 15, 2006	248
17.	Amberpark(1)	Cincinnati, Ohio	Retirement	May 15, 2006	125
18.	Residence Le Riverain	Granby, QC	Retirement	June 1, 2006	119
19.	Langley Gardens and Langley Gardens at Village Square(2)	Langley, BC	Retirement	July 10, 2006	-
20.	Elizabeth Towers	St. John, NF	Retirement	August 1, 2006	104
21.	Chateau Gardens Parkhill	Parkhill, ON	Long-term care	August 1, 2006	59
22.	Chateau Gardens London	London, ON	Long-term care	August 1, 2006	95
23.	Chateau Gardens Niagara	Niagara-On-the-Lake, ON	Long-term care	August 1, 2006	124
24.	Chateau Gardens Aylmer	Aylmer, ON	Long-term care	August 1, 2006	60
25.	Chateau Gardens Elmira	Elmira, ON	Long-term care	August 1, 2006	48
26.	Chateau Gardens, Lancaster	Lancaster, ON	Long-term care	August 1, 2006	60
27.	Lake Worth Gardens(1)	Lakeworth, FL	Retirement	August 15, 2006	170
28.	Manoir Kirkland	Kirkland, QC	Retirement	September 15, 2006	191
29.	Heritage Glen	Mississauga, ON	Retirement	November 1, 2006	323
30.	Domaine Bellerive	Montreal, QB	Retirement	November 9, 2006	810
31.	Van Horne Manor	Smith Falls, ON	Retirement	November 16, 2006	58
32.	Southwind (3)	Sudbury, ON	Retirement	November 22, 2006	79
33.	Empress	Kanata, ON	Retirement	November 29, 2006	90
34.	Hampton House	Chilliwack, BC	Retirement	December 14, 2006	98
35.	Oak Park(3)	LaSalle, ON	Retirement	December 14, 2006	113
36.	Peninsula(1)(3)	White Rock, BC	Retirement	December 28, 2006	127
37.	Treemont	Dallas, TX	Retirement	December 27, 2006	256
					5,720

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

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

2005 Acquisitions

#	Community	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 communities.

Internal Growth Initiatives

At December 31, 2006, Chartwell had four internal growth projects representing 259 suites in various stages of development (refer to the Outlook section of this MD&A).

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

Project	Location	Suites	Total Cost ($million)	Debt ($million)	Construction Completion	Leased Units Dec. 31, 2006
2006 Projects						
New Edinburgh Square	Ottawa, ON	16	$ 3.6	$ 1.0	Q1, 2006	16
L'Oasis	St. Jean, QC	86	14.5	10.4	Q4, 2006	36
Marquis de Tracy II, Ph II[1]	Sorel, QC	72	10.0	7.7	Q4, 2006	12
Total		174	$ 28.1	$ 19.1		55
2005 Projects						
Le Monastre Aylmer Ph IV[1]	Aylmer, QC	86	$ 15.0	$ 11.8	Q4, 2005	42
Residence Principale[1]	Cowansville, QC	59	7.9	6.1	Q4, 2005	22
Notre Dame de Hull[1]	Hull, QC	40	4.3	3.6	Q2, 2005	40
Gibson LTC	Toronto, ON	N/A[2]	3.0	2.4	Q3, 2005	N/A[2]
Devonsire Residence	Windsor, ON	N/A[2]	2.5	1.1	Q2, 2005	N/A[2]
Total		185	$ 32.7	$ 25.0		104

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

Mezzanine Loans

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

During 2005, Chartwell advanced mezzanine loans totaling $45.4 million to Spectrum, Melior and their joint venture partners for the development of 19 seniors housing communities. Mezzanine loans of $19.5 million were discharged in the year on the acquisition of six seniors housing communities from Spectrum. One other mezzanine loan of $0.4 million was repaid in 2005.

Offerings of Trust Units and Convertible Debentures

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

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

In 2005, the Chartwell 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 Trust's credit facilities, to finance certain acquisitions, mezzanine loans and for general business purposes.

Increase in Distributions in 2005

Effective with the March 31, 2005 distribution, Chartwell 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 uses a number of key performance indicators for monitoring and analyzing its financial results. These key performance measures are not defined by GAAP and may not be comparable to similar measures presented by other income trusts or other companies. Key financial performance measures are described below.

Funds from Operations

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

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

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

Distributable Income

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

GAAP; and (iv) other items as determined by Chartwell's Board of Trustees.

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

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

- Depreciation and amortization;
- Future income tax expense or credits;
- Gains or losses on asset dispositions;
- Amortization of discounts or premiums on long-term debt and deferred financing costs;
- Interest on convertible debentures;
- Up to 100% of the principal portion of the capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for long-term care communities;
- Amounts received for operating subsidies that are not included in net income under GAAP;
- Fees that are contractually receivable in the reporting period and are not included in net income under GAAP;
- Non-cash compensation expense related to 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 cash flow from operating activities and net income, as reported on Chartwell'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. Chartwell's management believes that this calculation provides an indication of the sustainability of the Trust's distributions to its Unitholders.

Net Operating Income

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

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 and 7 long-term care communities that Chartwell continuously owned from January 1, 2005 to December 31, 2006.

Operating Margins

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

Occupancy Percentage

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

General and Administrative Expenses as a Percentage of Revenue

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

RESULTS OF OPERATIONS

The selected information presented below is based on the audited consolidated financial results of Chartwell for the years ended December 31, 2006 and 2005 and unaudited results for the three month periods ended December 31, 2006 and 2005.

Summary

The following table presents a summary of selected operating performance measures for the year and three month period ended December 31, 2006 as compared to the same periods of the prior year.

	For the year ended			For the three months ended		
($000's, except per unit amounts)	**December 31, 2006**	**December 31, 2005**	**Change**	**December 31, 2006**	**December 31, 2005**	**Change**
Property Revenue	321,016	203,345	117,671	94,058	65,135	28,923
Total Revenues	350,575	224,627	125,948	100,790	71,711	29,079
Net Loss	(14,698)	(11,670)	(3,028)	(6,906)	(5,968)	(938)
Distributions Declared	71,122	50,457	20,665	20,627	14,775	5,852
Distributions Declared per Unit	1.07	1.07	-	0.27	0.27	-
Funds from Operations[1]	60,249	41,956	18,293	13,574	13,038	536
Funds from Operations per Unit						
Basic	0.93	0.91	0.02	0.19	0.24	(0.05)
Diluted[3]	0.91	0.89	0.02	0.18	0.23	(0.05)
Payout Ratio - FFO	118%	120%	(2%)	152%	113%	39%
Distributable Income[2]	60,824	50,191	10,633	13,528	15,302	(1,774)
Distributable Income per Unit						
Basic	0.94	1.09	(0.15)	0.19	0.28	(0.09)
Diluted[3]	0.92	1.07	(0.15)	0.18	0.27	(0.09)
Payout Ratio – DI	117%	101%	16%	152%	97%	55%
Weighted Average Number of Units						
Basic	64,532,816	46,075,277	18,457,539	72,576,609	54,605,921	17,970,688
Diluted[3]	66,299,779	47,083,113	19,216,666	74,667,500	56,062,225	18,605,275

(1) Please refer to Results of Operations – Funds from Operations section for the reconciliation of FFO to Net Income
(2) Please refer to Results of Operations – Distributable Income section for the reconciliation of DI to cash flows from Operating Activities.
(3) These amounts do not include the effect of converting the 6% Convertible Debentures as conversion would be antidilutive.

Revenues

($000's)	For the year ended December 31, 2006	December 31, 2005	Change	For the three months ended December 31, 2006	December 31, 2005	Change
Property Revenue	321,016	203,345	117,671	94,058	65,135	28,923
Mezzanine Loan Interest	10,361	7,859	2,502	2,798	2,074	724
Fees	12,487	9,148	3,339	1,833	3,507	(1,674)
Other Income	6,711	4,275	2,436	2,101	995	1,106
Total Revenues	350,575	224,627	125,948	100,790	71,711	29,079

Total Revenues, for the year and three month period ended December 31, 2006 increased by 56%, and 41% respectively, as compared to the same periods of the prior year, as Chartwell continued to execute its growth strategy through acquisitions, internal growth, mezzanine lending, and development and operations management activities.

Property Revenue

($000's)	For the year ended December 31, 2006	December 31, 2005	Change	For the three months ended December 31, 2006	December 31, 2005	Change
Same Property	176,652	167,136	9,516	45,523	43,138	2,385
Acquisitions	155,128	45,660	109,468	51,371	24,399	26,972
Equity Accounted VIEs	(10,764)	(9,451)	(1,313)	(2,836)	(2,402)	(434)
Total Property Revenue	321,016	203,345	117,671	94,058	65,135	28,923
Weighted Average Occupancy Same Property Portfolio	93.4%	91.9%	1.5%	94.2%	92.9%	1.3%

Same property revenue increased by 5.7% in 2006, as compared to the prior year due to the following:

- Increase in weighted average resident occupancy in the same property portfolio.
- Implementation of yield management programs in the retirement home portfolio to establish increased market rates on suite turnover.
- Regular annual rent increases and the addition of new services for residents at some of Chartwell's communities.
- Contributions from the additions of 359 suites at six of Chartwell's communities of which 159 suites were leased at December 31, 2006.
- Increased revenue contribution from two repositioned communities which returned to stabilized occupancy.

Acquisitions completed subsequent to January 1, 2005 contributed $109.5 million of additional new revenue in 2006.

In 2005, Chartwell completed its evaluation of the impact of the new accounting standards for Variable Interest Entities ("VIEs"). Management determined that seven operating companies co-owned with Melior in the Province of Quebec, which are structured to lease the respective communities from the co-owners, are VIEs. Chartwell is not considered to be the primary beneficiary of these entities and is therefore required to account for them by using the equity method of accounting. 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").

Fourth Quarter

In the fourth quarter of 2006, same property revenue increased by 5.5% as compared to the same period of the prior year due to increased occupancies, annual rent increases and contribution from the completed internal growth projects.

Mezzanine Loan Interest

	For the year ended			For the three months ended		
($000's)	**December 31, 2006**	**December 31, 2005**	**Change**	**December 31, 2006**	**December 31, 2005**	**Change**
Mezzanine Loan Balances Outstanding (end of the period)	101,290	77,436	23,854	101,290	77,436	23,854
Mezzanine Loan Interest	10,361	7,859	2,502	2,798	2,074	724

Mezzanine Loan Interest increased in the twelve and three month periods ended December 31, 2006 as compared to the same periods of 2005 due to the higher loan balances outstanding.

Fees

	For the year ended			For the three months ended		
($000's)	**December 31, 2006**	**December 31, 2005**	**Change**	**December 31, 2006**	**December 31, 2005**	**Change**
Spectrum	6,675	5,391	1,284	711	2,101	(1,390)
Melior	1,981	1,474	507	237	611	(374)
ING	1,681	168	1,513	306	101	205
Other	2,150	2,115	35	579	694	(115)
	12,487	9,148	3,339	1,833	3,507	(1,674)

In 2006, fee revenue increased by approximately $3.3 million (36.5%) as compared to 2005 due to higher level of development activities of Spectrum, Melior and their joint venture partners. In addition, Chartwell earned due diligence project management fees and higher asset management fees from ING. See Segmented Reporting – Management Operations for more details.

Fourth Quarter

In the fourth quarter of 2006 fee revenue was lower as compared to the fourth quarter of 2005 primarily due to lower development management and financing fees from Spectrum and lower fee income from Melior.

Bank Interest and Other

($000's)	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended Change	For the three months ended December 31, 2006	For the three months ended December 31, 2005	For the three months ended Change
Bank Interest and Other Income	3,271	1,379	1,892	1,199	386	813
Equity Accounted VIEs	3,440	2,896	544	902	609	293
Bank Interest and Other	6,711	4,275	2,436	2,101	995	1,106

Increase in Other Income is primarily due to the higher interest income earned on funds received from the two offerings of the Trust's units and Convertible Debentures completed in the year, and the higher miscellaneous income resulting from the increased size of the Trust.

Contribution from seven Equity Accounted VIEs, co-owned with Melior, increased by 19 % and 48% in the twelve and three months ended December 31, 2006 due to improved occupancies in the properties and contribution from four internal growth projects (total of 257 suites of which 116 were leased at December 31, 2006).

Direct Operating Expenses

($000's)	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended Change	For the three months ended December 31, 2006	For the three months ended December 31, 2005	For the three months ended Change
Same Property	122,832	117,007	5,825	32,787	30,840	1,947
Acquisitions	106,531	28,509	78,022	36,173	16,218	19,955
Equity Accounted VIEs	(7,324)	(6,555)	(769)	(1,934)	(1,793)	(141)
Direct Operating Expenses – Properties	222,039	138,961	83,078	67,026	45,265	21,761
Direct Operating Expenses – Management Operations	4,027	4,259	(232)	1,068	1,250	(182)
Total Direct Operating Expenses	226,066	143,220	82,846	68,094	46,515	21,579

Same property operating expenses increased by 5.0% in the year ended December 31, 2006, as compared to the same period of the prior year due to the following:

- Costs of new services provided to residents at certain of Chartwell's communities, which were more than offset by new revenues generated by these services.
- Completion of building additions at six of Chartwell's communities (359 suites) in 2005 and 2006, of which 159 suites were leased as of December 31, 2006.
- Inflationary increases in expenses.

Acquisitions completed subsequent to January 1, 2005 resulted in $78.0 million of additional direct operating expenses in the twelve month period ended December 31, 2006, as compared to the same period the prior year.

General and Administrative Expenses

($000's)	For the year ended			For the three months ended		
	December 31, 2006	December 31, 2005	Change	December 31, 2006	December 31, 2005	Change
General and Administrative Expenses	16,818	10,181	6,637	4,590	3,206	1,384
As % of total revenue	4.8%	4.5%	0.3%	4.6%	4.5%	0.1%

General and Administrative Expenses increased 65% in the twelve month period ended December 31, 2006 as compared to the same period of the prior 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 anticipated future growth of Chartwell.
- Higher compliance costs and professional fees due to the increased size of Chartwell and the new regulatory requirements, including Bill 198 compliance costs of approximately $1.2 million in 2006.
- In 2006, Chartwell expensed $0.6 million of costs related to potential acquisitions that are no longer under consideration.
- 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.

General and Administrative Expenses as a percentage of revenue increased in 2006 as compared to the prior year due to the items discussed above.

Management anticipates that General and Administrative Expenses, as a percentage of total revenue, will decrease in 2007. However, General and Administrative Expenses will continue to increase incrementally in 2007 primarily to support future growth of Chartwell. Chartwell is also committed to continue improving its internal controls, policies and procedures, however, we anticipate Bill 198 compliance costs will decline from 2006 levels. Management is implementing various cost control initiatives targeted at the reduction of corporate overhead costs.

Fourth Quarter

In the fourth quarter of 2006 General and Administrative Expenses increased 43% from the fourth quarter of 2005 due to the growth of Chartwell, and higher regulatory compliance costs as discussed above. However, General and Administrative Expenses in the fourth quarter of 2006 decreased marginally from the third quarter of 2006.

Interest Expense

($000's)	For the year ended			For the three months ended		
	December 31, 2006	December 31, 2005	Change	December 31, 2006	December 31, 2005	Change
Interest Expense	47,043	27,446	19,597	15,061	8,613	6,448

Increase in interest expense is consistent with the growth in Chartwell's portfolio as mortgages payable increased from $613.7 million at December 31, 2005 to $987.0 million at December 31, 2006.

In addition, in the fourth quarter of 2006, Chartwell incurred interest expense of approximately $0.8 million on its convertible debentures.

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

	For the year ended			For the three months ended		
($000's)	December 31, 2006	December 31, 2005	Change	December 31, 2006	December 31, 2005	Change
Gains (Losses)	(126)	(1,759)	1,633	615	(325)	940

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

Included in 2006 amounts is a $0.6 million loss resulting from the forward foreign exchange contract entered into by Chartwell in the second quarter of 2006. In 2005, losses from foreign exchange forward contracts amounted to $1.4 million.

Depreciation and Amortization

	For the year ended			For the three months ended		
($000's)	December 31, 2006	December 31, 2005	Change	December 31, 2006	December 31, 2005	Change
Depreciation and Amortization	(76,010)	(50,932)	(25,078)	(20,979)	(16,268)	(4,711)

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

Write-down of the Carrying Value of Assets

	For the year ended			For the three months ended		
($000's)	December 31, 2006	December 31, 2005	Change	December 31, 2006	December 31, 2005	Change
Write down of management contracts and customer relationships	(858)	-	(858)	(159)	-	(159)
Write down of properties	-	(4,253)	4,253	-	(3,436)	3,436
Total	(858)	(4,253)	3,395	(159)	(3,436)	3,277

In 2006, Chartwell recorded a write down in the carrying values of seven management contracts and related customer relationships in the amount of $0.9 million, due to internalization of management or sale of the properties by the owners.

The annualized management fees from these five contracts amounted to approximately $0.5 million. Management believes that additional fees from Spectrum, Melior and their development partners will more than offset the lost revenue from these contracts.

In 2005, Chartwell recorded a write down of the carrying value of two properties.

Gain on Sale of Assets

($000's)	For the year ended December 31, 2006	December 31, 2005	Change	For the three months ended December 31, 2006	December 31, 2005	Change
Gain on sale of assets	396	103	293	-	-	-

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

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

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

Non-Controlling Interest

($000's)	For the year ended December 31, 2006	December 31, 2005	Change	For the three months ended December 31, 2006	December 31, 2005	Change
Non-controlling Interest	1,252	1,391	(139)	572	683	(111)

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

Net Loss

($000's)	For the year ended December 31, 2006	December 31, 2005	Change	For the three months ended December 31, 2006	December 31, 2005	Change
Net Loss for the period	(14,698)	(11,670)	(3,028)	(6,906)	(5,968)	(938)

Net loss for the twelve and three months ended December 31, 2006 increased in comparison to the same periods of 2005 primarily due to higher depreciation and amortization expenses, general and administrative expenses, and interest expenses, offset by positive contribution from property and management income.

Funds from Operations

The following table provides a reconciliation of Funds from Operations to Net Loss for the three and twelve months ended December 31, 2006 and December 31, 2005.

($000's except per unit amounts)	For the year ended December 31, 2006	December 31, 2005	Change	For the three months ended December 31, 2006	December 31, 2005	Change
Net loss per financial statements	(14,698)	(11,670)	(3,028)	(6,906)	(5,968)	(938)
Add (subtract):						
Depreciation of real estate assets	33,095	21,314	11,781	9,551	6,826	2,725
Amortization of management contracts, resident contracts and customer relationships	42,915	29,618	13,297	11,428	9,442	1,986
Depreciation of leasehold improvements and computer software included in depreciation of real estate assets	(273)	(65)	(208)	(86)	(15)	(71)
Write down of carrying value of assets	858	4,253	(3,395)	159	3,436	(3,277)
Gain on sale of assets	(396)	(103)	(293)	-	-	-
Non-controlling interest	(1,252)	(1,391)	139	(572)	(683)	111
Funds from Operations	60,249	41,956	18,293	13,574	13,038	536
Funds from Operations per Unit						
Basic	0.93	0.91	0.02	0.19	0.24	(0.05)
Diluted[1]	0.91	0.89	0.02	0.18	0.23	(0.05)
Payout Ratio – FFO	118%	120%	-2%	152%	113%	39%

(1) These amounts do not include the effect of converting the 6% Convertible Debentures as conversion would be antidilutive.

In 2006, FFO increased 44% as compared to the same period of the prior year due to the significant growth in Chartwell's property portfolio and higher interest, fee income and other income, partially offset by higher general and administrative expenses.

FFO per Unit increased by $0.02 (2.2%) due to the growing per Unit contribution from the property and management operations, and bank interest and other income. This was offset by increased general and administrative expenses per Unit.

FFO per unit for the year ended December 31, 2006, was also negatively impacted by the delays in deployments of funds raised in two offerings of Trust Units and Convertible Debentures completed in 2006. With the acquisitions closed subsequent to December 31, 2006, these funds are now fully deployed.

Fourth Quarter

In the fourth quarter of 2006, FFO increased by 4.1% as compared to the same period of last year. However, FFO per unit declined from $0.23 in the fourth quarter of 2005 to $0.18 in the same time period of 2006, primarily due to the following:

- Lower management operations contribution (approximately $0.03 per Unit) resulting from lower development management fees from Spectrum and Melior in the quarter.
- Dilution from the units issued pursuant to the public offering and private placement completed in November 2006, and timing of deployment of the raised funds (estimated at $0.01 per Unit)
- One time costs including retroactive wage increases in our Quebec portfolio (approximately $0.01 per Unit)
- Financing costs related to a short term bridge loan arranged by Chartwell with respect to the acquisition of a property in the fourth quarter (approximately $0.01 per Unit).

Distributable Income

In 2006, Distributable Income for the year increased by 21% from 2005. However, on a per Unit basis Distributable Income decreased from $1.07 in 2005 to $0.92 in 2006.

In addition to items discussed in the Funds from Operations section of this MD&A, the following also contributed to the decrease in Distributable Income per Unit:

- Lower contractually receivable fees mainly resulting from a reduction of new development projects started by Melior and its joint venture partners in 2006 (approximately $0.08 per Unit)
- Lower receipts from Net Operating Income Guarantees (approximately $0.01 per Unit)

Fourth Quarter

Distributable Income in the fourth quarter of 2006 decreased from the fourth quarter of 2005 by 11.6% ($0.09 per Unit) due to lower contributions from Management Operations, including contractually receivable fees, lower receipts under Net Operating Income Guarantees and dilution from the Units issued pursuant to November 2006 Offering.

The REIT's distributions for the year ended December 31, 2006 exceeded its distributable income by approximately $10.3 million (2005 – by $0.3 million). Distributions also exceeded its cash flows from operating activities by $6.9 million (in 2005 cash flows from operating activities exceeded distributions declared by $6.9 million). These excess distributions were financed from the REIT's credit facilities. Although distributions exceeded Distributable Income in 2006 and 2005, Chartwell chose to maintain a consistent level of distributions as it believes that, by continuing execution of its acquisition, development and internal growth strategies, the REIT will generate sufficient cash from its activities to maintain its current level of distributions in the future.

The following table provides a reconciliation of Distributable Income to Cash Flow from operating activities for the three and twelve months ended December 31, 2006 and December 31, 2005.

	For the year ended			For the three months ended		
($000's)	**December 31, 2006**	**December 31, 2005**	**Change**	**December 31, 2006**	**December 31, 2005**	**Change**
Cash flow from operating activities	64,178	57,337	6,841	20,160	15,073	5,087
Add (Subtract):						
Change in non-cash operating items	(2,326)	(14,062)	11,736	(5,891)	(703)	(5,188)
Amortization of debt discounts	(420)	(223)	(197)	(249)	(73)	(176)
Amortization of debt premiums, net	(2,036)	(1,649)	(387)	(729)	(618)	(111)
Principal portion of capital funding receivable	344	219	125	111	67	44
Amounts received under Net Operating Income Guarantees	757	1,185	(428)	116	152	(36)
Contractually receivable management fees, net	(242)	5,941	(6,183)	91	1,443	(1,352)
Income/(Loss) from long-term investment net of distributions	22	9	13	(16)	(39)	23
Foreign Exchange Loss	547	1,434	(887)	(65)	-	(65)
Distributable Income	60,824	50,191	10,633	13,528	15,302	(1,774)

The following table provides a reconciliation of Distributable Income to Net Loss for the three and twelve months ended December 31, 2006 and December 31, 2005.

($000's except per unit amounts)	For the year ended December 31, 2006	December 31, 2005	Change	For the three months ended December 31, 2006	December 31, 2005	Change
Net Income Loss	(14,698)	(11,670)	(3,028)	(6,906)	(5,968)	(938)
Add back (subtract):						
Depreciation and amortization	76,010	50,932	25,078	20,979	16,268	4,711
Amortization of deferred financing expenses	3,194	1,956	1,238	1,371	858	513
Amortization of below market leases	(2,039)	(1,675)	(364)	(510)	(412)	(98)
Amortization of debt premiums, net (1)	(2,036)	(1,649)	(387)	(729)	(618)	(111)
Write down of carrying value of assets	858	4,253	(3,395)	159	3,436	(3,277)
Gain on sale of assets	(396)	(103)	(293)	-	-	-
Principal portion of capital funding receivable	344	219	125	111	67	44
Amounts received under Net Operating Income Guarantees	757	1,185	(428)	116	152	(36)
Contractually receivable management fees, not Included in net income under GAAP	1,558	6,801	(5,243)	270	1,819	(1,549)
Management fees recorded in Net Income under GAAP in the period that were previously recorded in Distributable Income	(1,800)	(860)	(940)	(179)	(376)	197
Foreign exchange losses(gains) and unrealized losses(gains) on derivative financial instruments	(52)	1,759	(1,811)	(652)	325	(977)
Non-cash compensation expense related to the issuance of Trust Units under the Long-Term Incentive Program	376	434	(58)	70	434	(364)
Non-controlling interest	(1,252)	(1,391)	139	(572)	(683)	111
Distributable income	60,824	50,191	10,633	13,528	15,302	(1,774)
Distributable income per unit – basic	0.94	1.09	(0.15)	0.19	0.28	(0.09)
Distributable income per unit – diluted(2)	0.92	1.07	(0.15)	0.18	0.27	(0.09)
Payout Ratio	117%	101%	(16%)	152%	97%	(55%)

(1) Includes amortization of debt discounts of $420 and $249 for the twelve and three month periods ended December 31, 2006 and $270 and $153 for the three and twelve month periods ended December 31, 2005, respectively.
(2) These amounts do not include the effect of converting the 6 % Convertible Debentures as conversion would be antidilutive.

UNITHOLDERS' TAXATION

In 2006, approximately 83% of Chartwell's distributions (2005 – approximately 85%) were made on a tax deferral basis. These amounts are not taxable when received but reduce the Unitholders' adjusted cost base of their Units.

SEGMENTED INFORMATION

The following discussion and analysis provides information on the financial results for each operating segment of Chartwell for the twelve and three month periods ended December 31, 2006 compared to the twelve and three month periods ended December 31, 2005.

In 2005, Chartwell acquired a 50% interest in management operations and in eight seniors housing communities in the United States. In 2006, Chartwell acquired interests in an additional 14 seniors housing communities in the United States. Chartwell monitors and operates these communities 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 Chartwell for the twelve and three month periods ended December 31, 2006 and 2005, respectively.

	For the year ended			For the three months ended		
$000's	**December 31, 2006**	**December 31, 2005**	**Change**	**December 31, 2006**	**December 31, 2005**	**Change**
Revenues						
Same Property	131,044	124,446	6,598	33,651	31,625	2,026
Acquisitions	62,117	21,670	40,447	20,914	10,656	10,258
Equity Accounted VIEs	(10,764)	(9,451)	(1,313)	(2,836)	(2,402)	(434)
Total Revenues	182,397	136,665	45,732	51,729	39,879	11,850
Expenses						
Same Property	82,151	78,279	3,872	22,081	20,587	1,494
Acquisitions	39,729	11,538	28,191	13,250	6,286	6,964
Equity Accounted VIEs	(7,324)	(6,555)	(769)	(1,934)	(1,793)	(141)
Total Expenses	114,556	83,262	31,294	33,397	25,080	8,317
Net Operating Income						
Same Property	48,893	46,167	2,726	11,570	11,038	532
Acquisitions	22,388	10,132	12,256	7,664	4,370	3,294
Equity Accounted VIEs	(3,440)	(2,896)	(544)	(902)	(609)	(293)
Total Net Operating Income	67,841	53,403	14,438	18,332	14,799	3,533
Overall Operating Margins	37.2%	39.1%	-1.9%	35.4%	37.1%	-1.7%
Overall Weighted Average Occupancy Rate						
Same Property Statistics:						
Operating Margins	37.3%	37.1%	0.2%	34.4%	34.9%	-0.5%
Weighted Average Occupancy Rate	92.9%	91.9%	1.0%	93.8%	92.3%	1.5%

Same Property Net Operating Income increased by approximately $2.7 million (5.9%) in the year ended December 31, 2006 as compared to the same period of the prior year due to the following:

- Increased occupancies in the same property portfolio from 91.9% to 92.9%.
- Additional services introduced to residents at certain communities in the prior year produced higher net operating income contribution.
- Regular annual rent increases between 2-3% also contributed to higher net operating income in 2006.
- Implementation of yield management programs in the retirement home portfolio to establish increased market rates on suite turnover.
- Implementation of cost savings measures at several properties where the occupancies were lower than budgeted.
- Positive net operating income contribution from the repositioning of one retirement community completed in 2005, which achieved stabilized occupancy in the first quarter of 2006.
- Positive net operating income contributions of approximately $0.8 million from additional suites added at six of Chartwell's properties representing 359 suites, of which 168 suites were leased at December 31, 2006.

Same property operating margins increased in 2006 as compared to the operating margins in the prior year primarily due to the items discussed above.

Acquisitions contributed an additional $12.3 million of net operating income in 2006 as compared to the prior year.

Overall operating margins decreased by 1.9% in 2006 as compared to the prior year as certain of the acquired properties offer enhanced resident care and service programs. These acquisitions, which generate positive net operating income contribution and accretive yields, generally operate at lower operating margins.

Fourth Quarter

In the fourth quarter of 2006 the same property Net Operating Income increased by $0.5 million (4.8%) as compared to the fourth quarter of 2005 due to higher occupancies, rent increases and contribution from internal growth projects as discussed above.

The operating margins declined from 34.9% to 34.4% for the same property portfolio primary due to one time retroactive wage increases in our Quebec portfolio and lower margins generated by the internal growth projects which are still in lease-up.

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 twelve months ended December 31, 2006 and 2005, respectively.

	For the year ended			For the three months ended		
$000's	**December 31, 2006**	**December 31, 2005**	**Change**	**December 31, 2006**	**December 31, 2005**	**Change**
Revenues						
Same Property	45,608	42,690	2,918	11,872	11,513	359
Acquisitions	40,183	13,717	26,466	13,925	6,232	7,693
Total Revenues	85,791	56,407	29,384	25,797	17,745	8,052
Expenses						
Same Property	40,681	38,728	1,953	10,706	10,253	453
Acquisitions	34,074	10,858	23,216	12,078	5,402	6,676
Total Expenses	74,755	49,586	25,169	22,784	15,655	7,129
Net Operating Income						
Same Property	4,927	3,962	965	1,166	1,260	(94)
Acquisitions	6,109	2,859	3,250	1,847	830	1,017
Total Net Operating Income	11,036	6,821	4,215	3,013	2,090	923
Overall Operating Margins	12.9%	12.1%	0.8%	11.7%	11.8%	-0.1%
Same Property Statistics:						
Operating Margins	10.8%	9.3%	1.5%	9.8%	10.9%	-1.1%
Weighted Average Occupancy Rate	96.2%	92.2%	4.0%	96.8%	97.2%	-0.4%

Same property net operating income increased by $1.0 million (24.4%) in 2006 as compared to the same period of the prior year due to the following:

- Completion of the repositioning of Gibson LTC, which achieved stabilized occupancy in the third quarter of 2005.
- Improved occupancies in the remainder of the long-term care portfolio.
- Higher preferred accommodation revenue.

Acquisitions completed subsequent to January 1, 2005 resulted in $3.2 million of additional net operating income in 2006, as compared to the prior year.

Operating margins in the same property portfolio have increased from 9.3% in 2005 to 10.8% in 2006 primarily due to higher occupancies in 2006. This increase in operating margins was partially offset by higher flow-through Health Authorities funding, which although increasing revenues, does not contribute incremental net operating income.

Fourth Quarter

In the three month period ended December 31, 2006, same property net operating income decreased by $0.1 million (7.5%) primarily due to additional revenue received from the Ontario Ministry of Health and recorded in income in the fourth quarter of 2005. There were no such additional revenues received in 2006.

U.S. Operations

The following table represents the results of operations and the financial position of the U.S. operating segment for the twelve and three months ended December 31, 2006 and 2005, respectively.

	For the year ended			For the three months ended		
USD 000's	**December 31, 2006**	**December 31, 2005**	**Change**	**December 31, 2006**	**December 31, 2005**	**Change**
Revenues						
Same Property	-	-	-	-	-	-
Acquisitions	52,828	10,273	42,555	16,532	7,511	9,021
Total Revenues	52,828	10,273	42,555	16,532	7,511	9,021
Expenses						
Same Property	-	-	-	-	-	-
Acquisitions	32,728	6,113	26,615	10,845	4,530	6,315
Total Expenses	32,728	6,113	26,615	10,845	4,530	6,315
Net Operating Income						
Same Property	-	-	-	-	-	-
Acquisitions	20,100	4,160	15,940	5,687	2,981	2,706
Total Net Operating Income	20,100	4,160	15,940	5,687	2,981	2,706
Operating Margins	38.0%	40.5%	-2.5%	34.4%	39.7%	-5.3%
Weighted Average Occupancy Rate	91.8%	91.1%	0.7%	92.1%	91.1%	1.0%

As at December 31, 2006, the U.S. Operations segment includes Chartwell's 50% interest in 21 seniors housing communities and 100% in one community, representing a total of 4,157 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 communities.

US Operations operating margins declined from 40.5% in 2005 to 38.0% in 2006 due to the fact that the properties acquired in 2006 include a higher service component, which results in lower overall operating margins.

Management Operations

$000's	For the year ended December 31, 2006	For the year ended December 31, 2005	Change	For the three months ended December 31, 2006	For the three months ended December 31, 2005	Change
Revenues	12,487	9,148	3,339	1,833	3,507	(1,674)
Direct Operating Expenses	4,027	4,259	(232)	1,068	1,250	(182)
Net Operating Income	8,460	4,889	3,571	765	2,257	(1,492)
Operating Margins	67.8%	53.4%	14.4%	41.7%	64.4%	(22.7%)

Revenues

$000's	For the year ended December 31, 2006	For the year ended December 31, 2005	Change	For the three months ended December 31, 2006	For the three months ended December 31, 2005	Change
Spectrum						
Development Management	4,523	4,006	517	371	1,462	(1,091)
Operations Management	863	591	272	305	243	62
Financing	627	794	(167)	-	396	(396)
Other	662	-	662	35	-	35
Total Spectrum	6,675	5,391	1,284	711	2,101	(1,390)
Melior	1,981	1,474	507	237	611	(374)
ING	1,681	168	1,513	306	101	205
Other Third Parties	2,150	2,115	35	579	694	(115)
Total Fee Revenue	12,487	9,148	3,339	1,833	3,507	(1,674)

Fee revenue increased by $3.3 million (36.5%) in 2006 as compared to the prior year due to the following:

- Higher fee income from Spectrum due to a higher level of development activities, a larger number of properties in lease-up, a $0.5 million fee for assistance in a $17.3 million equity raise completed by Spectrum, and a $1.0 million of additional development fees resulting from increases in the projected costs of the underlying projects and revisions to the development fees charged to conform with the requirements of the Development Agreement between Chartwell and Spectrum.
- Higher fee income from Melior due to the increased number of development projects in progress.
- Higher due diligence project management and asset management fees from ING due to the increased size of the Chartwell-ING co-owned portfolio.

Fee revenue from development management activities earned from Spectrum and due diligence project management fee from ING largely depends on the timing of development project starts and the timing of completion of acquisitions by CSH-INGRE. As such, significant variations of fee income can be expected from quarter to quarter.

In the fourth quarter of 2006 fee revenue was $1.7 million (47.7 %) lower than in the same period of 2005 due to the following:

- There were no new Spectrum development projects started in the fourth quarter of 2006, which resulted in lower development management and financing fees.
- Lower Melior fees due to changes in estimates related to timing of stabilization of certain development projects.

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 twelve month periods ended December 31, 2006 as compared to the same period of the prior year due to significantly higher fee revenue.

We anticipate that management operations will continue to generate significant revenues for Chartwell in 2007 and beyond as Spectrum, Melior and their joint venture partners continue to execute their development strategy, and Chartwell continues to acquire properties in partnership with ING.

QUARTERLY FINANCIAL INFORMATION

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

($000's, except per unit amounts)	Three Months Ended December 31, 2006 (unaudited	Three Months Ended September 30, 2006 (unaudited)	Three Months Ended June 30, 2006 (unaudited)	Three Months Ended March 31, 2006 (unaudited)	Three Months Ended Dec. 31, 2005 (unaudited)	Three Months Ended September 30, 2005 (restated) (unaudited)	Three Months Ended June 30, 2005 (restated) (unaudited)	Three Months Ended March 31, 2005 (restated) (unaudited)
Revenues	100,790	94,728	81,888	73,169	71,712	60,254	49,315	43,347
Direct Operating Expenses	(68,094)	(60,357)	(51,515)	(46,100)	(46,515)	(38,605)	(30,238)	(27,863)
General, Administrative and Trust Expenses	(4,590)	(4,629)	(4,242)	(3,357)	(3,206)	(2,525)	(2,451)	(1,999)
Income before interest, depreciation and amortization	28,106	29,742	26,131	23,712	21,991	19,124	16,626	13,485
Interest Expense	(15,061)	(12,105)	(10,679)	(9,198)	(8,613)	(7,368)	(5,781)	(5,684)
Foreign Exchange Gains (Losses)	615	157	(950)	52	(325)	(1,434)	-	-
Depreciation and Amortization	(20,979)	(20,967)	(18,138)	(15,926)	(16,268)	(12,892)	(11,003)	(10,769)
Write down of carrying value of assets	(159)	(259)	-	(440)	(3,436)	-	-	(817)

Gain on sale of assets	-	296	100	-	-	-	103	-
Non-controlling interest	572	232	292	157	683	271	(11)	448
Net Loss for the period	(6,906)	(2,904)	(3,244)	(1,643)	(5,968)	(2,299)	(66)	(3,337)
FFO	13,574	17,735	14,428	14,512	13,038	10,302	10,928	7,791
FFO per Unit, diluted	0.18[1]	0.25	0.23	0.26	0.23	0.21	0.25	0.21
Distributable Income	13,528	17,136	16,271	13,889	15,302	14,118	11,078	9,693
Distributable Income Per Unit, diluted	0.18[1]	0.24	0.25	0.25	0.27	0.28	0.25	0.26

(1) These amounts do not include the effect of converting the 6% Convertible Debentures as conversion would be antidilutive.

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

General, Administrative and Trust Expenses have increased in the seven quarters in order to provide the additional infrastructure required to support Chartwell'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 Chartwell, as well as by the timing of fee income from development and other activities.

FINANCIAL POSITION

($000's)	December 31, 2006	December 31, 2005	Change
Properties	1,510,209	957,244	552,965
Mezzanine Loans	101,290	77,436	23,854
Total Assets	**1,977,750**	**1,191,644**	**786,106**
Mortgages Payable	987,046	613,654	373,392
Debt Component of Convertible Debentures	120,115	-	120,115
Loans Payable	2,303	32,024	(29,721)
Total Liabilities	1,215,794	693,911	521,883
Non-controlling Interest	54,453	52,448	2,005
Unitholders' Equity	707,503	445,285	262,218
Total Liabilities and Equity	**1,977,750**	**1,191,644**	**786,106**

The increase in total assets in the first nine months of 2006 is principally due to the acquisitions of interests in 37 seniors housing communities 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 2006 due to the financing required to complete acquisitions and due to upward refinancings completed in the period.

The increase in Unitholder's Equity in 2006 is due to the completion of public offerings and the private placement of Trust Units completed in 2006. This increase was offset by distributions and allocation of net loss to the Trust's Unitholders.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units in the year ended December 31, 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
Trust Units Issued Pursuant to Public Offerings	17,537,945	-	-	17,537,945
Trust Units Issued Pursuant to Dividend Reinvestment Program	181,626	-	-	181,626
Trust Units Issued Pursuant to Private Placement	7,352,941			7,352,941
Trust Units Issued under the Long-Term Incentive Program	-	657,875	-	657,875
Disposition of Long-term Incentive Program Units under Subscription	62,500	(62,500)	-	-
Class B Units of Master LP Issued on Acquisition of Property	-	-	795,849	795,849
Exchange of Class B Units of Master LP	223,425	-	(223,425)	-
Balance December 31, 2006	**74,576,539**	**2,070,375**	**6,001,659**	**82,648,573**

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2006:

($000's) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
2007	21,283	71,604	92,887	8.88	5.92
2008	20,968	50,563	71,531	6.27	4.97
2009	18,754	103,224	121,978	12.81	4.77
2010	17,896	57,413	75,309	7.12	5.45
2011	17,120	26,808	43,928	3.33	4.83
2012	16,113	69,051	85,164	8.57	4.99
2013	14,205	58,550	72,755	7.26	5.11
2014	11,349	35,286	46,635	4.38	5.83
2015	10,710	90,911	101,621	11.28	5.35
2016	6,666	178,656	185,322	22.17	6.05
Thereafter	26,055	63,860	89,915	7.93	5.27
Total	**$181,119**	**805,927**	**987,046**	**100%**	

At December 31, 2006, the average term to maturity for the total mortgage portfolio was approximately 7.0 years (December 31, 2005 – 5.8 years), and the weighted average interest rate was 5.4% (December 31, 2005 – 5.2%). In 2006, Management continued its strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt.

At December 31, 2006, Chartwell had $78.6 million of variable rate mortgage debt. This debt primarily relates to internal growth projects and communities in lease-up. Subsequent to December 31, 2006, interest rates on a $34.4 million variable rate mortgage were fixed. Chartwell anticipates it will convert the remaining loans into permanent fixed rate debt upon completion of the internal growth projects and the stabilization of the communities in lease-up.

Convertible Debentures

At December 31, 2006 Chartwell had $125.0 million of convertible unsecured subordinated debentures ("Convertible Debentures") outstanding. The Convertible Debentures bear interest at an annual rate of 6.0% payable semiannually in arrears. The Convertible Debentures are convertible into Trust Units at a conversion price of $15.60 per Unit. The Convertible Debentures mature on December 1, 2011.

Debt Leverage

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

The following table presents the calculation of the debt leverage ratio as at December 31, 2006, including the indebtedness of third parties guaranteed by Chartwell:

($000's)	
Mortgages payable	987,046
Loans payable	2,303
Guarantees	66,178
Deferred consideration on acquisition of properties	29,820
Total Indebtedness before Convertible Debentures	1,085,347
Convertible Debentures (Face Value)	125,000
Indebtedness	1,210,347
Total Assets	1,977,750
Accumulated depreciation and amortization	150,031
Gross Book Value of Assets	2,127,781
Debt/GBV before Convertible Debentures	51.1%
Debt/GBV including Convertible Debentures	56.9%

If all deferred consideration on acquisition of properties were excluded from the indebtedness and the Gross Book Value of Assets, the debt leverage ratio as of December 31, 2006 would be 50.4% (56.3% including convertible debentures). It is Chartwell's intention to seek permission from Unitholders to adjust the definition of indebtedness and the Gross Book Value of Assets at the upcoming Annual General Meeting to exclude all or a portion of certain deferred consideration related to the acquisition of properties. If Chartwell excludes these amounts from its debt ratio calculation, it would not have to "pre-fund" these amounts, which would alleviate the dilutive effect of having excess cash on Chartwell's balance sheet.

If Chartwell were to increase its borrowing to the maximum 60% allowed under its existing Declaration of Trust, it would increase its available cash by approximately $190 million. This would allow Chartwell to acquire approximately $476 million of new assets.

LIQUIDITY AND CAPITAL RESOURCES

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

Chartwell's principal source of liquidity is cash flow from operations. In order to provide for its operating and capital requirements, Chartwell has arranged for a secured revolving operating facility of up to $90.0 million. As of December 31, 2006, Chartwell had a borrowing capacity of approximately $75.7 million based on available security. Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific communities. The credit facility is due on June 27, 2007. The term may be extended with the consent of the lenders for an additional 364 day period.

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

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

Contractual Obligations

Chartwell's major contractual obligations as at December 31, 2006 were as follows:

($000's)	Total	2007	2008	2009	2010	2011	Thereafter
Mortgages Payable	987,046	92,887	71,531	121,978	75,310	43,928	581,412
Loans Payable	2,303	2,303	-	-	-	-	-
Operating Leases	8,949	931	957	957	1,003	975	4,126
Land Rent	6,930	126	126	126	126	126	6,300
Mezzanine Loan Funding Obligations	41,577	41,577	-	-	-	-	-
Purchase Obligations	482,595	446,986	10,431	8,455	9,337	2,446	4,940
Total Contractual Obligations	1,529,400	584,810	83,045	131,516	85,776	47,475	596,778

Operating Leases relate to the agreements entered into by Chartwell 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 18 retirement residences in Quebec, Ontario and British Columbia.

Purchase Obligations relate to the following:

- Chartwell has agreed to acquire the Regency Care Portfolio consisting of seven Long-Term Care communities, a 50% interest in another Long-Term Care community, and management contracts for additional six Long-Term Care communities, for a total purchase price of approximately $231.0 million including assumption of debt of approximately $150.9 million.

  Chartwell has also commenced negotiations to acquire the remaining 50% interest in the above referenced Long-Term Care community for approximately $14 million and also engaged in discussions with a third party to provide 50% of the cash portion of the purchase price of the seven Long-Term Care communities. (Refer to the Outlook section of this MD&A.)

- CSH-INGRE LLC has also agreed to acquire five seniors housing communities in the United States for approximately $338.5 million (USD 290.5 million). Chartwell's 50% share of the purchase price amounts to approximately $169.3 million (USD 145.3 million).

  Chartwell was also committed to acquire a 49% leased interest in 25 communities for a purchase price of $32.6 million (USD 28.0 million). These acquisitions were completed subsequent to the year end.

- Contingent consideration 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 property performance, $2.5 million of this contingent consideration was payable at December 31.

-

- $4.0 million in respect of certain suites being added to the acquired community, 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 Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on investment equity, measured quarterly. At December 31, 2006, Chartwell's 50% share of the remaining obligation amounted to $2.3 million (U.S. $1.9 million).

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

- Any payments made by Chartwell in respect of contingent consideration will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due.

• Deferred purchase consideration related to completed acquisitions:

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

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

- $20.4 million representing the net present value of a $23.5 million deferred purchase price consideration and $0.2 million of interest accretion related to the acquisition of one property in 2006 with $5.5 million of the deferred purchase price being due on the first anniversary of closing, $4.5 million on the second anniversary, $3.5 million on the third anniversary, $2.5 million on the fourth anniversary, $2.5 million on the fifth anniversary and $5 million on the sixth anniversary. The portion of the purchase price being deferred is in connection with the conversion of the units into seniors' housing suites and the implementation of seniors housing facility programs. A discount rate of 4.81% was used to determine the net present value of the deferred consideration.

- $0.05 million related to the acquisition on one property in 2006, payable on the first anniversary of the closing.

- $5.25 million related to the acquisition of one property in 2006, payable on the first anniversary of the closing.

- Commitments of approximately $9.5 million with respect to various construction contracts that are related to Chartwell's internal growth projects.

- Commitments with respect to fixed contracts of $0.8 million for the purchase of natural gas.

Guarantees

At December 31, 2006, Chartwell remains as a guarantor on the debt of two properties to a maximum of $23.9 million. As at December 31, 2006, $18.6 million of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for $3.9 million in 2005. Spectrum has indemnified Chartwell with respect to these guarantees.

At December 31, 2006, Chartwell remains as a guarantor of the debt of one managed property to a maximum of $3.1 million, with an outstanding balance of $3.1 million. The borrower has indemnified Chartwell with respect to this guarantee.

In addition, Chartwell and its joint venture partners, provided joint and several guarantees of the debt of 8 co-owned properties. These properties are proportionately consolidated in Chartwell's financial statements and, therefore, Chartwell's 50% share of the properties' debt is reflected in the financial statements. The maximum amount of guarantees at 50% share amounts to $47.9 million with $45.5 million outstanding at December 31, 2006. Chartwell's joint venture partners indemnify Chartwell with respect to these guarantees.

In the opinion of management, at December 31, 2006 the value of each of these properties exceeds the respective total amount of debt outstanding.

Other Contracts

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

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

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

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

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

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

(iv) At December 31, 2006 Chartwell was committed to issue an additional 557,875 units under its LTIP program, which were issued in January 2007.

Capital Expenditures

Chartwell classifies its capital expenditures under the following categories:

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

The following table summarizes additions to properties for the year ended December 31, 2006:

($000's)	**Year ended December 31, 2006**
Building improvements and additions	25,065
Acquisitions related capital expenditures	735
Long-Term Replacement Items	557
Furniture, Fixtures and Equipment	5,542
Other	2,368
	34,267

Cash Flows

The following table summarizes Chartwell's cash flows for the three and twelve months ended December 31, 2006 and 2005:

	Year ended		Three months ended	
($000's)	**December 31, 2006**	**December 31, 2005**	**December 31, 2006**	**December 31, 2005**
Cash provided by (used in):				
Operating Activities	64,178	57,337	20,160	15,072
Financing Activities	608,992	300,984	310,640	13,433
Investing Activities	566,679	(343,568)	(217,864)	(54,232)
Foreign exchange gain(loss) on U.S. dollar denominated cash	4,603	(203)	241	(196)
Increase (decrease) in cash and cash equivalents	111,094	(14,550)	113,177	(25,923)

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, Chartwell enters into transactions with various related parties. The following is a summary of significant related party transactions for the year ended December 31, 2006:

Spectrum

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

As of December 31, 2006, mezzanine loans receivable from Spectrum amounted to approximately $45.3 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 year ended December 31, 2006, Chartwell REIT earned mezzanine loan interest of approximately $5.1 million from Spectrum. During the year ended December 31, 2006, Chartwell REIT earned development management, operations management, financing and other fees of approximately $6.7 million from Spectrum.

Other assets as of December 31, 2006 include approximately $2.5 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to December 31, 2006, approximately $1.2 million of this balance was paid.

Included in distributions payable at December 31, 2006 is $0.3 million due to Spectrum.

In 2006, Chartwell sold to Spectrum and Melior a parcel of land for the development of a senior's housing community for approximately $0.6 million.

In 2006, Chartwell acquired four seniors housing communities from Spectrum for a total purchase price of $58.4 million, inclusive of closing costs. The purchase price was settled by a discharge of mezzanine loans receivable of $6.3 million, an assumption of $23.7 million of mortgages payable, issuance of $8.5 million Class B Units of Chartwell Master care LP, and the remaining balance in cash. An additional consideration of $0.9 million will be payable to Spectrum if one of the acquired communities reaches certain earnings targets within three years following the closing of the acquisition.

Melior and Other Spectrum Partners

As of December 31, 2006, Chartwell had mezzanine loans receivable of approximately $56.0 million from six of Spectrum's joint venture partners (including approximately $42.2 million advanced to entities controlled by Melior) (the "Borrowers"). These loans bear interest at rates between 10% and 14% and are secured by second fixed charges or pledges of the Borrowers' interests in 23 development projects.

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 2006, Chartwell earned interest income of approximately $4.1 million and fees of approximately $2.0 million from Melior.

In 2006, Chartwell paid to Melior referral fees of approximately $3.2 million related to acquisitions of properties in the Province of Quebec.

During 2006, Chartwell paid to Melior fees of approximately $0.3 million related to the expansion of L'Oasis St. Jean Retirement Home in St. Jean – Sur Richelieu, Quebec.

Accounts receivable and other assets at December 31, 2006 included approximately $2.6 million due from Melior and deferred revenue includes $5.1 million from Melior. Subsequent to December 31, 2006, approximately $0.6 million of outstanding amounts due from Melior were collected.

Other

Included in mortgages payable at December 31, 2006, is a vendor-take-back mortgage of approximately $2.3 million due to an officer of Chartwell REIT.

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

SUBSEQUENT EVENTS

Subsequent to 2006, Chartwell REIT acquired four seniors housing facilities and one LTC facility in Canada for the purchase price of $50.0 million and $27.2 million respectively from two different vendors.

Subsequent to 2006, CSH-INGRE LLC acquired five seniors housing facilities in the United States for an aggregate purchase price of approximately $338.5 million (USD 290.5 million). Chartwell's 50% share of this acquisition amounted to $169.3 million (USD 145.3 million), however, Chartwell financed 100 % of equity required for this acquisition through a series of loans to the joint venture. In addition, Chartwell REIT also acquired a 49 % interest in 25 leased properties for an aggregate purchase price of $32.3 million (USD 28.0 million).

Subsequent to 2006, Chartwell REIT advanced $1.7 million of mezzanine loans to Spectrum, Melior and Spectrum's joint venture partners.

OUTLOOK

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

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

Acquisitions

In 2006, our target was to acquire approximately $625 million of accretive assets in 2006. In the twelve month period ended December 31, 2006, we acquired interests in 37 seniors housing communities for a total purchase price of $614.6 million. Subsequent to the year end Chartwell closed acquisitions of an additional 10 communities and a 49% leased interest in 25 other communities for a total purchase price of approximately $447.9 million.

Approximately $50 million from the proceeds of the November Offering were expected to be used to complete the acquisition of the Regency Care portfolio as described in the prospectus related to that offering. The closing of the Regency Portfolio acquisition has, however, been delayed due to regulatory approvals, and is now expected to close in May 2007. In the meantime, additional acquisition opportunities had arisen and were completed by Chartwell through the use of certain funds expected to have been used for the Regency Care acquisition. Chartwell currently expects to complete the acquisition of the Regency Care portfolio using its credit facilities.

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

Internal Growth

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

As previously discussed in this MD&A, in 2005 and 2006, Chartwell completed six internal growth projects adding 359 new suites to its portfolio and repositioning two other properties. Four of these projects - two repositioned properties, one 42 suite addition and one 17 suite addition - achieved stabilized occupancies in 2006. We anticipate that the remaining new suites will achieve stabilized occupancy in 2007.
There are four new internal growth projects presently in various stages of development:

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

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

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

- A 75 suite addition to Manoir Pierrefonds in Montreal, Quebec. The estimated construction costs are $8.8 million of which $6.6 million is expected to be financed with a construction loan. The construction is expected to be completed in Spring 2008.

In addition, we identified further opportunities to add over 2,500 suites at our communities in the markets with significant demand for new seniors housing suites. We expect to commence many of these internal growth projects in 2007 and 2008.

Development

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

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

In 2006 and 2005, we acquired interests in eleven new seniors housing communities representing 850 suites in Ontario from Spectrum and its joint venture partners where applicable. At December 31, 2006, Spectrum, Melior and their joint venture partners had over 6,000 suites under development or in lease-up across Canada. Chartwell has an option to acquire these suites upon stabilization, in many cases at a discount to appraised value.

Third Party Management

At December 31, 2006, Chartwell's portfolio of managed suites included over 9,000 suites in over 64 communities owned by Spectrum, Melior and other third parties. Chartwell also provides asset management and due diligence project management services to ING. In addition to generating high margin fees, our third party management business also provides us with valuable insight into specific geographic markets and creates a pipeline of potential future acquisitions. We anticipate that our third party management business will continue to grow in 2007 primarily through increases in development management and other services provided to Spectrum, Melior and their joint venture partners, and asset management services provided to ING.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

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

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

The CICA released Section 3855, Financial Instruments – Recognition and Measurement, Section 1530 Comprehensive Income and Section 3865 Hedges, which standards are applicable to Chartwell REIT commencing January 1, 2007. These standards provide 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 and provides criteria for application of hedge accounting in the future. Chartwell REIT is finalizing its assessment of the impact of these new standards on the Consolidated Financial Statements.

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

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

CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures

The Co-Chief Executive Officers and the Chief Financial Officer of the Trust have evaluated, or caused an evaluation under their direct supervision, of the effectiveness of the Trust's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at the end of December 31, 2006. Based on this evaluation, we have concluded that Chartwell maintains appropriate information systems, procedures and controls to ensure information used internally and disclosed externally is complete, reliable and timely.

Evaluation of Internal Controls Over Financial Reporting

The Co-Chief Executive Officer and the Chief Financial Officer have also evaluated, or caused an evaluation under their direct supervision, of the design of Chartwell's internal controls over financial reporting as of December 31, 2006. Based on this assessment, management has identified material internal control weaknesses. (Note: A material weakness is a control deficiency, or combination of control deficiencies, that result in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected). These weaknesses have been summarized as follows:

<u>A qualified Auditor’s Report on Controls (“Section 5970 report”) from one of its service providers</u>

As part of management’s assessment of the design of its internal controls over financial reporting, Chartwell requested a Section 5970 report from one of its service organizations that provide application hosting and maintenance services. This service provider has reported weaknesses in their control environment that we consider to be material. As a result, management performed additional substantive procedures to validate the financial information originating from our financial reporting application that they host, and do not believe that these control weaknesses have led to a material error or misstatement in Chartwell’s financial statements for year ending December 31, 2006.

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

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

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

<u>Deficiencies with certain information technology controls at our co-owned management company in Quebec</u>

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

To address these control deficiencies, we undertook a secondary review of all financial information generated by this co-owned entity on a monthly basis. In addition, in the first quarter of fiscal 2007, we will migrate the IT responsibilities from the current local office to our IT department at head office. This migration will allow (i) all program changes to follow our existing

IT change management policies and procedures; and (ii) to provide proper separation of IT responsibilities.

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

Changes in Internal Control over Financial Reporting

No changes were made to the design of our internal controls over financial reporting during the three months ended December 31, 2006 that have materially affected or reasonably likely to materially affect our internal controls over financial reporting.

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 labor costs and other operating costs, possible future changes in labor relations, competition from or the oversupply of other similar properties, changes in neighborhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date at the Properties and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.

(b) **Taxation**: On December 21, 2006, The Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly traded income trusts and certain other publicly traded flow-through entities.

Under the Proposals, certain distributions from a "specified investment flow-through" trust or partnership (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation.

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

Under the Proposals, the new taxation regime will not apply to a Real Estate Investment Trust (a “REIT”) that meets prescribed conditions relating to the nature of its income and investments (the “REIT Conditions”). As currently structured, Chartwell does not meet the REIT Conditions and therefore is a SIFT. Accordingly, commencing in 2011, or earlier if it exceeds the Safe Harbour Limits, Chartwell would be subject to tax on certain income which would adversely impact the level of cash otherwise available for distribution. At the date of substantive enactment, Chartwell would record future income tax assets and liabilities in respect of accounting and tax basis differences that are expected to reverse in or after the year it exceeds the Safe Harbour Limits or 2011, with a corresponding credit or charge to consolidated earnings for the period.

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

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

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

Chartwell’s continued growth plans will likely result in Chartwell exceeding the Safe Harbour Limits, as set out in the Growth Guidelines published by the Minister of Finance (Canada) on December 15, 2006. If the proposed tax on income trusts becomes legislation, this will result in Chartwell becoming taxable as a specified investment flow-through trust. In such a case, based on Chartwell’s structure and operations and its understanding of the Proposals, the estimated trust tax per Unit may fall within a range of $0.00 to $0.05 for each of 2007 and 2008. As indicated in Chartwell’s November 2006 press release, this estimated tax per unit will not have a material after-tax impact on the cash position of taxable investors owing to the integration of the Canadian tax system (i.e. dividend gross-up and tax credit mechanism). Chartwell considers that this likely tax impact would be less material than failing to take advantage of the many growth opportunities currently available in the marketplace.

(c) **Geographic Concentration**: A substantial portion of the business and operations of Chartwell is conducted in Ontario and Quebec, which represents 38% and 30% of the total number of suites, respectively. The market value of these Properties and the income generated from them could be negatively affected by changes in local and regional economic conditions or legislative/regulatory changes.

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

(e) **Competition**: Numerous other developers, managers and owners of seniors housing communities will compete with Chartwell in seeking residents. The existence of competing developers, managers and owners and competition for Chartwell's residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect Chartwell's revenues and, consequently, its ability to meet its debt obligations. The supply of LTC Community suites in the regions in which 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 Community beds. Although more than 19,500 of the new beds are already operational, the increase in supply of LTC Community suites as a result of this initiative may result in a temporary lower occupancy of suites in Chartwell's seniors housing communities in some markets.

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

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

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

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

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

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

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

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

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

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

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

(m) **Labour Relations**: Chartwell REIT, directly and indirectly, employs or supervises approximately over 7,100 persons, of whom approximately 50% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that Chartwell will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on Chartwell's business, operating results and financial condition. However, most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing community sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

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